ELECTRIC CITY CORP
Form 424B1
July 16, 2002

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Filed pursuant to Rule 424(b)(1)
Registration File No. 333-67642

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

ELECTRIC CITY CORP.

4,206,097 Shares of Common Stock

The selling stockholders are offering up to 4,206,097 shares of our common stock, par value $0.0001 per share. The selling stockholders can sell these shares on any exchange on which the shares are listed or in privately negotiated transactions, whenever they decide and at the prices they set. We may issue up to 1,210,000 of these shares upon exercise of options and warrants held by some of the selling stockholders. We will not receive any of the proceeds from the sale of these shares of our common stock, but will receive proceeds from the exercise of any of such options and warrants.

Our common stock is quoted on The American Stock Exchange under the symbol "ELC." On July 15, 2002, the closing sale price for shares of our common stock was $1.40 per share.

Our principal executive office is located at 1280 Landmeier Road, Elk Grove Village, Illinois, 60007. Our telephone number at that address is (847) 437-1666. Our web site is located at http://www.elccorp.com.

Investing in our common stock involves risks described beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 16, 2002.

This prospectus is a part of a registration statement that we have filed with the Securities and Exchange Commission ("SEC" or "Commission") using a "shelf registration" process. You should rely only on the information provided in this prospectus or any supplement or amendment. We have not authorized anyone else to provide you with additional or different information. You should not assume that the information in this prospectus or any supplement or amendment is accurate as of any date other than the date on the front of this prospectus or any supplement or amendment.

Unless the context otherwise requires, "Electric City," the "Company," "we," "our," "us" and similar expressions refers to Electric City Corp. and its subsidiaries, and the term "common stock" means Electric City Corp.'s common stock, par value $0.0001 per share.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that reflect our current expectations and projections about our future results, performance, prospects and opportunities. We have tried to identify these forward-looking statements by using words such as "may," "will," "should," "expect," "hope," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks, uncertainties and other factors, including the factors set forth under "Risk Factors," that could cause our actual results, performance, prospects or opportunities in 2001 and beyond to differ materially from those expressed in, or implied by, these forward-looking statements. These factors include, without limitation, our limited operating history, our history of operating losses, our reliance on licensed technologies, customers' acceptance of our new and existing products, the risk of increased competition, our ability to successfully integrate acquired businesses, products and technologies, our ability to manage our growth, our commercial scale development of products and technologies to satisfy customers' demands and requirements, our need for additional financing and the terms and conditions of any financing that is consummated, the possible volatility of our stock price, the concentration of ownership of our stock and the

potential fluctuation in our operating results. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, such statements involve risks and uncertainties and no assurance can be given that the actual results will be consistent with these forward-looking statements. Except as otherwise required by Federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason, after the date of this prospectus.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus.

Our Company

We were organized as Electric City LLC, a Delaware limited liability company, on December 5, 1997. On June 5, 1998 we merged Electric City LLC with and into Electric City Corp., a Delaware corporation. On June 10, 1998, we issued approximately six (6%) percent of our issued and outstanding common stock to the approximately 330 shareholders of Pice Products Corporation ("Pice") an inactive, unaffiliated company with minimal assets, pursuant to the merger of Pice with and into Electric City. This merger facilitated the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 through the OTC Bulletin Board under the trading symbol "ECCC". Since December 12, 2000, our common stock has traded on the American Stock Exchange under the trading symbol "ELC".

Our Products

We are a developer, manufacturer and integrator of energy saving technologies and custom electric switchgear. Our premier energy saving product is the EnergySaver system, which reduces energy consumed by lighting, typically by 20% to 30%, with minimal lighting level reduction. This technology has applications in commercial buildings, factories and office structures, as well as street lighting and parking lot lighting. In addition to our EnergySaver system, we manufacture, through our subsidiary Switchboard Apparatus, Inc. ("Switchboard Apparatus"), custom electric switchgear, including our TP3 line of prepackaged electrical distribution panels designed for use in telecommunications and Internet network centers. We also provide, through our other subsidiary, Great Lakes Controlled Energy Corp. ("Great Lakes"), integrated building and environmental control solutions for commercial and industrial facilities.

Our EnergySaver product line is manufactured at our facilities in Elk Grove Village, Illinois, with manufacturing and assembly scaled to order demand. Our Switchgear product line, including the TP3 product line, is manufactured at the facilities of Switchboard Apparatus in Broadview, Illinois. Building and environmental control services and solutions provided by Great Lakes are based out of Elk Grove Village, Illinois.

Giorgio Reverberi has patented in the U.S and Italy certain technologies underlying the EnergySaver products. We have entered into a license agreement with Mr. Reverberi relating to the license of the EnergySaver technology in the United States and certain other markets.

We are pursuing a multi-channel marketing and sales distribution strategy to bring our products to market. Our multi-channel approach includes the use of a direct sales force, distributors and manufacturers' representatives.

The Offering

Securities Offered.	The selling stockholders are offering up to 4,206,097 shares of our common stock.
Terms of the Offering.	We have agreed to use our best efforts to keep this registration statement effective until all registered shares have been sold or may be sold without volume restrictions pursuant to the Securities Act of 1933.

Use of Proceeds.	We will not receive any of the proceeds from any sale of the shares offered by this prospectus by the selling stockholders. To the extent the selling stockholders exercise their options or warrants, we intend to use the proceeds we receive from such exercise(s) for general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel, and consolidating our manufacturing facilities.
American Stock Exchange Symbol.	ELC

RISK FACTORS

You should carefully consider the risks and uncertainties described below and all of the other information included in this prospectus before you decide whether to purchase shares of our common stock. Any of the following risks could materially adversely affect our business, financial condition or operating results and could negatively affect the value of your investment.

Risks Related to Our Business

We have a limited operating history upon which to evaluate our potential for future success.

We were formed in December 1997. To date, we have only generated limited revenues from the sale of our products and do not expect to generate significant revenues until we sell a significantly larger number of our products. Accordingly, we have only a limited operating history upon which you can base an evaluation of our business and prospects. The likelihood of our success must be considered in light of the risks and uncertainties frequently encountered by early stage companies like ours in an evolving market. If we are unsuccessful in addressing these risks and uncertainties, our business will be materially harmed.

We have incurred operating losses since inception and may not achieve or sustain profitability in the future.

We have incurred substantial net losses in each year since we commenced operations in December 1997. We must overcome significant manufacturing and marketing hurdles to sell large quantities of our products. In addition, we may be required to reduce the prices of our products in order to increase sales. If we reduce product prices, we may not be able to reduce product costs sufficiently to achieve acceptable profit margins. As we strive to grow our business, we expect to spend significant funds (1) for general corporate purposes, including working capital, marketing, recruiting and hiring additional personnel and consolidating our manufacturing facilities; (2) for research and development; and (3) to acquire complementary products, technologies and services. To the extent that our revenues do not increase as quickly as these costs and expenditures, our results of operations and liquidity could be materially adversely affected. If we experience slower than anticipated revenue growth or if our operating expenses exceed our expectations, we may not achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain it.

A decrease in electric retail rates could lessen demand for our EnergySaver products.

Our principal products, our EnergySaver products, have the greatest profit potential in areas where commercial electric rates are relatively high. However, retail electric rates for commercial establishments in the United States may not remain at their current high levels. Due to a potential overbuilding of power generating stations throughout certain regions of the United States, wholesale power prices may decrease in the future. Because the price of commercial retail electric power is largely attributed to the wholesale cost of power, it is reasonable to expect that commercial retail rates may decrease as well. In addition, much of the wholesale cost of power is directly related to the price of certain fuels, such as natural gas, oil and coal. If the prices of those fuels decrease, the prices of the wholesale cost of power may also decrease. This could result in lower electric retail rates and less of a demand for energy saving devices such as our EnergySaver products.

We have a license under certain patents and our ability to sell our products may be adversely impacted if the license expires or is terminated.

We have entered into a license agreement with Giorgio Reverberi, who holds a U.S. patent and who has applied for several patents in other countries. Pursuant to the terms of the license, Mr. Reverberi granted to us the exclusive right to manufacture and sell products containing the load

reduction technology claimed under Mr. Reverberi's U.S. patent or any other related patent held by him in the U.S., the remainder of North America, South America and parts of Africa. However, the exclusive rights that we received from Mr. Reverberi may not have any value in territories where Mr. Reverberi does not have or does not obtain protectable rights. The term of the license expires when the last of these patents expires. We expect that these patents will expire in or around November 2017. Mr. Reverberi may terminate our license agreement if we materially breach its terms and fail to cure the breach within 180 days after we are notified of the breach. If our license with Mr. Reverberi is terminated, that could impact our ability to manufacture, sell or otherwise commercialize products in certain countries in the event that Mr. Reverberi has valid patent(s) in those countries with one or more patent claims that cover those products.

If we are not able to protect our intellectual property rights against infringement or others obtain intellectual property rights relating to energy management technology, we could lose our competitive advantage in the energy management market.

We regard our intellectual property rights, such as patents, licenses of patents, trademarks, copyrights and trade secrets, as important to our success. Although we entered into confidentiality and rights to inventions agreements with our non-union employees and consultants during March 2001, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our intellectual property rights or we may not be able to detect unauthorized use and take appropriate steps to enforce our rights. Failure to take appropriate protective steps could materially adversely affect our competitive advantage in the energy management market. Our license to use Mr. Reverberi's patents may have little or no value to us if Mr. Reverberi's patents are not valid. In addition, patents held by third parties may limit our ability to manufacture, sell or otherwise commercialize products and could result in the assertion of claims of patent infringement against us. It that were to happen, we could try to modify our products to be non-infringing, but such modifications might not be successful to avoid infringing on the intellectual property rights of third parties.

Claims of patent infringement, regardless of merit, could result in the expenditure of significant financial and managerial resources by us. We may be forced to seek to enter license agreements with third parties (other than Mr. Reverberi) to resolve claims of infringement by our products of the intellectual property rights of third parties. These licenses may not be available on acceptable terms or at all. The failure to obtain such licenses on acceptable terms could have a negative effect on our business

The loss of key personnel may harm our ability to obtain and retain customers, manage our rapid growth and compete effectively.

Our future success will depend significantly upon the continued contributions of certain members of our senior management, including John P. Mitola, our Chief Executive Officer because he is critical to obtaining and retaining customers and managing our rapid growth. Brian Kawamura, our former president, chief operating officer and director resigned during April 2002. Our future success will also depend upon our ability to attract and retain highly qualified technical, operating and marketing personnel. We believe that there is intense competition for qualified personnel in the power management industry. If we cannot hire, train and retain qualified personnel or if a significant number of our current employees depart, we may be unable to successfully manufacture and market our products.

If we are unable to manage our growth, it will adversely affect our business, the quality of our products and our ability to attract and retain key personnel.

We have experienced rapid growth, which has been primarily through acquisitions of other businesses, and are subject to the risks inherent in the expansion and growth of a business enterprise. This significant growth, if sustained, will continue to place a substantial strain on our operational and administrative resources and increase the level of responsibility for our existing and new management personnel. To manage our growth effectively, we will need to:

- further develop and improve our operating, information, accounting, financial and other internal systems and controls on a timely basis;
- improve our business development, marketing and sales capabilities; and
- expand, train, motivate and manage our employee base.

Our current senior management has limited experience managing a publicly traded company. Our systems currently in place will not be adequate if we continue to grow at our current pace and will need to be modified and enhanced. The skills of management currently in place may not be adequate if we continue to grow at our current pace.

If our EnergySaver products do not achieve or sustain market acceptance, our ability to compete will be adversely affected.

To date, we have not sold our EnergySaver product line in very large quantities and a sufficient market may not develop for it. Significant marketing will be required in order to establish a sufficient market for the EnergySaver products. The technology underlying these products may not become a preferred technology to address the energy management needs of our customers and potential customers. Failure to successfully develop, manufacture and commercialize products on a timely and cost-effective basis will have a material adverse effect on our ability to compete in the energy management market.

Failure to meet customers' expectations or deliver expected technical performance could result in losses and negative publicity.

Customer engagements involve the installation of energy management equipment that we design to help our clients reduce energy/power consumption and/or increase energy/power reliability. We rely on outside contractors to install our EnergySaver products. Any defects in this equipment and/or its installation or any other failure to meet our customers' expectations could result in:

delayed or lost revenues due to adverse customer reaction;

requirements to provide additional products and/or services to a customer at no charge;

negative publicity regarding us and our products, which could adversely affect our ability to attract or retain customers; and

claims for substantial damages against us, regardless of our responsibility for such failure.

The cyclical nature of the construction industry could negatively affect the sales of our products.

The construction industry is cyclical and is frequently affected by changes in general and local economic conditions, including:

employment levels;

availability of financing for customers;

interest rate fluctuations; and

consumer confidence.

A decline in construction activity may decrease our ability to sell our products. We have no control over these economic conditions. Any significant downturn in construction activity could reduce demand for our products and could affect the sales of our products.

If sufficient additional funding is not available to us, the commercialization of our products and our ability to grow at a rapid pace may be hindered; the raising of additional capital through the issuance of equity or equity-linked securities would dilute your ownership interest in us.

We may need to obtain additional funds to grow our product development, manufacturing, marketing and sales activities at the pace that we intend. If we are not successful in raising additional funds, we might have to significantly scale back or delay our growth plans. Any reduction or delay in our growth plans could materially adversely affect our ability to compete in the marketplace, take advantage of business opportunities

and develop or enhance our products. If we receive additional funds through the issuance of equity securities, our existing stockholders will likely experience dilution of their present equity ownership position and voting rights. Depending on the number of shares issued and the terms and conditions of the issuance, new equity securities could have rights, preferences, or privileges senior to those of our common stock.

On July 31, 2001, the Company entered into a securities purchase agreement (subject to shareholder approval) with five investors. This transaction was approved by our shareholders at our 2001 annual meeting held on August 30, 2001 and on September 7, we closed the issuance of our Series A Convertible Preferred Stock for gross proceeds of $16,000,000 for the issuance of 1,600,000 shares of our Series A Convertible Preferred Stock, 320,864 shares of its common stock, one year warrants to purchase an additional 400,000 shares of Series A Convertible Preferred Stock at $10 per share and seven year warrants to purchase 3,000,000 additional shares of common stock at $1 per share (See, "Description of Securities Series A Preferred Stock"). On November 29, 2001, the Company closed on an additional issuance of its Series A Convertible Preferred Stock for gross proceeds of $3,000,000 for the issuance of 300,000 shares of its Series A Convertible Preferred Stock, 45,122 shares of its common stock, one year warrants to purchase an additional 75,000 shares of its Series A Convertible Preferred Stock at $10 per share and three and one-half year warrants to purchase an additional 421,875 shares of its common stock at $1 per share (See "Description of Securities Additional Issuance of Series A Preferred Stock"). This preferred stock has a conversion price that is below the current market price of our common stock and will enable the investors to nominate and elect up to four directors to our board of directors.

On June 4, 2002, the Company entered into a securities purchase agreement with Mr. Richard Kiphart, an individual. On June 4, 2002, we closed the issuance of our Series C Convertible Preferred Stock for gross proceeds of $2,000,000 for the issuance of 200,000 shares of our Series C Convertible Preferred Stock, 30,082 shares of our Common Stock, one year warrants to purchase an additional 50,000 shares of Series C Convertible Preferred Stock at $10 per share and three and one-half year warrants to purchase an additional 281,250 shares of our Common Stock at $1 per share (See "Description of Securities Series C Preferred Stock"). This preferred stock has a conversion price that is below the current market price of our Common Stock.

Our Board of Directors has instructed senior management to evaluate the feasibility of raising additional capital during 2002 (in addition to the aforementioned transaction), believing that it may be prudent to add to our liquidity to ensure cash availability until our operations begin to produce positive cash flow. If our Board decides to raise 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.

We need to effectively market our energy management products in order to successfully sell large quantities of these products.

One of the challenges we face in commercializing our energy management products is demonstrating the advantages of our products over more traditional products and competitive products. As we grow, we will need to further develop our marketing and sales force. In addition to our internal sales force, we rely on third parties to market and sell our products. We currently maintain a number of relationships and have a number of agreements with third parties regarding the marketing and distribution of our EnergySaver, products and are substantially dependent upon the efforts of these third parties in marketing and selling these products. Maintenance of these relationships is based primarily on an ongoing mutual business opportunity and a good overall working relationship. The current contracts associated with certain of these relationships allow the distributors to terminate the relationship upon 30 days' written notice. Without these relationships, our ability to market and sell our EnergySaver products would be harmed and we would need to divert even more resources to increasing our internal sales force. If we are unable to expand our internal sales force and maintain our third party marketing relationships, our ability to generate significant revenues will be seriously harmed.

The distribution rights we have granted to third parties in specified geographic territories may make it difficult for us to grow our business in such territories if those distributors do not successfully market and support our products in those territories. We have in the past been, and may in the future be, involved in disputes with distributors that have distribution rights in specified geographic territories, but are achieving sales results that do not meet goals. During 2000, we repurchased for cash and stock consideration the distribution rights for Arizona, Colorado, Florida, Georgia, Michigan, Nebraska, North Carolina, Ohio, South Carolina and Virginia from three distributors that were not meeting our sales goals. We may have to expend additional funds, incur debt or issue additional securities in the future to repurchase other distribution rights that we have granted or may grant in the future.

We do not know if our "Virtual Negawatt Power Plant" concept or our "Shared Savings" program will be successful.

During 2001, we announced our "Virtual Negawatt Power Plant" concept and our "Shared Savings" program. The concept of the Virtual Negawatt Power Plan program is the creation of "Negawatts" which are reductions in demand for electric power. Negawatts are made possible by the installation of our EnergySaver units, which result in such reductions in demand for electric power. The concept of the "Shared Savings" program calls for a type of lease arrangement whereby the end-user allocates a share of its electric savings to a pay-down of lease financing arranged by a third party. We plan to advance the distribution of our EnergySaver products and increase the profitability of our EnergySaver product line through these new projects. We have not yet begun to implement these projects and we have no experience in this area. As a result, we do not know if these projects will be successful. If these projects are unsuccessful, our plans to significantly increase the distribution of our EnergySaver product line, especially in markets where electricity has been deregulated, may not develop and our growth may be impaired.

If our management fails to properly identify companies to acquire and to effectively negotiate the terms of these acquisition transactions, our growth may be impaired.

Our recent growth is due in large part to acquisitions. Our future growth may depend, in part, on our ability to identify opportunities to acquire companies with complementary technologies, products and/or services and to successfully negotiate the terms of any acquisitions we want to make. Our management, including our Board of Directors, will have discretion in identifying and selecting

companies to be acquired by us and in structuring and negotiating these acquisitions. In general, our common stockholders will not have the opportunity to approve these acquisitions (The holders of our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock have certain rights to approve acquisitions). In addition, in making acquisition decisions, we will rely, in part, on financial projections developed by our management and the management of potential target companies. These projections will be based on assumptions and subjective judgments. The actual operating results of any acquired company or the combination of us and an acquired company may significantly fall short of these projections.

We may be unable to acquire companies that we identify for various reasons, including:

our inability to interest such companies in a proposed transaction;

our inability to agree on the terms of an acquisition;

incompatibility between our management and management of a target company; and

our inability to obtain required approvals of the holders of our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock.

If we cannot consummate acquisitions on a timely basis or agree on terms at all, or if we cannot continue to acquire companies with complementary technologies, products and/or services on terms acceptable to us, our growth may be impaired.

Our growth may be impaired and our current business may suffer if we do not successfully address risks associated with acquisitions.

During our limited operating history, we have acquired Switchboard Apparatus Inc., which forms the core of our switchgear business unit and Great Lakes Controlled Energy Corp., which is a national representative and installer of select energy metering and control systems. Our future growth may depend, in part, upon our ability to successfully acquire other complementary businesses. We may encounter problems associated with such acquisitions, including the following:

difficulties in integrating acquired operations and products with our existing operations and products;

difficulties in meeting operating expectations for acquired businesses;

diversion of management's attention from other business concerns;

adverse impact on earnings of amortization or write-offs of goodwill and other intangible assets relating to acquisitions; and

issuances of equity securities that may be dilutive to existing stockholders to pay for acquisitions.

Expanding our international operations will be difficult and our failure to do so successfully or in a cost-effective manner could have a material adverse effect on our business, operating results and financial condition.

We have been marketing and selling our products in Mexico and may expand our international operations into other countries in which we have been granted license rights. Under our license with Messrs. Reverberi and Marino, Mr. Reverberi granted to us exclusive rights to manufacture and sell products containing his patented load reduction technology in North America, South America and parts of Africa. While we have no current plans to do so, our future expansion into international markets beyond Mexico will require significant management attention and financial resources and could adversely affect our business, operating results and financial condition. In order to expand international sales successfully, we must establish additional foreign operations and joint ventures, hire additional

personnel and recruit additional international distributors. We may not be able to do so in a timely or cost efficient manner, and our failure to do so may limit our international sales growth.

There are certain risks inherent in international business activities including:

changes in foreign currency exchange rates;

tariffs and other trade barriers;

costs of localizing products for foreign countries;

lack of acceptance of localized products in foreign countries;

longer accounts receivable payment cycles;

difficulties in managing international operations;

difficulties enforcing agreements in foreign jurisdictions;

potentially adverse tax consequences, including restrictions on repatriating earnings;

weaker intellectual property protection in foreign countries; and

the burden of complying with a wide variety of foreign laws.

These factors may have a material adverse effect on our future international sales and, consequently, our business, operating results and financial condition.

If we do not successfully compete with others in the very competitive energy management market, we may not achieve or maintain profitability.

In the energy management market, we compete with other manufacturers of switching and monitoring systems and manufacturers of traditional energy management products that are currently used by our potential customers. Many of these companies have substantially greater financial resources, larger research and development staffs and greater manufacturing and marketing capabilities than us. Our competitors may provide energy management products at lower prices and/or with superior performance. Failure of our products to reduce energy usage and cost sufficiently and reliably to achieve commercial acceptance or to otherwise successfully compete with conventional and new technologies would materially harm our business.

Product liability claims could result in losses and could divert our management's time and resources.

The manufacture and sale of our products creates a risk of product liability claims. Any product liability claims, with or without merit, could result in costly litigation and reduced sales, cause us to incur significant liabilities and divert our management's time, attention and resources. We do have product liability insurance coverage; however, there is no assurance that such insurance is adequate to cover all potential claims. The successful assertion of any such large claim against us could materially harm our liquidity and operating results.

Our limited commercial manufacturing experience may adversely affect our ability to manufacture large quantities of our EnergySaver products at competitive prices and on a timely basis; we may have to outsource manufacturing.

Our EnergySaver products are manufactured at our facilities. To be financially successful, we must manufacture our products, including our EnergySaver products, in substantial quantities, at acceptable costs and on a timely basis. We have only produced limited quantities of our EnergySaver products for commercial installations and for use in development and customer trial programs. To produce larger quantities of our EnergySaver products at competitive prices and on a timely basis, we will have to

further develop our processing, production control, assembly, testing and quality assurance capabilities. We may also have to hire contract-manufacturers and outsource the manufacturing of some or all of our products. We have had discussions with several potential contract-manufacturers, but none have been engaged to manufacture our products. We may be unable to manufacture our EnergySaver products in sufficient volume and may incur substantial costs and expenses in connection with manufacturing larger quantities of our EnergySaver products. If we are unable to make the transition to large-scale commercial production successfully, our business will be negatively affected. We could encounter substantial difficulties if we decide to outsource the manufacturing of our products, including delays in manufacturing and poor production quality.

Risks Related to this Offering

Because our common stock has been listed on AMEX for a short time, an active trading market may not develop after this offering, which may make it difficult for you to sell your shares.

Our common stock began trading on the American Stock Exchange on December 12, 2000. Previously our securities traded in the over-the-counter market on the OTC Bulletin Board. If an active and liquid trading market does not exist for our common stock on AMEX, you may have difficulty selling your shares.

Joseph Marino and NCVC and DYDX can control matters requiring stockholder approval or could cause our stock price to decline through future sales because they beneficially own a large percentage of our common stock.

There are 31,196,378 shares of our common stock outstanding as of June 30, 2002, of which Joseph C. Marino beneficially owns approximately 29%, NCVC beneficially owns approximately 16% and DYDX beneficially owns approximately 12%, of our currently outstanding common stock (each of the aforementioned percentages includes stock options that are currently exercisable). Victor Conant and Kevin P. McEneely, of which Mr. McEneely is one of our directors, share voting and investment power with respect to the shares of common stock held by NCVC. As a result of their significant ownership, Mr. Marino, NCVC and DYDX have the ability to exercise a controlling influence over our business and corporate actions requiring stockholder approval, including the election of our directors, a sale of substantially all of our assets, a merger between us and another entity or an amendment to our certificate of incorporation. This concentration of ownership could delay, defer or prevent a change of control and could adversely affect the price investors might be willing to pay in the future for shares of our common stock. Also, in the event of a sale of our business, Mr. Marino and NCVC and DYDX could elect to receive a control premium to the exclusion of other stockholders.

A significant percentage of the outstanding shares of our common stock, including the shares beneficially owned by Mr. Marino, NCVC or DYDX, can be sold in the public market from time to time, subject to limitations imposed by Federal securities laws and by trading agreements entered into with us. The market price of our common stock could decline as a result of sales of a large number of our presently outstanding

shares of common stock by Mr. Marino, NCVC, DYDX or other stockholders in the public market or due to the perception that these sales could occur. This could also make it more difficult for us to raise funds through future offerings of our equity securities.

Holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock have the right to approve certain actions.

The Initial Holders of the Series A Convertible Preferred Stock have the right to elect up to four directors out of a board of twelve (See, "Description of Securities Series A Preferred Stock Voting Rights"). Except for the election of directors or as otherwise provided by law, the Initial Holders, along with Leaf Mountain and Richard Kiphart, the holder of our Series C Convertible Preferred Stock (See,

"Description of Securities Series C Preferred Stock"), are entitled to vote with the holders of common stock on an "as converted" basis on all matters on which holders of our common stock are entitled to vote (however, if less than 200,000 shares of Series A Convertible Preferred Stock are outstanding, unless otherwise provided by law, each holder of record of Series A Convertible Preferred Stock will have the right to vote on an "as converted" basis together with the holders of common stock on all matters on which holders of common stock are entitled to vote, including the election of directors. The Series C Convertible Preferred Stock has no voting rights with respect to the election of directors). In addition, the holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock are entitled to special approval rights in respect of certain actions by the Company, including any issuance of shares of capital stock by the Company and any acquisition, sale, merger, joint venture, consolidation or reorganization involving the Company or any of its subsidiaries. As a result of these voting and special approval rights, the holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock have the ability to exercise a controlling influence over our actions requiring their approval, which could delay, defer or prevent a change of control and could adversely affect the price investors might be willing to pay in the future for shares of our common stock. In addition, the price that future investors may be willing to pay for our common stock may be lower due to the conversion price and exercise price granted to the investors in the Series A Convertible Preferred Stock and in the Series C Convertible Preferred Stock financing.

Provisions of our charter and by-laws, in particular our "blank check" preferred stock, could discourage an acquisition of our company that would benefit our stockholders.

Provisions of our charter and by-laws may make it more difficult for a third party to acquire control of our company, even if a change in control would benefit our stockholders. In particular, shares of our preferred stock have been issued and may be issued in the future without further stockholder approval and upon those terms and conditions, and having those rights, privileges and preferences, as our Board of Directors may determine. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any of our preferred stock which is currently outstanding or which may be issued in the future. The issuance of our preferred stock, while providing desirable flexibility in pursuing possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire control of us. This could limit the price that certain investors might be willing to pay in the future for shares of our common stock and discourage these investors from acquiring a majority of our common stock. In addition, the price that future investors may be willing to pay for our common stock may be lower due to the conversion price and exercise price granted to investors in any such private financing.

USE OF PROCEEDS

We will not receive any of the proceeds from any sale of the shares offered by this prospectus by the selling stockholders. If and when the selling stockholders exercise their options and warrants, we will receive up to $3,058,400 from the issuance of shares of common stock to the selling stockholders. Under such options and warrants, the selling stockholders have exercise prices per share ranging from $1.36 to $4.71. To the extent the selling stockholders exercise their options or warrants, we intend to use the proceeds we receive for general corporate purposes.

PLAN OF DISTRIBUTION

We have agreed to register for public resale shares of our common stock which have been issued to the selling stockholders or may be issued in the future to selling stockholders upon the exercise of options or warrants. We have agreed to use our best efforts to keep this registration statement effective until all such shares registered under the applicable registration statement have been sold or may be sold without volume restrictions pursuant to Rule 144 under the Securities Act. The aggregate proceeds

to the selling stockholders from the sale of shares offered pursuant to this prospectus will be the prices at which such securities are sold, less any commissions. The selling stockholders may choose to not sell any or all of the shares of our common stock offered pursuant to this prospectus.

The selling stockholders may, from time to time, sell all or a portion of the shares of our common stock at fixed prices, at market prices prevailing at the time of sale, at prices related to such market prices or at negotiated prices. The selling stockholders may offer their shares of our common stock at various times in one or more of the following transactions:

on any national securities exchange or market on which our common stock may be listed at the time of sale;

in an over-the counter market in which the shares are traded;

through block trades in which the broker or dealer so engaged will attempt to sell the shares as agent, but may purchase and resell a portion of the block as principal to facilitate the transaction;

through purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this prospectus;

in ordinary brokerage transactions and transactions in which the broker solicits purchasers;

through options, swaps or derivatives;

in privately negotiated transactions;

in transactions to cover short sales; and

through a combination of any such methods of sale.

The selling stockholders may also sell their shares of our common stock in accordance with Rule 144 under the Securities Act, rather than pursuant to this prospectus.

The selling stockholders may sell their shares of our common stock directly to purchasers or may use brokers, dealers, underwriters or agents to sell such shares. In effecting sales, brokers and dealers engaged by the selling stockholders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions, discounts or concessions from a selling stockholder or, if any such broker-dealer acts as agent for the purchaser of such shares, from a purchaser in amounts to be negotiated. Such compensation may, but is not expected to, exceed that which is customary for the types of transactions involved. Broker-dealers may agree with a selling stockholder to sell a specified number of such shares at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for a selling stockholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to the selling stockholders. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter market or otherwise, at prices and on terms then prevailing at the time of sale, at prices then related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers of such shares commissions as described above.

The selling stockholders and any broker-dealers or agents that participate with the selling stockholders in sales of their shares of our common stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933 in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of such shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933.

From time to time the selling stockholders may engage in short sales, short sales against the box, puts, calls and other hedging transactions in our securities, and may sell and deliver their shares of our common stock in connection with such transactions or in settlement of securities loans. These transactions may be entered into with broker-dealers or other financial institutions. In addition, from time to time a selling stockholder may pledge its shares pursuant to the margin provisions of its customer agreements with its broker-dealer. Upon default by a selling stockholder, the broker-dealer or financial institution may offer and sell such pledged shares from time to time.

We are required to pay all fees and expenses incident to the registration of the shares of our common stock offered hereby other than broker-dealer discounts and commissions. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act of 1933.

LEGAL PROCEEDINGS

One of our subsidiaries, Switchboard Apparatus, Inc. was recently served with notice of a complaint filed against it by Land O' Frost Inc. in the Circuit Court of Cook County, Illinois. The complaint alleges breach of contract and unjust enrichment relating to a business transaction that occurred during the fourth calendar quarter of 2001 for which Land O' Frost is seeking $50,000 in damages. Switchboard Apparatus is currently investigating this matter and has not yet determined its liability, if any, relating to this complaint.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

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

Name	Age	Principal Positions
John P. Mitola	37	Chief Executive Officer and Director
Brian J. Kawamura	44	Former President, Chief Operating Officer and Director(1)
Jeffrey R. Mistarz	43	Chief Financial Officer and Treasurer
Michael S. Stelter	45	Vice President, Sales and Director
David R. Asplund	44	Director(2)
Frederic F. Brace	44	Director(3)
John J. Callahan	52	Former Director(4)
W. Scott Harlan	40	Director(3)
W. James Jewitt	48	Former Director(3)
Robert J. Manning	59	Director(5)(6)
Kevin P. McEneely	53	Director(5)
Gerald A. Pientka	46	Director(5)(6)
Robert D. Wagner	60	Director(3)(6)

(1) Effective April 26, 2002, Mr. Kawamura resigned his positions as President, Chief Operating Officer and a Director of the Company as well as his positions as a director of each of our subsidiaries, Switchboard Apparatus, Inc. and Great Lakes Controlled Energy Corp.

(2) Mr. Asplund's appointment as a director was approved by the Board of Directors by unanimous consent on June 11, 2002.

(3)

Messrs. Brace, Harlan, Jewitt and Wagner were appointed 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. Mr. Jewitt was appointed by EP Power Finance, L.L.C. effective February 26, 2002 and resigned his position effective May 31, 2002. Mr. Harlan, also an appointee of EP Power Finance, L.L.C., replaced Mr. Jewitt effective June 1, 2002. Newcourt Capital USA, Inc. has not yet appointed a director (See "Description of Securities Series A Preferred Stock Voting Rights").

(4)

Mr. Callahan resigned his position as a director of the Company effective March 2, 2002.

(5)

Member of our Audit Committee.

(6)

Member of our Compensation Committee.

Note: As of June 30, 2002, there are three vacant director's positions of which one position is reserved for appointment by Newcourt Capital USA, Inc.

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 and our treasurer since October 2000. 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.

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 Switchgear 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, footnote 11 to "Selling Security Holders, Security Ownership of Certain Beneficial Owners and Management").

Robert D. Wagner 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 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.

SELLING SECURITY HOLDERS, SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables list certain information, as of June 30, 2002, regarding the beneficial ownership of our outstanding common stock by each of our directors and named executive officers, the persons known to us to beneficially own greater than 5% of our common stock, our directors and executive officers, as a group, and stockholders whose shares are being registered pursuant to this prospectus. Beneficial ownership is determined in accordance with the rules of the SEC. Except as otherwise noted, the persons or entities named have sole voting and investment power with respect to all shares shown as beneficially owned by them. 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.

The 4,206,097 shares of common stock that we are registering pursuant to this prospectus and that are listed under the column "Number of Shares Being Offered" include (1) 2,996,097 shares held by the selling stockholders, (2) up to 815,000 shares which we may issue to the selling stockholders upon exercise of vested options, and (3) up to 395,000 shares which we may issue to the selling stockholders upon exercise of warrants. The shares of our common stock listed under the column "Shares Issuable Upon Exercise of Options" includes shares issuable upon exercise of options that are currently exercisable.

The information provided in the following table with respect to each selling stockholder is based on information obtained from that selling stockholder. The information under the column "Beneficial Ownership After Offering" assumes each selling stockholder sells all of its shares offered pursuant to this prospectus to unaffiliated third parties. Each selling stockholder may sell all, part or none of its shares.

Name	Shares Directly Held	Shares Issuable Upon	Shares Issuable Upon	Shares Issuable Upon	Total	%

		Exercise of Preferred Stock	Exercise of Warrants	Exercise of Options		
Directors, Executive Officers and 5% Holders						
Joseph C. Marino	7,585,317(1)			2,150,000(2)	9,735,317	29.19%
Pino, LLC	7,151,452			1,700,000	8,851,452	26.91%
NCVC, L.L.C.(3)	4,162,999			1,000,000(5)	5,162,999	16.04%
Victor Conant	4,162,999(4)			1,000,000(5)	5,162,999	16.04%
Kevin P. McEneely	4,162,999(4)			1,000,000(5)	5,162,999	16.04%
DYDX Consulting LLC(6)	3,069,953			947,546(7)	4,017,499	12.48%
Nikolas Konstant(8)	3,069,953			947,546(7)	4,017,499	12.48%
Newcourt Capital Securities, Inc.(10)			3,314,830		3,314,830	9.61%
Newcourt Capital USA, Inc.(11)	80,217	4,344,180	5,064,830(12)		9,489,227	23.37%
EP Power Finance, L.L.C.(11)	80,217	4,380,550	1,750,000	50,000(40)	6,260,767	16.75%
Duke Capital Partners, LLC(11)	80,217	4,380,550	1,750,000		6,210,767	16.64%
Morgan Stanley Dean Witter Equity Funding, Inc.(11)(13)	80,217	4,380,550	1,750,000		6,210,767	16.64%
Leaf Mountain Company, LLC(11)	45,122	3,179,890	1,171,875		4,396,887	12.37%
Richard Kiphart(14)	30,082	2,014,440	781,250		2,825,772	8.31%
John P. Mitola	13,706			666,667	680,373	2.14%
Michael S. Stelter	1,217,892				1,217,892	3.90%
Robert J. Manning	2,000			91,667	93,667	*
David R. Asplund(25)	47,412		25,000	25,000	97,412	*
Frederic F. Brace				50,000	50,000	*
W. Scott Harlan				0(40)	0	*
Gerald A. Pientka(11)	22,000			91,667	113,667	*
Robert D. Wagner				50,000	50,000	*
Jeffrey R. Mistarz	4,200			66,667	70,867	*
All directors and executive officers as a group (10 persons)**	5,470,209		25,000	2,041,668	7,536,877	22.68%
Selling Stockholders						
Augustine Fund, L.P.(9)	1,529,009		200,000		1,729,009	5.51%
Joseph C. Marino(15)				450,000	450,000	1.42%
Dale Hoppensteadt(16)(17)	349,458				349,458	1.12%
Helmut Hoppe(16)(18)	74,884				74,884	*
George Miller(16)(19)	74,884				74,884	*
Phil Johnson(16)(20)	12,000				12,000	*
Kevin Hoppensteadt(16)(20)	10,500				10,500	*
Jim Manhart(16)(20)	10,500				10,500	*
Steve Solecki(16)(20)	5,250				5,250	*
Brian Elia(16)(20)	3,750				3,750	*
Don Bezek(16)(20)	2,500				2,500	*
Mike Galvin(16)(20)	2,500				2,500	*
Larry Gramit(16)(20)	2,500				2,500	*
Mike Pacione(16)(20)	2,500				2,500	*
Christopher Kelly(21)	280,000				280,000	*
thestockpage.com.(22)	58,600				58,600	*
R&R Investments, LLC(23)	250,000				250,000	*
David Limanowski(24)	99,358				99,358	*
Delano Group Securities(25)						*
David R. Asplund(25)			25,000		25,000	*
Brian Porter(25)			25,000		25,000	*
John Porter(25)			25,000		25,000	*
Thomas Duszynski(25)			25,000		25,000	*
Stephanie Cox(26)				100,000	100,000	*
Mark Swartz(27)				100,000	100,000	*
Matthew Soltis(28)				100,000	100,000	*

Name	Shares Directly Held	Shares Issuable Upon Exercise of Preferred Stock	Shares Issuable Upon Exercise of Warrants	Shares Issuable Upon Exercise of Options	Total	%
Wall and Broad Equities(29)			30,000		30,000	*
John Prinz & Associates LLC(30)	15,000		40,000		55,000	*
Investor Awareness, Inc.(31)			25,000		25,000	*
Paul Stock(32)						*
Curtis Vernon(33)(34)				10,000	10,000	*
Jeffrey Dome(33)(35)				20,000	20,000	*
Ronald Stone(33)(36)				35,000	35,000	*
Eugene Borucki(37)(38)	106,452				106,452	*
Denis Enberg(37)(39)	106,452				106,452	*

Name	Number of Shares Being Offered	Shares Beneficially Owned After Offering	
		Number of Shares	Percent
Directors, Executive Officers and 5% Holders			
Joseph C. Marino	450,000	9,285,317(41)	28.13%
Pino, LLC		8,851,452	26.91%
NCVC, L.L.C.		5,162,999	16.04%
Victor Conant		5,162,999	16.04%
Kevin P. McEneely		5,162,999	16.04%
DYDX Consulting LLC		4,017,499	12.48%
Nikolas Konstant		4,017,499	12.48%
Augustine Fund, L.P.	1,729,009	(41)	
Newcourt Capital Securities, Inc.		3,314,830	9.61%
Newcourt Capital USA, Inc.		9,489,227	23.37%
EP Power Finance, L.L.C.		6,260,767	16.75%
Duke Capital Partners, LLC		6,210,767	16.64%
Morgan Stanley Dean Witter Equity Funding, Inc.		6,210,767	16.64%
Leaf Mountain Company, LLC		4,396,887	12.37%
Richard Kiphart		2,825,772	8.31%
John P. Mitola		680,373	2.14%
Michael S. Stelter		1,217,892	3.90%
Robert J. Manning		93,667	*
David R. Asplund	25,000	72,412	*
Frederic F. Brace		50,000	*
W. Scott Harlan		0	*
Gerald A. Pientka		113,667	*
Robert D. Wagner		50,000	*
Jeffrey R. Mistarz		70,867	*
All directors and executive officers as a group (10 persons)**	25,000	7,511,877	22.51%
Selling Stockholders			
Augustine Fund, L.P.	1,729,009	(41)	
Joseph C. Marino	450,000	9,285,317(41)	28.13%
Dale Hoppensteadt	349,458	(41)	
Helmut Hoppe	74,884	(41)	
George Miller	74,884	(41)	
Phil Johnson	12,000	(41)	
Kevin Hoppensteadt	10,500	(41)	
Jim Manhart	10,500	(41)	

		Shares Beneficially Owned After Offering
Steve Solecki	5,250	(41)
Brian Elia	3,750	(41)
Don Bezek	2,500	(41)
Mike Galvin	2,500	(41)
Larry Grant	2,500	(41)
Mike Pacione	2,500	(41)
Christopher Kelly	280,000	(41)
thestockpage.com.	58,600	(41)
R&R Investments, L.L.C.	250,000	(41)
David Limanowski	99,358	(41)
David R. Asplund	25,000	(41)
Brian Porter	25,000	(41)
John Porter	25,000	(41)
Thomas Duszynski	25,000	(41)
Stephanie Cox	100,000	(41)
Mark Swartz	100,000	(41)
Matthew Soltis	100,000	(41)
Wall and Broad Equities	30,000	(41)
John Prinz & Associates LLC	55,000	(41)
Investor Awareness, Inc.	25,000	(41)
Curtis Vernon	10,000	(41)
Jeffrey Dome	20,000	(41)
Ronald Stone	35,000	(41)
Eugene Borucki	106,452	(41)
Denis Enberg	106,452	(41)

Notes to Tables:

*
Denotes beneficial ownership of less than 1%.

**
Eliminates duplication

(1)
Includes 7,253,602 shares held of record by Pino, 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 which are being registered pursuant to this offering. Pursuant to an employment agreement between the Company and Mr. Marino dated January 1, 1999, Mr. Marino was granted stock options to acquire 450,000 shares of the Company's common stock with an exercise price of $3.50 per share. These option shares were to vest equally over the four-year term of the employment agreement. During July 1999, the Company's board of directors approved a 2 for 1 stock split, which resulted in a post-split grant of 900,000 shares. During December 2000, Mr. Marino resigned his position as Chairman of the Company, at which time 450,000 shares had become vested.

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

(4)
Includes 4,188,999 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 3,069,953 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)

On October 17, 2000, Augustine Fund, L.P. purchased 2,000 shares of the Company's Series B Convertible Preferred Stock ("Series B Preferred") and was issued warrants to purchase 200,000 shares of the Company's common stock at an exercise price of $4.425 per share, for gross proceeds to the Company of $2,000,000. The Series B Preferred was convertible into shares of the Company's common stock, which stock was converted on June 15, 2001 into 1,472,244 shares of the Company's common stock. An additional 56,764 shares of common stock were issued as accrued dividends on the Series B Preferred. The controlling members, directors and officers, all of whom are David Asplund, Thomas Duszynski, David Matteson, Brian Porter and John Porter, may be deemed to share power to vote or dispose of the shares held by Augustine Fund, L.P. The business address of Augustine Fund, L.P. is 141 W. Jackson Boulevard, Suite 2182, Chicago, Illinois 60604.

(10)

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 (See "Description of Securities Series A Preferred Stock"). Newcourt Capital Securities, Inc. is a wholly owned subsidiary of Newcourt Capital USA, Inc ("Newcourt Capital USA"). Accordingly, Newcourt Capital USA is deemed to be the beneficial owner of shares held by Newcourt Capital Securities. The following individuals share voting and investment power with respect to the shares of common stock held by Newcourt Capital Securities, Inc: Messrs. David McKerroll, J. Daryl MacLellan, Murray Eastwood, Michael Stupay, Johannes G.M. Derksen, Daniel Morash, Robert Sexton, Eric Mandelbaum, Guy Piazza and Ms. Annie Ropar. The aforementioned individuals are the current executive officers of Newcourt Capital Securities, Inc. and may be subject to subsequent change. The business address of Newcourt Capital Securities, Inc. is 1211 Avenue of the Americas, 22nd Floor, New York, NY 10036

(11)

Issuance of Series A Convertible Preferred Stock

On September 7, 2001, we closed our Series A Convertible Preferred Stock transaction (See "Description of Securities Series A Preferred Stock") 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 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 (See Note No. 15, below) and therefore, Morgan Stanley is deemed to be the beneficial owner of shares held by OIP. Each share of Series A Convertible Preferred Stock is convertible into 10 shares of our common stock.

Warrants to purchase 100,000 shares of our Series A Convertible Preferred Stock to each of Newcourt, Duke Capital and EPP, warrants to purchase 95,000 shares of our Series A Convertible Preferred Stock to Morgan Stanley and warrants to purchase 5,000 shares of our Series A Convertible Preferred Stock to OIP. 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.

80,217 shares of our common stock to each of Newcourt, Duke Capital and EPE, 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.

Additional information regarding each of these investors is as follows:

The following individuals share voting and investment power with respect to the shares of common stock held by Newcourt Capital USA, Inc: Messrs. David McKerroll, J. Daryl MacLellan, Daniel Morash and John C. Wehner. The aforementioned individuals are the current executive officers of Newcourt Capital USA, Inc. and may be subject to subsequent change. The business address of Newcourt Capital USA, Inc. is 1211 Avenue of the Americas, 22nd Floor, New York, New York 10036.

The following individuals share voting and investment power with respect to the shares of common stock held by Duke Capital Partners, LLC: Messrs. Robert Ladd, Gerald Stalun and F.T. Webster. The aforementioned individuals are the current executive officers of Duke Capital Partners, LLC and may be subject to subsequent change. 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 following individuals share voting and investment power with respect to the shares of common stock held by EP Power Finance, L.L.C.: Messrs. Clark Smith, Grady Blakey, John L. Harrison, Timothy D. Bourn, Steven Goers, Ms. Cecilia Heilmann, Messrs. Larry M. Kellerman, Andrew C. Kidd, George E. McCarthy III, John J. O'Rourke, Todd L. Witwer and Charles Zabriskie. The aforementioned individuals are the current executive officers of EP Power Finance, L.L.C. and may be subject to subsequent change. The sole member of EP Power Finance, L.L.C. is El Paso Merchant Energy North America Company. The business address of EP Energy Finance, L.L.C. is 1001 Louisiana Street, Houston, Texas 77002.

The following individuals share voting and investment power with respect to the shares of common stock held by Morgan Stanley Dean Witter Equity Funding, Inc.: Mr. Stephen Munger, Mr. James Liang, and Ms. Ruth Porat. The aforementioned individuals are the current executive officers of Morgan Stanley Dean Witter Equity Funding, Inc. and may be subject to subsequent change. The business address of Morgan Stanley Dean Witter Equity Funding, Inc. is 1585 Broadway, New York, New York 10036.

The following individuals share voting and investment power with respect to the shares of common stock held by Originators Investment Plan, L.P.: Messrs. Tarek Abdel-Meguid, G. Andrea Botta and Keith Hennessey. The aforementioned individuals are the current executive officers of MSDW OIP Investors, Inc., the sole general partner of OIP, and may be subject to subsequent change. The business address of Originators Investment Plan, L.P. is 1585 Broadway, New York, New York 10036.

On November 29, 2001, we closed on an additional issuance of our Series A Convertible Preferred Stock (See "Description of Securities Additional Issuance of Series A 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 Convertible Preferred Stock. Each share of Series A Convertible Preferred Stock is convertible into 10 shares of our common stock.

Warrants to purchase 75,000 shares of our Series A 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.

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.

Additional information regarding Leaf Mountain is as follows:

Leaf Mountain is a manager-managed limited liability company, which was formed in February 1995 by a group of individuals for the purpose of investing in various business ventures. Leaf Mountain is not affiliated with any broker-dealer.

Mr. John J. Jiganti is the current managing director of Leaf Mountain and, as such, holds sole voting and investment power with respect to the shares of common stock held by Leaf Mountain. The business address of Leaf Mountain is 190 South LaSalle Street, Suite 1700, Chicago, Illinois, 60603.

As noted in the preceding disclosure, 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 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.

The Company had, and currently has, no agreements, plans or understandings with any party to distribute the aforementioned securities.

(12)

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.

(13)

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.

(14)

On June 4, 2002, we closed on an issuance of our Series C Convertible Preferred Stock (See "Description of Securities Series C Preferred Stock") with Richard P. 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 C 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.

(15)

Mr. Marino holds options to acquire 450,000 shares of common stock which are being registered pursuant to this offering. Pursuant to an employment agreement between the Company and Mr. Marino dated January 1, 1999, Mr. Marino was granted stock options to

acquire 450,000 shares of the Company's common stock with an exercise price of $3.50 per share. These option shares were to vest equally over the four-year term of the employment

agreement. During July 1999, the Company's board of directors approved a 2 for 1 stock split, which resulted in a post-split grant of 900,000 shares with an exercise price of $1.75 per share. During December 2000, Mr. Marino resigned his position as Chairman of the Company, at which time stock options to acquire 450,000 shares of the Company's common stock had become vested.

(16)

On August 31, 2000, we acquired Switchboard Apparatus, Inc. ("Switchboard") in a stock transaction. In exchange for ownership of Switchboard, the selling stockholders, which included Dale Hoppensteadt, Helmut Hoppe and George Miller, received 385,858, 82,684 and 82,684 shares of the Company's common stock, respectively. Subsequent to the acquisition, Mr. Hoppensteadt distributed 36,400 shares of his 385,858 shares of his common stock and Messrs. Hoppe and Miller each distributed 7,800 shares of their 82,684 shares of common stock to the following employees of Switchboard: 12,000 shares to Phil Johnson; 10,500 shares to each of Kevin Hoppensteadt and Jim Manhart; 5,250 shares to Steve Solecki; 3,750 shares to Brian Elia and 2,500 shares to each of Don Bezek, Mike Galvin, Larry Gramit and Mike Pacione.

(17)

Mr. Hoppensteadt is, and has been, the President of our wholly owned subsidiary, Switchboard Apparatus, Inc. since its acquisition in August 2000. Prior to our acquisition, he was a stockholder, director and officer of Switchboard Apparatus, Inc. The business address of Mr. Dale Hoppensteadt is c/o Switchboard Apparatus, Inc, 2820 South 19th Avenue, Broadview, Illinois 60155.

(18)

The business address of Mr. Helmut Hoppe is c/o Goschi & Goschi, Ltd., 120 S. LaSalle Street, Suite 1720, Chicago, Illinois 60603. Mr. Hoppe was a stockholder, director and officer of Switchboard Apparatus, Inc. prior to our acquisition of Switchboard Apparatus, Inc.

(19)

Mr. Miller is, and has been, employed by Switchboard Apparatus, Inc. since its acquisition in August 2000. Prior to our acquisition, Mr. Miller was a stockholder and employee of Switchboard Apparatus, Inc. The business address of Mr. George Miller is c/o Switchboard Apparatus, Inc, 2820 South 19th Avenue, Broadview, Illinois 60155.

(20)

The business address of each of Messrs. Elia, Galvin, Gramit, K. Hoppensteadt, Manhart and Pacione, each a current employee of Switchboard Apparatus, is c/o Switchboard Apparatus, Inc., 2820 South 19th Avenue, Broadview, Illinois 60155. Messrs. Bezek, Johnson and Solecki are no longer employed by Switchboard Apparatus, Inc.

(21)

Christopher Kelly acquired 275,000 shares of the Company's common stock in a private purchase from an existing shareholder during January 2000 for investment purposes and was granted registration rights pursuant to a registration rights agreement dated January 17, 2000. The business address of Mr. Kelly is 3062 W. 167th Street, Markham, Illinois 60426.

(22)

thestockpage.com was issued warrants to purchase 200,000 shares of the Company's common stock at an exercise price of $2.00 per share for services provided pursuant to a consulting agreement dated January 15, 1999 and which warrants expired on June 30, 2002. In addition, thestockpage.com was issued 58,600 shares of the Company's common stock for services provided pursuant to a consulting agreement dated August 1, 2000. Messrs. Glen Akselrod, Robert Landau and David Roff, executive officers of thestockpage.com, share voting and investment power with respect to shares of common stock held by thestockpage.com. The business address of thestockpage.com, inc. is 141 Adelaide Street West, Suite 1004, Toronto, Ontario M5H-3L5.

(23)

R & R Investments, LLC acquired 250,000 shares of the Company's common stock in a private purchase from an existing shareholder during January 2000 for investment purposes. R & R investments was issued 5,000 shares of the Company's common stock in January 2001 as consideration for consulting services provided during the first quarter of 2001. R & R Investments was granted registration rights pursuant to a registration rights agreement dated January 17, 2000. R & R Investments is not affiliated with any broker-dealer. Messrs. Ronald Rossi and Robert Rossi, members of R & R Investments, share voting and investment power with respect to the shares of common stock held by R & R Investments. The Company had, and currently has, no agreements, plans or understandings with any party to distribute these securities. The business address of R&R Investments, L.L.C. is c/o Rossi Contractors, 201 W. Lake Street, Northlake, Illinois 60164.

(24)

David Limanowski purchased 69,358 shares of the Company's common stock from the Company in July 1999 and an additional 30,000 shares from the Company in December 1999. Mr. Limanowski has been a distributor of the Company's EnergySaver products in New Jersey since June 1999 and in Illinois since September 1999. The business address of Mr. Limanowski is c/o U.S. Power Corp., 425 N. Michigan Avenue, 25th Floor, Chicago, Illinois 60611.

(25)

Delano Group Securities, LLC, a registered broker-dealer, was issued warrants to purchase 100,000 shares of the Company's common stock at an exercise price of $4.71 per share as consideration for acting as placement agent for the Company's issuance of its Series B Convertible Preferred Stock in October 2000. During June 2002, these

warrants were cancelled and replaced with four warrants for 25,000 shares each issued to each of Messrs. Thomas Duszynski, Brian Porter, John Porter and David Asplund, the controlling members of Delano Group Securities. The business address of Delano Group Securities, LLC is 141 W. Jackson Blvd., Suite 2176, Chicago, Illinois 60604.

(26)

Pursuant to a stock option agreement between Stephanie Cox and the Company dated January 2, 1999, Ms. Cox was granted options to acquire 50,000 shares of the Company's common stock with an exercise price of $3.50 per share. During July 1999, the Company's board of directors approved a 2 for 1 stock split, which resulted in a post-split grant of 100,000 shares with an exercise price of $1.75 per share. These options became fully vested on January 1, 2000. Ms. Cox was employed in a sales position with the Company from September 1998 through October 2000.

(27)

Pursuant to a stock option agreement between Mark Swartz and the Company dated January 2, 1999, Mr. Swartz was granted options to acquire 50,000 shares of the Company's common stock with an exercise price of $3.50 per share. During July 1999, the Company's board of directors approved a 2 for 1 stock split, which resulted in a post-split grant of 100,000 shares with an exercise price of $1.75 per share. These options became fully vested on January 1, 2000. Mr. Swartz has, and continues to be, employed in a sales position with the Company since July 1998. The business address of Mr. Swartz is c/o Electric City Corp., 1280 Landmeier Road, Elk Grove, Illinois 60007.

(28)

Pursuant to a stock option agreement between Matthew Soltis and the Company dated January 2, 1999, Mr. Soltis was granted options to acquire 50,000 shares of the Company's common stock with an exercise price of $3.50 per share. During July 1999, the Company's board of directors approved a 2 for 1 stock split, which resulted in a post-split grant of 100,000 shares with an exercise price of $1.75 per share. These options became fully vested on January 1, 2000. Mr. Soltis was employed in a sales position with the Company from November 1998 until September 2001.

(29)

Wall & Broad Equities was issued warrants to purchase shares of the Company's common stock as consideration for consulting services provided as follows: warrants to purchase 50,000 shares of the Company's common stock at $5.50 per share issued in July 2000; warrants to purchase 20,000 shares of the Company's common stock at $3.30 per shares issued in January 2001; warrants to purchase 10,000 shares of the Company's common stock at $2.15 per share issued in March 2001; warrants to purchase 30,000 shares of the Company's common stock at $2.50 per share issued in May 2001. As of December 31, 2001, warrants representing 80,000 shares of the Company's common stock had expired. Mr. Howard Bash, an executive officer of Wall & Broad Equities, has sole voting and investment power with respect to the shares of common stock held by Wall & Broad Equities. The business address of Wall and Broad Equities is 4424 Sixteenth Avenue, Brooklyn, New York 11204.

(30)

John Prinz & Associates LLC ("Prinz & Associates") was issued warrants to purchase 40,000 shares of the Company's common stock at $1.36 per share pursuant to a settlement agreement dated June 30, 2000 regarding a dispute with respect to amounts owed by the Company for consulting services provided by Prinz & Associates. During August 2001, Mr. Prinz elected to exercise these warrants for shares of common stock. During March 2001, Prinz & Associates was issued 15,000 shares of the Company's common stock for consulting services provided pursuant to a consulting services agreement between Prinz & Associates and the Company dated March 20, 2001. Mr. John Prinz, the managing member of Prinz & Associates, has sole voting and investment power with respect to the shares of common stock held by Prinz & Associates. The business address of Prinz & Associates is Edens-Tower Plaza, 790 Frontage Road, Northfield, IL 60093.

(31)

Investor Awareness, Inc. was issued warrants to purchase 25,000 shares of the Company's common stock at $3.875 per share for consulting services provided pursuant to a consulting services agreement dated October 20, 2000. Mr. Anthony Shor, an executive officer of Investor Awareness, has sole voting and investment power with respect to the shares of common stock held by Investor Awareness. The business address of Investor Awareness, Inc. is 1181 Lake Cook Road, Suite A, Deerfield, Illinois 60015.

(32)

Mr. Paul Stock was issued warrants to purchase 5,000 shares of the Company's common stock at $4.00 per share for consulting services provided during the fourth quarter of 2000. As of December 31, 2001, these warrants had not been exercised and had expired. Mr. Stock's business address is 300 East 51st Street, Apt. 8D, New York, NY 10022.

(33)

Pursuant to a settlement agreement dated May 26, 200 between the Company and Curtis Vernon, Jeffrey Dome and Ronald Stone, Messrs. Vernon, Dome and Stone were issued options to purchase 10,000, 20,000 and 35,000 shares of the Company's common stock, respectively, at a price of $2.50 per share. The settlement agreement was in regard to a dispute involving certain of the Company's distribution territories.

(34)

The business address of Mr. Curtis Vernon is c/o Mr. William Ziegelmueller, Stetler & Duffy Ltd., 140 S. Dearborn Street, Suite 400, Chicago, Illinois 60603.

(35)

The business address of Mr. Jeffrey Dome is c/o Mr. William Ziegelmueller, Stetler & Duffy Ltd., 140 S. Dearborn Street, Suite 400, Chicago, Illinois 60603.

(36)

The business address of Mr. Ronald Stone is c/o Mr. William Ziegelmueller, Stetler & Duffy Ltd., 140 S. Dearborn Street, Suite 400, Chicago, Illinois 60603.

(37)

On June 7, 2001, the Company acquired Great Lakes Controlled Energy Corp. ("Great Lakes") in a stock transaction. In exchange for the ownership of Great Lakes, the selling stockholders, Eugene Borucki and Denis Enberg, each received 106,452 shares of the Company's common stock.

(38)

Eugene Borucki is, and has been, the president of Great Lakes Controlled Energy Corp., a wholly-owned subsidiary of the Company since its acquisition in June 2001. Mr. Borucki was a stockholder, director and officer of Great Lakes prior to our acquisition of that company. The business address of Mr. Borucki is c/o Great Lakes Controlled Energy Corp., 630 Bonnie Lane, Elk Grove Village, Illinois 60007.

(39)

Denis Enberg is, and has been, a Senior Vice President of the Company since our acquisition of Great Lakes in June 2001. Mr. Enberg was a stockholder, director and officer of Great Lakes prior to our acquisition of that company. The business address of Mr. Enberg is c/o Electric City Corp., 1280 Landmeier Road, Elk Grove Village, Illinois 60007.

(40)

Reflects stock options awarded pursuant to the Directors Stock Option Program to each of Messrs. Paul McGlinn and W. James Jewitt, both former directors of the Company appointed by E.P. Power Finance, L.L.C. W. James Jewitt, appointed to replace Mr. McGlinn, resigned his position as a director effective May 31, 2002 and was replaced by Mr. W. Scott Harlan. The policies of EP Power Finance, L.L.C., who was Messrs. McGlinns's and Jewitt's employer and is Mr. Harlan's employer, provide that director compensation be paid to the company rather than to the individual.

(41)

Assumes all shares registered are sold even though the holders are not obligated to do so.

DESCRIPTION OF SECURITIES

In the following summary, we describe the material terms of our capital stock by summarizing material provisions of our charter and by-laws certificates of designation of our Series A, B and C convertible preferred stock. We have incorporated by reference these organizational documents as exhibits to the registration statement of which this prospectus is a part.

General

On June 11, 2002, our Board of Directors unanimously approved an amendment to our Certificate of Incorporation to increase our authorized number of shares of capital stock from 90,000,000 to 125,000,000 and our authorized number of shares of Common Stock from 85,000,000 to 120,000,000. No changes were made to the number of authorized shares of our preferred stock, which is 5,000,000. This amendment is subject to approval by our shareholders at our 2002 annual meeting, which will be held on July 31, 2002. Currently, our charter authorizes us to issue 90,000,000 shares of capital stock, of which 85,000,000 shares are designated as common stock and 5,000,000 shares are designated as preferred stock. As of June30, 2002, we had 85,000,000 authorized shares of common stock of which:

31,196,378 shares are issued and outstanding;

19,000,000 shares of common stock are issuable upon conversion of Series A Convertible Preferred Stock;

1,665,720 shares of common stock are issuable upon conversion of Series A Convertible Preferred Stock issued pursuant to dividends paid on Series A Convertible Preferred Stock through June 30, 2002;

2,000,000 shares of common stock are issuable upon conversion of Series C Convertible Preferred Stock;

14,440 shares of common stock are issuable upon conversion of Series C Convertible Preferred Stock issued pursuant to dividends paid on Series C Convertible Preferred Stock through June 30, 2002;

7,422,955 shares of common stock are issuable upon exercise of outstanding common stock warrants;

4,750,000 shares of common stock are issuable upon exercise of outstanding Series A Convertible Preferred Stock warrants and conversion of the shares of Series A Convertible Preferred Stock which is issuable thereunder;

500,000 shares of common stock are issuable upon exercise of outstanding Series C Convertible Preferred Stock warrants and conversion of the shares of Series C Convertible Preferred Stock which is issuable thereunder; and

9,115,514 shares of common stock are issuable upon exercise of outstanding stock options.

Common Stock

Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders, except that the initial holders of the Series A Preferred have the right to appoint and elect up to four of the members of our board of directors (out of a board of 12) and the initial holders, Leaf Mountain Company, LLC and Richard Kiphart, the holder of our Series C Preferred have the right to approve certain other actions by the Company (See "Series A Preferred Stock Voting Rights" and "Series C Preferred Stock Voting Rights"). Subject to the rights of holders of any outstanding preferred stock, the holders of outstanding shares of common stock will share ratably on a per share basis on any dividends. Except pursuant to the trading agreements entered into with certain

of our stockholders (See "Series A Preferred Stock Stock Trading Agreement," "Series C Preferred Stock Stock Trading Agreement" and "Certain Relationships and Related Transactions"), holders of our common stock have no preemptive, subscription, redemption or conversion rights. Subject to the rights of holders of any outstanding preferred stock, upon our liquidation, dissolution or winding up and after payment of all prior claims, the holders of shares of common stock will share ratably on a per share basis in all of our assets. All shares of common stock currently outstanding are fully paid and nonassessable.

Preferred Stock

Series B Preferred Stock

On October 17, 2000, we completed the sale of 2,000 shares of the Series B Preferred Stock to the Augustine Fund L.P. ("Augustine") at a purchase price of $1,000 per share and the issuance of warrants to purchase 200,000 shares of common stock at an exercise price of $4.425 per share, subject to certain adjustments. The Series B Preferred Stock accrued dividends at the rate of 8% per annum, payable in cash or common stock, at our option. In the event of any liquidation, subject to the rights of any series of preferred stock that was senior to the Series B Preferred Stock, the holders of the Series B Preferred Stock were entitled to a liquidation preference of $1,000 per share plus accrued and unpaid dividends. The Series B Preferred Stock was convertible at any time into shares of our common stock at an initial 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 conversion ratio was subject to reduction for each 30 day period after April 16, 2001 that this registration statement was not declared effective). We could have redeemed all of the shares of the Series B Preferred Stock at any time prior to conversion for $1,250 per share cash plus accrued unpaid dividends. The shares of Series B Preferred Stock would automatically have converted into common stock on October 17, 2003 if not previously converted or redeemed. Except as otherwise required by law or with respect to certain matters affecting the rights of the holders of preferred shares, the holders of the Series B Preferred Stock did not have voting rights.

Effective June 15, 2001, Augustine elected to convert their 2,000 shares of Series B Preferred Stock outstanding into 1,472,244 shares of our common stock. The conversion price was $1.36 calculated as 71% (75% minus 2 percentage points for each thirty days that this 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 our common stock over the 30 consecutive trading days preceding June 15. In addition, we elected to pay the accrued dividends on the Series B Preferred Stock in 56,764 shares of our common stock, which dividends were calculated based upon a conversion price of $1.36 per share.

Series A Preferred Stock

In September 2000, we engaged Newcourt Capital Securities, Inc. as our placement agent to find potential investors interested in investing in a private placement of our capital stock. We were seeking additional capital for corporate development, market expansion, the repurchase of certain distribution territories and general working capital needs.

A search by our placement agent culminated in locating five investors desiring to invest in our capital stock, including leaders in the banking and energy industries. These investors are: Newcourt Capital USA Inc. ("Newcourt Capital USA"), Duke Capital Partners, LLC, Morgan Stanley Dean Witter Equity Funding, Inc., Originators Investment Plan, L.P. and EP Power Finance, L.L.C. (collectively, the "Investors") After extensive negotiations and subject to stockholder approval, the Investors and the Company entered into a securities purchase agreement, more fully described below.

On July 31, 2001, we entered into a securities purchase agreement with the Investors, which was approved by our shareholders at our 2001 annual meeting held on August 30, 2001. The transaction closed on September 7, 2001. Under the securities purchase agreement, each of the Investors (with Morgan Stanley and its affiliate, Originators Investment Plan, L.P., treated as one investor) were issued the following securities for an aggregate purchase price of $4,000,000 at the closing of the transaction:

400,000 shares of our Series A Convertible Preferred Stock;

warrants to purchase 100,000 shares of Series A Convertible Preferred Stock, initially exercisable at a price of $10.00 per share;

80,217 shares of our Common Stock; and

warrants to purchase 750,000 shares of our Common Stock, initially exercisable at a price of $1.00 per share.

Use of Proceeds

We have utilized a majority of the aggregate gross proceeds of $16,000,000 raised from the sale and issuance of the above capital stock and warrants for:

payment of transaction expenses and general operating expenses, including working capital needs;

payment of the placement agent fee;

payment of the outstanding balance of the revolving credit facility; and

complete the repurchase of 10 distributor territories of amounts owing with respect to these repurchases.

The placement agent received a fee equal to 5% of the $16 million aggregate gross proceeds under the July 31, 2001 securities purchase agreement and will receive a further 5% of the aggregate gross proceeds from exercise of any of the warrants to purchase Series A Convertible Preferred Stock.

On July 31, 2001, we also obtained an additional bridge loan from Newcourt Capital USA in the principal amount of $1.2 million. We had previously borrowed $2 million principal amount of bridge loans from Newcourt Capital USA. On July 31, 2001, in connection with the loans by Newcourt Capital USA and services performed by the placement agent, an affiliate of Newcourt Capital USA, the placement agent received warrants to purchase 3,314,830 shares of Common Stock initially exercisable at a price of $1.00 per share. Such warrants have an exercise period of seven years from the closing of the transactions contemplated by the securities purchase agreement, which was September 7, 2001. Upon closing of the Series A Convertible Preferred Stock transaction, Newcourt Capital USA applied our outstanding indebtedness, (excluding accrued interest of $76,049.78, which was paid in cash) under the various bridge loans against payment of the purchase price of the capital stock and warrants purchased by Newcourt Capital USA under the securities purchase agreement. Accordingly, the Company received at the closing of the transaction approximately $12 million in cash (after paying the placement agent fees and expenses of the private placement).

Conversion

Each share of Series A Convertible Preferred Stock is convertible at the option of the holder into the number of shares of our Common Stock as determined by dividing $10.00 by the conversion price, which is initially $1.00.

All outstanding shares of Series A Convertible Preferred Stock will be automatically converted if either of the following occurs:

at such time as the closing price of our Common Stock exceeds $12.00 per share (as adjusted for stock splits, stock combinations and the like) as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) for twenty consecutive trading days and the average trading volume for the same 20-day period exceeds 500,000 shares; or

we complete a firmly underwritten primary public offering of our Common Stock at a price of $5.00 per share or more (as adjusted for stock splits, stock combinations and the like) in which we raise aggregate gross proceeds of at least $35 million (a "Qualified Primary Offering").

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 we issue, or are deemed to have issued, if that price per share is less than the then existing conversion price for the Series A Convertible Preferred Stock. For example, if

following the closing of the transactions contemplated by the securities purchase agreement we issue 1,000,000 shares of Common Stock at $0.50 per share, the conversion price of the Series A Convertible Preferred Stock will automatically be adjusted from $1.00 to $0.50. 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.

Dividends

Each outstanding share of Series A Convertible Preferred Stock is entitled to cumulative quarterly dividends at a rate of 10% per annum of its stated value, which is $10.00. Dividends on the Series A Convertible Preferred Stock are payable and compounded quarterly. Until the first dividend payment date that occurs after three years following the initial issuance of the Series A Convertible Preferred Stock, dividends are payable, at our option, in cash or additional shares of Series A Convertible Preferred Stock. After that date, dividends on the Series A Convertible Preferred Stock must be paid in cash and the dividend rate increases 0.5% every six months to a maximum rate of 15% per year.

Liquidation

Upon a liquidation, dissolution or winding up of the affairs of the Company, each holder of Series A Convertible Preferred Stock will be entitled to receive for each share of Series A Convertible Preferred Stock it holds, before any other security holder of the Company, the higher of:

- $20 plus accrued and unpaid dividends; or
- an amount equal to the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) multiplied by the number of shares of Common Stock into which one share of Series A Convertible Preferred Stock is then convertible.

Redemption

Outstanding shares of the Series A Convertible Preferred Stock are not subject to mandatory redemption. At any time after the third anniversary of our initial issuance of shares of Series A

Convertible Preferred Stock, we have the option to redeem all outstanding shares of Series A Convertible Preferred Stock if the following two conditions are satisfied:

- the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) exceeds $7.50 per share (as adjusted for stock splits, stock combinations and the like) for at least 20 consecutive trading days immediately preceding the date we send a notice or redemption to all holders of Series A Convertible Preferred Stock; and
- the average daily trading volume for the same period exceeds 500,000 shares.

The redemption price will be:

1. cash in the amount of $10.00 per share plus accrued but unpaid dividends; and
2. that number of shares of Common Stock having a value equal to 70% of the excess of (i) the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) on the day before the redemption date multiplied by the number of shares of Common Stock into which a share of Series A Convertible Preferred

Stock is then convertible, and (ii) $10.00.

Voting Rights

The Investors have the right to elect up to four directors depending on the number of shares of Series A Convertible Preferred Stock outstanding at any time (as adjusted for stock splits, stock combinations and the like) as follows:

- for so long as at least 800,000 shares of Series A Convertible Preferred Stock remain issued and outstanding, holders of Series A Convertible Preferred Stock, voting as a single class, will be entitled to elect four directors;

- for so long as at least 600,000 but less than 800,000 shares of Series A Convertible Preferred Stock remain issued and outstanding, holders of Series A Convertible Preferred Stock, voting as a single class, will be entitled to elect three directors;

- for so long as at least 400,000 but less than 600,000 shares of Series A Convertible Preferred Stock remain issued and outstanding, the holders of Series A Convertible Preferred Stock, voting as a single class, will be entitled to elect two directors; and

- for so long as at least 200,000 but less than 400,000 shares of Series A Convertible Preferred Stock remain issued and outstanding, the holders of Series A Convertible Preferred Stock, voting as a single class, shall be entitled to elect one director.

Except for the election of directors or as otherwise provided by law, the Investors are entitled to vote with the holders of our Common Stock on an as-converted basis on all matters on which our holders of Common Stock are entitled to vote. However, if less than 200,000 shares of Series A Convertible Preferred Stock remain issued and outstanding, unless otherwise provided by law, each holder of record of Series A Convertible Preferred Stock has the right to vote on an as-converted basis together with the holders of Common Stock, on all matters on which holders of Common Stock are entitled to vote, including the election of directors.

Our board of directors has fixed by resolution the number of directors at 12. In order to maintain an appropriate number of directors, two of our directors, Victor Conant and James Stumpe, resigned their positions as directors following our 2001 annual meeting and those two seats, along with two currently vacant seats, will be filled by directors designated by each of the Investors.

Special Approval Rights

Holders of Series A Convertible Preferred Stock also have the following approval rights with respect to certain actions of the Company:

For so long as any shares of Series A Convertible Preferred Stock remain issued and outstanding we cannot, without approval of at least 75% of the shares of Series A Convertible Preferred Stock then outstanding:

- enter into any agreement that would restrict our ability to perform under the securities purchase agreement;

- amend our Certificate of Incorporation or bylaws in any way that could adversely affect, alter or change the rights, powers or preferences of the Series A Convertible Preferred Stock;

- engage in any transaction that would impair or reduce the rights, powers or preferences of the Series A Convertible Preferred Stock as a class;

sell all or substantially all of the assets of the Company or merge with or into another company, or liquidate the Company (provided that if less than 400,000 shares of the Series A Convertible Preferred Stock are then outstanding and the then holders of Series A Convertible Preferred Stock refused to consent to such a transaction, we may at our option, redeem all, but not less than all, of such Series A Convertible Preferred Stock at a redemption price per share equal to the amount the Series A Convertible Preferred Stock would receive upon a liquidation); or

change the authorized number of directors of our Board of Directors.

For so long as at least 800,000 shares of Series A Convertible Preferred Stock remain issued and outstanding we cannot, without the approval of at least $66^{2}/_{3}\%$ of the shares of Series A Convertible Preferred Stock then outstanding:

authorize or issue any capital stock with rights senior to or equal to the Series A Convertible Preferred Stock or securities convertible or exchangeable into such capital stock;

authorize or issue any options, rights or warrants to purchase capital stock of the Company;

amend or alter any outstanding options, rights or warrants in a manner that reduces or that has the effect of reducing the per share exercise price for any outstanding options, rights or warrants;

authorize or issue any debt securities of the Company or any of its subsidiaries, other than debt under the existing revolving lines of credit or the replacement thereof on substantially similar terms, except that we may issue additional debt up to $1,000,000 in the aggregate in the ordinary course of business and may incur trade payables in the ordinary course of business;

purchase, redeem, or otherwise acquire any of the Company's capital stock, other than the redemption of the Series A Convertible Preferred Stock;

enter into an acquisition, sale, merger, joint venture, consolidation or reorganization involving the Company or any of its subsidiaries;

sell or lease assets of the Company or any of its subsidiaries, except in the ordinary course of business;

declare or pay any cash dividends or make any distributions on any of our capital stock, other than on the Series A Convertible Preferred Stock;

authorize the payment of, or pay to any individual employee of the Company, cash compensation in excess of $500,000 per annum; or

enter into any transaction (or series of transactions), including loans, with any employee, officer or director of the Company or to or with his, her or its affiliates or family members (other than with respect to payment of compensation to actual full-time employees in the ordinary course of business) involving $50,000 or more per year individually or $250,000 or more per year in the aggregate.

For so long as at least 1,200,000 shares of Series A Convertible Preferred Stock remain issued and outstanding we cannot, without the approval of the holders representing 66 2/3% of the shares of Series A Convertible Preferred Stock then outstanding:

terminate or newly appoint the chief executive officer or president of the Company;

approve any annual capital expense budget if such budget provides for annual capital expenditures by the Company and its subsidiaries in excess of $1,000,000 in the aggregate in any year; or

approve the incurrence of any single capital expenditure (or series of related capital expenditures) in excess of $500,000.

Violation of Special Approval Rights

In the event we violate any of these special approval rights and do not cure the violation within the prescribed cure period, which is 30 days for the first such violation and 10 days for any subsequent violation, following notice of that violation from any holder of Series A Convertible Preferred Stock, the holders of the Series A Convertible Preferred Stock have the right to elect that number of additional directors to our board of directors necessary for them to elect a majority of the Board of Directors.

Ancillary Agreements

In addition to the securities purchase agreement, the Investors, the placement agent and/or the Company entered into three ancillary agreements, each of which is described below:

Investor Rights Agreement

Under the investor rights agreement, the Investors and the placement agent may require the Company to register "Eligible Securities." "Eligible Securities" are (1) the shares of Common Stock (a) issued or issuable upon the conversion of the Series A Convertible Preferred Stock issued pursuant to the securities purchase agreements or (b) issued or issuable upon exercise of the warrants to purchase Series A Convertible Preferred Stock and conversion into Common Stock of the Series A Convertible Preferred Stock issued or issuable pursuant to such exercise; (2) the shares of Common Stock issued or issuable upon exercise of the warrants issued to the placement agent; (3) the shares of Common Stock issued pursuant to the first securities purchase agreement; (4) the shares of Common Stock issued or issuable upon exercise of the warrants to purchase Common Stock issued under the first securities purchase agreement; and (5) any other shares of Common Stock issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares described in clauses (1) (4). The Investors and the placement agent, as a group, may require an aggregate of four

such registrations provided that each such registration is of an amount of shares representing at least $5 million of market value.

The Investors and the placement agent are also entitled to customary "piggy-back" registration rights in the event that the Company proposes to register shares of its Common Stock for sale to the public (excluding shares being registered hereunder and excluding any registration statements on Forms S-4 or S-8), whether for its own account or for the account of other security holders (or both). If such registration is, in whole or in part, an underwritten public offering and the underwriters institute customary cut-back procedures, then the Investors' piggy-back registration rights shall be subject to cut-back pro rata with any other shares proposed to be registered and sold in such offering, other than shares to be sold by the Company. In the event that underwriters institute customary cut-back procedures in respect of a registration requested by the Investors, however, any shares registered pursuant to a registration requested by the Investors will have priority over the shares sought to be included therein by any other selling stockholder.

Under the investor rights agreement, each investor and the placement agent, subject to certain exceptions, have a right of first offer with respect to future sales by the Company of shares of its capital stock. Specifically each investor and the placement agent have the right to acquire a portion of shares of capital stock, in order to maintain their percentage ownership interests. The Investors also have the right to acquire any shares that the other Investors decline to purchase.

Stockholders Agreement

The Investors and the Company have also entered into a stockholders agreement. Under the stockholders agreement, each Investor has the right to designate one member to the Board of Directors and to have a representative attend all meetings of the Board of Directors as a board observer so long as it holds at least 200,000 shares of Series A Convertible Preferred Stock. Additionally, the Investors and the Company have agreed that for so long as an Investor owns at least 2,000,000 shares of Common Stock (calculated assuming conversion of all Series A Convertible Preferred Stock and the exercise of all Series A Convertible Preferred Stock warrants and Common Stock warrants held by such Investor), a representative of such Investor is entitled to attend all meetings of the Board of Directors as an observer if such Investor does not have a designated board member. For purposes of the stockholders agreement, Morgan Stanley and Originators Investment Plan, L.P. are collectively considered to be one investor.

Each investor also agrees that if it converts more than 50% of the Series A Convertible Preferred Stock it purchases under the securities purchase agreement, it will, at the request of the Company, convert the remainder of its Series A Convertible Preferred Stock.

The stockholders agreement also includes special approval rights provisions which are similar to those described above under "Series A Preferred Stock." With respect to the issuance of the Series C Preferred Stock to Mr. Kiphart described below, those voting rights were amended to include the shares of Series C Preferred Stock, such that, for purposes of determining the number of shares of preferred stock which are outstanding and entitled to the benefit of such special approval rights, Series A Preferred Stock and Series C Preferred Stock are aggregated (See, "Series C Preferred Stock Special Approval Rights").

Stock Trading Agreement

Each of the Investors, the placement agent and certain officers of the Company have entered into a stock trading agreement that provides for restrictions on their sale of Common Stock into the public market. Under the stock trading agreement, the parties will not be able to sell their respective shares of Common Stock into the public market before the successful completion by us of a Qualified Primary Offering except that, if a Qualified Primary Offering is not completed within 18 months after the

closing of the transactions contemplated by the securities purchase agreement, the parties may sell their respective shares subject to the following restrictions:

- the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) must exceed $4.00 per share (as adjusted for stock splits, stock combinations and the like) for each of the twenty (20) consecutive trading days immediately prior to the date of sale;

- the number of shares of Common Stock sold by a party on any trading day may not exceed five percent of the average daily trading volume of the Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) for the twenty (20) consecutive trading days (as adjusted to exclude the highest and the lowest volume trading days for such twenty (20) consecutive trading day period) ending on the date immediately prior to such trading day;

- the average daily trading volume of the Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) for the twenty (20) consecutive trading days (as adjusted to exclude the highest and the lowest volume trading days for such twenty (20) consecutive trading day period) ending on the date immediately prior to such trading day must exceed 150,000 shares;

- the number of shares of Common Stock sold by a party into the public market in any three-month period may not exceed fifteen percent of that party's total holdings of Common Stock (calculated assuming the exercise of all rights, options and warrants to purchase Common Stock or securities convertible or exchangeable for shares of Common Stock, and the conversion or exchange of all securities convertible or exchangeable for Common Stock) on the date of the closing of the transactions contemplated by the securities purchase agreement (as adjusted for stock splits, stock combinations and the like); and

sales of at least 10,000 shares or more of Common Stock must be executed at a minimum price of 90% of the ask price as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation service on which our shares of Common Stock are listed for trading).

Subject to the expiration of any "lock-up" agreements entered into by the parties to the stock trading agreement, each party may sell shares of Common Stock into the public market following a Qualified Public Offering subject to the following restrictions:

the number of shares of Common Stock sold by a party on any trading day may not exceed five percent of the average daily trading volume of the Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) for the twenty (20) consecutive trading days (as adjusted to exclude the highest and the lowest volume trading days for such twenty (20) consecutive trading day period) ending on the date immediately prior to such trading day,

the number of shares of Common Stock sold by a party into the public market in any three-month period may not exceed twenty percent of that party's total holdings of Common Stock (calculated assuming the exercise of all rights, options and warrants to purchase Common Stock or securities convertible or exchangeable for shares of Common Stock, and the conversion or exchange of all securities convertible or exchangeable for Common Stock) on the date of the

closing of the transactions contemplated by the securities purchase agreement (as adjusted for stock splits, stock combinations and the like), and

sales of at least 10,000 shares or more of Common Stock must be executed at a minimum price of 90% of the ask price as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading).

Each party to the stock trading agreement and the Company will have a right of first offer if any other party to the stock trading agreement intends to sell its shares in a private transaction. The stock trading agreement will terminate September 7, 2004. However, if a Qualified Primary Offering is completed prior to September 7, 2004, the stock trading agreement will terminate 18 months after the completion of the Qualified Primary Offering.

Additional Issuance of Series A Preferred Stock

At our annual meeting of stockholders held on August 30, 2001, our stockholders approved the issuance of up to $20,000,000 of our Series A Convertible Preferred Stock, along with our common stock, and warrants to purchase our Series A Convertible Preferred Stock and our Common Stock. On September 7, 2001, we closed on the sale and issuance of $16,000,000 of our Series A Convertible Preferred Stock to the Investors (refer to the preceding discussion of the transaction).

On November 29, 2001, we 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 (For additional information regarding Leaf Mountain, see footnote 11 to "Selling Security Holders, Security Ownership of Certain Beneficial Owners and Management). 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.

Use of Proceeds

We have utilized most of the gross proceeds of $3,000,000 raised from this sale and issuance for general working capital needs. We did not engage a placement agent or broker for this transaction and, accordingly, no fee was paid in that respect.

Terms of the Transaction

Leaf Mountain, along with the Investors, the placement agent, and the Company and its executive officers entered into a Consent and Amendment of Securities Purchase Agreement, Stock Trading Agreement, Stockholders Agreement and Investor Rights Agreement ("Consent and Amendment"). The Consent and Amendment provides for terms different from those of the Investors as noted below.

Stock Trading Agreement Leaf Mountain

Leaf Mountain is subject to the provisions of the Stock Trading Agreement (See "Series A Preferred Stock Stock Trading Agreement") and may not sell any of its holdings of Common Stock

into the public market except in compliance with the Stock Trading Agreement. However, a percentage of the Common Stock of Leaf Mountain (the "Covered" Common Stock) is subject to certain amended provisions of the Stock Trading Agreement, such percentage determined as follows:

Beginning on December 1, 2001, the percentage of Common Stock (calculated assuming the exercise of all rights, options and warrants to purchase Common Stock or securities convertible or exchangeable for shares of Common Stock, and the conversion or exchange of all securities convertible or exchangeable for Common Stock) of Leaf Mountain subject to the amended provisions of the Stock Trading Agreement will be 75% if, by December 1, 2002, the Company has either:

(i) closed on the sale and issuance of at least 100,000 additional shares of Series A Convertible Preferred Stock for gross proceeds of not less than $1,000,000, or

(ii) satisfied each of the following requirements: (A) reported positive consolidated EBITDA (defined as net income plus (to the extent deducted in determining net income) (1) taxes, (2) interest expense, (3) depreciation and (4) amortization) for at least three (3) consecutive months, (B) continued reporting positive EBITDA for each month during the period commencing with the first month described in clause (A) preceding through the end of the month of November, 2002, and (3) had cash balances of not less than $3,000,000 on November 30, 2002.

If the Company has not satisfied either of the conditions provided in (i) and (ii) above, then the percentage of Common Stock of Leaf Mountain subject to the amended provisions of the Stock Trading Agreement will be 50%.

The amended provisions of the Stock Trading Agreement for which the Uncovered Common Stock of Leaf Mountain is subject (25% if the Company has satisfied either of the conditions (i) or (ii) above and 50% thereafter if it has not) are as follows:

the number of shares of Common Stock sold by Leaf Mountain on any trading day may not exceed the greater of (a) 10,000 shares or (b) 10% of the Average Daily Trading Volume (defined as the average closing price of the Common Stock over the preceding twenty trading days).

Leaf Mountain may not sell shares of its Common Stock before the completion of a Qualified Primary Offering, except that if a Qualified Primary Offering is not completed by November 29, 2002, then Leaf Mountain may sell shares of its Common Stock into the public market (subject to the provisions of the Stock Trading Agreement, as amended).

The portion of the Common Stock of Leaf Mountain that is not Uncovered Common Stock is the "Covered" Common Stock. The Covered Common Stock (75% if the Company has satisfied either of the conditions (i) or (ii) above and 50% thereafter if it has not) may not be sold into the public market except in compliance with the Stock Trading Agreement, which does not permit such sales until the Company completes a Qualified Public Offering or, if no Qualified Public Offering is completed by March 6, 2003, thereafter permits such sales subject to the restrictions described under "Series A Preferred Stock Stock Trading Agreement."

Stockholders Agreement Leaf Mountain

Leaf Mountain will not have the right to either elect or participate in the election of those directors designated by the Investors. However, unless otherwise provided by law, Leaf Mountain will be entitled to vote with the holders of our Common Stock on an as-converted basis on all matters on which our holders of Common Stock are entitled to vote, except for the election of directors. However, if less than an aggregate of 200,000 shares of Series A Preferred Stock remain issued and outstanding, unless otherwise provided by law, holders of the Series A Preferred Stock have the right to vote on an

as-converted basis together with the holders of common stock on all matters on which holders of common stock are entitled to vote, including the election of directors. In addition, for so long as Leaf Mountain holds at least 100,000 shares of Series A Preferred Stock, it will have the right to have a representative attend all meetings of the Board of Directors as an observer (See "Series A Preferred Stock Stockholders Agreement").

Leaf Mountain will participate with the Investors with respect to approval rights of certain actions of the Company (See "Series A Preferred Stock Special Approval Rights").

Investor Rights Agreement Leaf Mountain

Leaf Mountain, for so long as it holds at least 750,000 shares of Common Stock, will have the right to request a single registration of its shares, in addition to any rights that it may have to register its Common Stock with the Investors (See "Series A Preferred Stock Investor Rights Agreement"). Upon receipt of such request, the Company shall use its best efforts to cause a registration statement to become effective under the Securities Act of 1933 with respect to such securities.

Additional Agreement Re Issuances of Preferred Stock

We agreed with Leaf Mountain that we would not issue additional shares of our preferred stock to anyone on terms more favorable than those terms which are applicable to Leaf Mountain unless our Board of Directors has determined that, in its judgment, such subsequent investor provides a demonstrable synergistic benefit to our business.

Series C Preferred Stock

On May 31, 2002, we entered into a securities purchase agreement with Richard P. Kiphart ("Mr. Kiphart"), an individual, for the issuance of shares our Series C Convertible Preferred Stock, which transaction closed on June 4, 2002 (For additional information regarding Mr. Kiphart, see footnote 14 to "Selling Security Holders, Security Ownership of Certain Beneficial Owners and Management). Under the securities purchase agreement, Mr. Kiphart was issued the following securities for an aggregate purchase price of $2,000,000:

200,000 shares of our Series C Convertible Preferred Stock;

warrants to purchase 50,000 shares of Series A Convertible Preferred Stock, initially exercisable at a price of $10.00 per share;

30,082 shares of our Common Stock; and

warrants to purchase 281,250 shares of our Common Stock, initially exercisable at a price of $1.00 per share.

Use of Proceeds

We will utilize the gross proceeds of $2,000,000 raised from this sale and issuance for general working capital needs. We paid a fee equal to 4% of the gross proceeds ($80,000) to Delano Group Securities, LLC, which firm acted as placement agent for this transaction. The President of Delano Group Securities is Mr. David Asplund, who was appointed a director of the Company during June 2002.

Terms of the Transaction

Mr. Kiphart, along with the Investors, Leaf Mountain and the Company entered into a Consent and Amendment of Securities Purchase Agreement, Consent and First Amendment to Stockholders

Agreement and Consent and First Amendment to Investors Rights Agreement. Mr. Kiphart and the Company entered into a Securities Purchase Agreement and a Stock Trading Agreement.

The placement agent, Delano Group Securities, LLC, received a fee equal to 4% of the $2 million aggregate gross proceeds under the securities purchase agreement.

Conversion

Each share of Series C Convertible Preferred Stock is convertible at the option of the holder into the number of shares of our Common Stock as determined by dividing $10.00 by the conversion price, which is initially $1.00.

All outstanding shares of Series C Convertible Preferred Stock will be automatically converted if either of the following occurs:

- at such time as the closing price of our Common Stock exceeds $12.00 per share (as adjusted for stock splits, stock combinations and the like) as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) for twenty consecutive trading days and the average trading volume for the same 20-day period exceeds 500,000 shares; or

- we complete a firmly underwritten primary public offering of our Common Stock at a price of $5.00 per share or more (as adjusted for stock splits, stock combinations and the like) in which we raise aggregate gross proceeds of at least $35 million (a "Qualified Primary Offering").

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 we issue, or are deemed to have issued, if that price per share is less than the then existing conversion price for the Series C Convertible Preferred Stock. For example, if following the closing of the transactions contemplated by the securities purchase agreement we issue 1,000,000 shares of Common Stock at $0.50 per share, the conversion price of the Series C Convertible Preferred Stock will automatically be adjusted from $1.00 to $0.50. 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.

Dividends

Each outstanding share of Series C Convertible Preferred Stock is entitled to cumulative quarterly dividends at a rate of 10% per annum of its stated value, which is $10.00. Dividends on the Series C Convertible Preferred Stock are payable and compounded quarterly. Until the first dividend payment date that occurs after three years following the initial issuance of the Series C Convertible Preferred Stock, dividends are payable, at our option, in cash or additional shares of Series C Convertible Preferred Stock. After that date, dividends on the Series C Convertible Preferred Stock must be paid in cash and the dividend rate increases 0.5% every six months to a maximum rate of 15% per year.

Liquidation

Upon a liquidation, dissolution or winding up of the affairs of the Company, the holder of Series C Convertible Preferred Stock will be entitled to receive for each share of Series C Convertible Preferred Stock it holds, before any other security holder of the Company, the higher of:

$20 plus accrued and unpaid dividends; or

an amount equal to the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) multiplied by the number of shares of Common Stock into which one share of Series C Convertible Preferred Stock is then convertible.

Redemption

Outstanding shares of the Series C Convertible Preferred Stock are not subject to mandatory redemption. At any time after the third anniversary of our initial issuance of shares of Series C Convertible Preferred Stock, we have the option to redeem all outstanding shares of Series C Convertible Preferred Stock if the following two conditions are satisfied:

the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) exceeds $7.50 per share (as adjusted for stock splits, stock combinations and the like) for at least 20 consecutive trading days immediately preceding the date we send a notice or redemption to all holders of Series C Convertible Preferred Stock; and

the average daily trading volume for the same period exceeds 500,000 shares.

The redemption price will be:

1. cash in the amount of $10.00 per share plus accrued but unpaid dividends; and
2. that number of shares of Common Stock having a value equal to 70% of the excess of (i) the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading) on the day before the redemption date multiplied by the number of shares of Common Stock into which a share of Series C Convertible Preferred Stock is then convertible, and (ii) $10.00.

Voting Rights

Except for the election of directors or as otherwise provided by law, Mr. Kiphart is entitled to vote with the holders of our Common Stock on an as-converted basis on all matters on which our holders of Common Stock are entitled to vote.

Special Approval Rights

The holder of Series C Convertible Preferred Stock also has the following approval rights with respect to certain actions of the Company:

For so long as any shares of Series A Convertible Preferred Stock or Series C Convertible Preferred Stock remain issued and outstanding we cannot, without approval of at least 75% of the aggregate shares of Series A Convertible Preferred Stock and Series C Convertible Preferred Stock then outstanding:

enter into any agreement that would restrict our ability to perform under the securities purchase agreements entered into with the holders of our Series A Convertible Preferred Stock or the holder of our Series C Convertible Preferred Stock;

amend our Certificate of Incorporation or bylaws in any way that could adversely affect, alter or change the rights, powers or preferences of the Series A Convertible Preferred Stock or the Series C Convertible Preferred Stock;

engage in any transaction that would impair or reduce the rights, powers or preferences of the Series A Convertible Preferred Stock as a class or the Series C Convertible Preferred Stock as a class;

sell all or substantially all of the assets of the Company or merge with or into another company, or liquidate the Company (provided that if less than 400,000 shares in the aggregate of the Series A Convertible Preferred Stock and the Series C Convertible Preferred Stock are then outstanding and the then holders of Series A Convertible Preferred Stock and/or Series C Convertible Preferred Stock refused to consent to such a transaction, we may at our option, redeem all, but not less than all, of such Series A Convertible Preferred Stock and the Series C Convertible Preferred Stock at a redemption price per share equal to the amount the Series A Convertible Preferred Stock and the Series C Convertible Preferred Stock, respectively, would receive upon a liquidation); or

For so long as at least 800,000 shares in the aggregate of Series A Convertible Preferred Stock and Series C Convertible Preferred Stock remain issued and outstanding we cannot, without the approval of at least $66^{2}/_{3}\%$ of the aggregate shares of Series A Convertible Preferred Stock and Series C Convertible Preferred Stock then outstanding:

authorize or issue any capital stock with rights senior to or equal to the Series A Convertible Preferred Stock or Series C Convertible Preferred Stock, or securities convertible or exchangeable into such capital stock other than (i) Series A Convertible Preferred Stock issued upon exercise of Series A Convertible Preferred Stock Warrants, (ii) Series A Convertible Preferred Stock issued as payment in kind of any accrued unpaid dividends on Series A Convertible Preferred Stock, (iii) Series C Convertible Preferred Stock issued upon exercise of Series C Convertible Preferred Stock Warrants, or (iv) Series C Convertible Preferred Stock issued as payment in kind of any accrued unpaid dividends on Series C Convertible Preferred Stock;

authorize or issue any options, rights or warrants to purchase capital stock of the Company;

amend or alter any outstanding options, rights or warrants in a manner that reduces or that has the effect of reducing the per share exercise price for any outstanding options, rights or warrants;

authorize or issue any debt securities of the Company or any of its subsidiaries, other than debt under the revolving lines of credit in effect on July 31, 2001 or the replacement thereof on substantially similar terms, and any additional debt up to $1,000,000 in the aggregate in the ordinary course of business and may incur trade payables in the ordinary course of business;

purchase, redeem, or otherwise acquire any of the Company's capital stock, other than the redemption of the Series A Convertible Preferred Stock or the Series C Convertible Preferred Stock;

enter into an acquisition, sale, merger, joint venture, consolidation or reorganization involving the Company or any of its subsidiaries;

sell or lease assets of the Company or any of its subsidiaries, except in the ordinary course of business;

declare or pay any cash dividends or make any distributions on any of our capital stock, other than on the Series A Convertible Preferred Stock or the Series C Convertible Preferred Stock;

authorize the payment of, or pay to any individual employee of the Company, cash compensation in excess of $500,000 per annum; or

enter into any transaction (or series of transactions), including loans, with any employee, officer or director of the Company or to or with his, her or its affiliates or family members (other than with respect to payment of compensation to actual full-time employees in the ordinary course of business) involving $50,000 or more per year individually or $250,000 or more per year in the aggregate.

For so long as at least 1,200,000 shares in the aggregate of Series A Convertible Preferred Stock and Series C Convertible Preferred Stock remain issued and outstanding we cannot, without the approval of the holders representing 66$^{2}/_{3}$% of the aggregate shares of Series A Convertible Preferred Stock and Series C Convertible Preferred Stock then outstanding:

terminate or newly appoint the chief executive officer or president of the Company;

approve any annual capital expense budget if such budget provides for annual capital expenditures by the Company and its subsidiaries in excess of $1,000,000 in the aggregate in any year; or

approve the incurrence of any single capital expenditure (or series of related capital expenditures) in excess of $500,000.

Ancillary Agreements

In addition to the securities purchase agreement, Mr. Kiphart, the Company and the holders of our Series A Convertible Preferred Stock entered into two ancillary agreements, each of which is described below:

Joinder and First Amendment to Investor Rights Agreement

Under the joinder and first amendment to investor rights agreement, Mr. Kiphart may participate with the holders of our Series A Convertible Preferred Stock if such holders require the Company to register "Eligible Securities." "Eligible Securities" are (1) the shares of Common Stock (a) issued or issuable upon the conversion of the Series A Convertible Preferred Stock issued pursuant to the securities purchase agreements or (b) issued or issuable upon exercise of the warrants to purchase Series A Convertible Preferred Stock and conversion into Common Stock of the Series A Convertible Preferred Stock issued or issuable pursuant to such exercise; (2) the shares of Common Stock issued or issuable upon exercise of the warrants issued to the placement agent for the Series A Convertible Preferred Stock; (3) the shares of Common Stock issued pursuant to the securities purchase agreements relating to the issuance of our Series A Convertible Preferred Stock; (4) the shares of Common Stock issued or issuable upon exercise of the warrants to purchase Common Stock issued under the securities purchase agreements relating to the issuance of our Series A Convertible Preferred Stock; (5) any other shares of Common Stock issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares described in clauses (1) (4); (6) the shares of Common Stock (x) issued or issuable upon the conversion of the Series C Convertible Preferred Stock issued pursuant to the securities purchase agreement or (y) issued or issuable upon exercise of the warrants to purchase Series C Convertible Preferred Stock and conversion into Common Stock of the Series C Convertible Preferred Stock issued or issuable pursuant to such exercise; (7) the shares of Common Stock issued pursuant to the securities purchase agreement relating to the issuance of our Series C Convertible Preferred Stock; (8) the shares of Common Stock issued or issuable upon exercise of the warrants to purchase Common Stock issued under the securities purchase agreement relating to the issuance of our Series C Convertible Preferred Stock; (9) any other shares of Common Stock issued as (or issuable

upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares described in clauses (6) (8).

The holders of our Series A Convertible Preferred Stock and their placement agent, as a group, may require an aggregate of four such registrations provided that each such registration is of an amount of shares representing at least $5 million of market value.

Mr. Kiphart is also entitled to customary "piggy-back" registration rights in the event that the Company proposes to register shares of its Common Stock for sale to the public (excluding shares being registered hereunder and excluding any registration statements on Forms S-4 or S-8), whether for its own account or for the account of other security holders (or both). If such registration is, in whole or in part, an underwritten public offering and the underwriters institute customary cut-back procedures, then the Mr. Kiphart's piggy-back registration rights shall be subject to cut-back pro rata with any other shares proposed to be registered and sold in such offering, other than shares to be sold by the Company. In the event that underwriters institute customary cut-back procedures in respect of a registration requested by the holders of our Series A Convertible Preferred Stock, however, any shares registered pursuant to a registration requested by the holders, along with Mr. Kiphart's, will have priority over the shares sought to be included therein by any other selling stockholder.

Mr. Kiphart, subject to certain exceptions, has, along with the holders of our Series A Convertible Preferred Stock and their placement agent, a right of first offer with respect to future sales by the Company of shares of its capital stock. Specifically, the aforementioned have the right to acquire a portion of shares of capital stock, in order to maintain their percentage ownership interests and also have the right to acquire any shares that the other parties within this group decline to purchase.

Joinder and First Amendment to Stockholders Agreement

Under the joinder and first amendment to stockholders agreement, Mr. Kiphart is entitled to certain voting rights and special approval rights, all set forth in the preceding sections entitled "Voting Rights" and "Special Approval Rights." In addition, Mr. Kiphart agrees that if he converts more than 50% of the Series C Convertible Preferred Stock purchased under the securities purchase agreement, he will, at the request of the Company, convert the remainder of his Series C Convertible Preferred Stock.

Stock Trading Agreement

Mr. Kiphart and the Company have entered into a stock trading agreement that provides for restrictions on the sale of his Common Stock into the public market. Under the stock trading agreement, Mr. Kiphart will not be able to sell his shares of Common Stock into the public market before the successful completion by us of a Qualified Primary Offering except that, if a Qualified Primary Offering is not completed prior to March 7, 2003, he may sell his shares subject to the following restrictions:

the closing price of our Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) must exceed $4.00 per share (as adjusted for stock splits, stock combinations and the like) for each of the twenty (20) consecutive trading days immediately prior to the date of sale;

the number of shares of Common Stock sold on any trading day may not exceed five percent of the average daily trading volume of the Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) for the

twenty (20) consecutive trading days (as adjusted to exclude the highest and the lowest volume trading days for such twenty (20) consecutive trading day period) ending on the date immediately prior to such trading day;

the average daily trading volume of the Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) for the twenty (20) consecutive trading days (as adjusted to exclude the highest and the lowest

volume trading days for such twenty (20) consecutive trading day period) ending on the date immediately prior to such trading day must exceed 150,000 shares;

the number of shares of Common Stock sold by Mr. Kiphart into the public market in any three-month period may not exceed fifteen percent of his total holdings of Common Stock (calculated assuming the exercise of all rights, options and warrants to purchase Common Stock or securities convertible or exchangeable for shares of Common Stock, and the conversion or exchange of all securities convertible or exchangeable for Common Stock) on the date of the closing of the transaction contemplated (as adjusted for stock splits, stock combinations and the like); and

sales of at least 10,000 shares or more of Common Stock must be executed at a minimum price of 90% of the ask price as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading).

Subject to the expiration of any "lock-up" agreements entered pursuant to the stock trading agreement, Mr. Kiphart may sell shares of Common Stock into the public market following a Qualified Public Offering subject to the following restrictions:

the number of shares of Common Stock sold by Mr. Kiphart on any trading day may not exceed five percent of the average daily trading volume of the Common Stock as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national securities exchange or automated quotation services on which the Common Stock is then listed for trading) for the twenty (20) consecutive trading days (as adjusted to exclude the highest and the lowest volume trading days for such twenty (20) consecutive trading day period) ending on the date immediately prior to such trading day,

the number of shares of Common Stock sold by a party into the public market in any three-month period may not exceed twenty percent of that party's total holdings of Common Stock (calculated assuming the exercise of all rights, options and warrants to purchase Common Stock or securities convertible or exchangeable for shares of Common Stock, and the conversion or exchange of all securities convertible or exchangeable for Common Stock) on the date of the closing of the transactions contemplated by the securities purchase agreement (as adjusted for stock splits, stock combinations and the like), and

sales of at least 10,000 shares or more of Common Stock must be executed at a minimum price of 90% of the ask price as reported on the American Stock Exchange (or, if not traded on the American Stock Exchange, any national security exchange or automated quotation services on which our shares of Common Stock are listed for trading).

Mr. Kiphart and the Company will have a right of first offer if any of the parties to the stock trading agreement entered into by the holders of our Series A Convertible Preferred Stock, their placement agent and certain officers of the Company intend to sell their shares in a private transaction. The stock trading agreement will terminate September 7, 2004. However, if a Qualified Primary Offering is completed prior to September 7, 2004, the stock trading agreement will terminate 18 months after the completion of the Qualified Primary Offering.

Other Preferred Stock

Our board of directors, without further stockholder approval (other than the approval of the holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock described above under "Special Approval Rights"), may issue additional preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. The rights, preferences, limitations and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. Subject, in each case, to obtaining any required approval of the holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock, our board of directors (1) may authorize the issuance of preferred stock that ranks senior to our common stock for the payment of dividends and the distribution of assets on liquidation, (2) can fix limitations and restrictions upon the payment of dividends on our common stock to be effective while any shares of preferred stock are outstanding, and (3) can also issue preferred stock with voting and

conversion rights that could adversely affect the voting power of the holders of common stock. In addition, in connection with the sale of our Series A Preferred Stock to Leaf Mountain Company, LLC, we agreed with Leaf Mountain that we would not issue additional shares of our preferred stock to anyone on terms more favorable than those which are applicable to Leaf Mountain unless our Board of Directors has determined that, in its judgment, such subsequent investor provides a demonstrable synergistic benefit to our business.

Delaware Anti-Takeover Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, this section prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless:

- before the date on which the stockholder became an interested stockholder, the corporation's board of directors approved either the business combination or the transaction in which the person became an interested stockholder;
- the stockholder acquires more than 85% of the outstanding voting stock of the corporation, excluding shares held by directors who are officers or held in certain employee stock plans, upon consummation of the transaction in which the stockholder becomes an interested stockholder; or
- the business combination is approved by the board of directors and by two-thirds of the outstanding voting stock of the corporation that is not held by the interested stockholder, at a meeting of the stockholders held on or after the date of the business combination.

An interested stockholder is a person who, together with affiliates and associates, owns, or at any time within the prior three years did own, 15% or more of the corporation's voting stock. Business combinations include, without limitation, mergers, consolidations, stock sales, asset sales or other transactions resulting in a financial benefit to interested stockholders.

Anti-Takeover Effects of Certain Charter and By-Law Provisions

Our charter and by-laws contain provisions relating to corporate governance and to the rights of stockholders. Our by-laws provide that special meetings of stockholders may only be called by our Board of Directors, our chairman or our president and shall be called by our chairman, president or secretary at the request in writing of stockholders owning at least one-fifth of the outstanding shares of capital stock entitled to vote. In addition, our charter provides that our Board of Directors may issue preferred stock without further stockholder approval and upon those terms and conditions, and having

those rights, privileges and preferences, as our Board of Directors may determine; *provided, however,* that the holders of Series A Convertible Preferred Stock will have the right (among other things) to approve any such issuance of additional shares of preferred stock (See "Series A Preferred Stock"). These provisions may be deemed to have a potential "anti-takeover" effect in that they may delay, defer or prevent a change of our control.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is LaSalle Bank N.A.

INTEREST OF NAMED EXPERTS AND COUNSEL

The consolidated financial statements of Electric City Corp. included in this prospectus and in the registration statement have been audited by BDO Seidman, LLP, independent certified public accountants to the extent and for the periods set forth in their report appearing elsewhere herein and in the registration statement, and are included in reliance upon such report upon the authority of said firm as experts in auditing and accounting.

COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITY

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to our charter, bylaws or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim of indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by one of our directors, officers or controlling persons in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

DESCRIPTION OF BUSINESS

Overview/History

On December 5, 1997, we were initially formed as Electric City LLC, a Delaware limited liability company, by Joseph C. Marino, one of our principal stockholders, and NCVC, LLC, an entity controlled by Victor Conant, Kevin McEneely and DYDX Consulting LLC (which is controlled by Nikolas Konstant). In May 1998, Mr. Marino assigned his membership interest in us to Pino, LLC, an entity controlled by Mr. Marino.

On June 5, 1998, we changed from a limited liability company into a corporation by merging Electric City LLC into Electric City Corp., a Delaware corporation. In connection with our merger, NCVC, LLC and Pino, LLC received shares of common stock in Electric City Corp. in exchange for their membership interests in Electric City LLC.

On June 10, 1998, Electric City issued 1,200,272 shares of its common stock with a fair market value of $1,200,272 representing approximately six (6%) percent of Electric City's issued and outstanding common stock, to the approximately 330 shareholders of Pice Products Corporation ("Pice"), an inactive, unaffiliated company with minimal assets. Pursuant to merger agreement, Pice was merged with and into Electric City. The number of shares issued to Pice was determined and negotiated with the principals of Pice by the Company's Board of Directors as a whole and was concluded by the Board to be an "arm's length transaction" in that none of the Board of Directors was in any way affiliated with, or related to the principals of Pice. The purpose of the merger was to substantially increase the number of our shareholders to facilitate the establishment of a public trading market for our common stock. Trading in our common stock commenced on August 14, 1998 through the OTC Bulletin Board under the trading symbol "ECCC".

In May 1999, we purchased most of the assets of Marino Electric, Inc., an entity controlled by Mr. Marino, for $1,792,000 in cash and 1,600,000 shares of our common stock. Marino Electric was engaged in the business of designing and manufacturing custom electrical switchgear and distribution panels. 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 issuance 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.

On August 31, 2000, pursuant to an Agreement and Plan of Merger among us, Switchboard Apparatus, Inc. and Switchboard Apparatus's stockholders, Dale Hoppensteadt, George Miller and Helmut Hoppe, we purchased all of the issued and outstanding shares of capital stock of Switchboard Apparatus. In connection with the acquisition, Switchboard Apparatus was merged into our wholly-owned subsidiary, with our subsidiary continuing as the surviving corporation under the name Switchboard Apparatus, Inc. The aggregate purchase price of $1,941,750 was paid in the form of 551,226 shares of our common stock.

Effective December 4, 2000, Joseph P. Marino, one of our founders and former Chairman of the Board of Directors, resigned his position as Chairman and terminated his employment with us. Concurrent with his resignation, Mr. Marino became a distributor for our EnergySaver products in the states of California, Arizona and Nevada (See, "Certain Relationships and Related Transactions").

On June 7, 2001, pursuant to an Agreement and Plan of Merger by and among us, Electric City Great Lakes Acquisition Corporation, Great Lakes Controlled Energy Corporation ("Great Lakes") and Great Lakes stockholders, Eugene Borucki and Denis Enberg, we acquired Great Lakes. Great Lakes is an independent systems integrator and facilities support specialist and focuses on lighting control systems and HVAC retrofits for commercial applications. Great Lakes is also a national

representative and distributor of select energy metering and control systems. In connection with the acquisition, Great Lakes was merged into our wholly-owned subsidiary Electric City Great Lakes Acquisition Corporation, with our subsidiary continuing as the surviving corporation under the name Great Lakes Controlled Energy Corp. The aggregate purchase price of $678,500 was paid to the Sellers in the form of 212,904 shares of Electric City common stock. We agreed to register the shares of common stock issued to the Sellers under the Securities Act of 1933, as amended and, on October 22, 2001, the registration of such shares became effective.

Effective January 31, 2002, Michael Pokora resigned his position as Executive Vice President Business Operations and Sales, to return to the insurance industry.

Effective February 25, 2002, Roscoe Young II and Paul McGlinn resigned their positions as directors of the Company. Effective February 27, 2002, W. James Jewitt was appointed a director by EP Power Finance, L.L.C. to replace Mr. McGlinn.

Effective March 2, 2002, John Callahan resigned his position as a director of the Company.

Effective April 26, 2002, Brian Kawamura resigned his positions as President, Chief Operating Officer and a director of the Company, as well as his positions as a director of each of our subsidiaries, Switchboard Apparatus, Inc. and Great Lakes Controlled Energy Corp. Concurrent with his resignation, the Company entered into a separation agreement and consulting agreement with Mr. Kawamura (See, "Executive Compensation Employment Contracts").

Effective May 31, 2002, W. James Jewitt resigned his position as a director of the Company.

Effective June 1, 2002, W. Scott Harlan was appointed a director by EP Power Finance, L.L.C. to replace Mr. Jewitt (See "Directors, Executive Officers, Promoters and Control Persons").

Effective June 4, 2002, we closed on an issuance of our Series C Convertible Preferred Stock with Mr. Richard P. Kiphart (See, "Description of Securities Series C Preferred Stock").

Products And Services

The Company currently manufactures products or provides services under three distinct business segments. The EnergySaver business segment includes the EnergySaver and GlobalCommander product lines manufactured and sold by Electric City Corp. The switchgear business segment includes switchgear and related products manufactured by one of our subsidiaries, Switchboard Apparatus, Inc. The switchgear product line includes those products previously manufactured by Marino Electric, which product lines were merged into Switchboard Apparatus during 2000. The building controls and automation business segment is served by our other subsidiary, Great Lakes Controlled Energy Corp., which specializes in the installation and maintenance of building control and automation systems.

EnergySaver

The EnergySaver system is a state-of-the-art lighting control system that reduces energy consumption in indoor and outdoor commercial, institutional and industrial ballasted lighting systems, while maintaining appropriate lighting levels. The EnergySaver is a freestanding enclosure that contains control panels with electrical parts and is connected between the power line and the building's electrical lighting circuits. The EnergySaver also contains a computer with software that allows the customer to control the amount of energy savings desired which, depending on the application, can be as high as 50%, and provides self-diagnosis and self-correction. The customer can access the EnergySaver's computer directly or remotely via modem or two-way radio.

The EnergySaver is manufactured to varying sizes and capacities to address differing lighting situations. We can interface our EnergySaver products with new and existing lighting panels, ballasts and lamps without modification. In addition, the EnergySaver system controls the power spikes, drops

and surges inherent in any power supply, resulting in a reduction of heat generated within the lighting system, which enhances ballast and lamp life and reduces the amount of air conditioning necessary to cool the building.

GlobalCommander

The GlobalCommander system is an advanced lighting controller capable of providing large-scale demand side management savings without turning off the lights. The GlobalCommander bundles the EnergySaver technology with an area-wide communication package to allow for maximum energy reductions across entire systems in response to the guidelines of a customer's facility manager. The primary benefits of the GlobalCommander system are its automation and ability to respond to market information and execute control set points, start/stop schedules and other operating parameters to take full advantage of market rates. In addition, customers can control their facilities' loads and lighting requirements from a single control point. This single-point control is available for a virtually unlimited number of remote facilities and can be accessed through the Internet or over standard telephone lines with high-speed wide area networking.

Custom Electrical Switchgear

We design and manufacture a wide range of commercial and industrial custom electrical switching gear and distribution panels that serve to distribute electricity from the electric utility's main power bus in a building to the various electrical requirements within a building. We have built a reputation for custom manufacturing of 120/208, 120/240 and 277/480V single- and three-phase switchgear for virtually any application. Our focus on custom manufacturing allows us to design and assemble these custom panels more quickly than manufacturers who must deviate from standard assembly line production.

Typical customers of custom switchgear are electrical contractors who provide installations for commercial and industrial building projects. Most custom switchgear contracts involve the custom manufacturing of electrical switching gear and distribution panels for both new construction and retrofit projects. Our product line includes main distribution panels, electrical boxes and assembled circuit breakers, bus bars and switches. In addition, we are an authorized re-seller and original equipment manufacturer (OEM) for Siemens and Cutler-Hammer.

We also market a full line of prepackaged switchgear products for the telecommunications/Internet markets under the TP3 brand name. The packages consist of fully integrated switchgear systems that provide a total solution for our customers' needs in this area. The entire package is prepackaged at standard size ranges designed for the typical sizes of central office network centers, point of presence (POP) facilities and Internet network centers. By prepackaging the switchgear, we believe we can reduce total installed costs by up to 30%, improve quality and deliver a high level of reliability in the electrical switchgear and provide energy savings and remote communications through this fully integrated solution.

Building and Automation Controls

Through our wholly-owned subsidiary, Great Lakes Controlled Energy Corp., we provide integration of building and automation control systems for commercial and industrial customers. In addition, Great Lakes is an authorized distributor for the WattStopper, a leading occupancy sensor, and Power Measurement Ltd. smart meters.

Marketing, Sales And Distribution

We have established relationships with distributors (also referred to as "State Representatives") to market and distribute our EnergySaver products to end-users. As of June 30, 2002, we had eight distributor/state representative agreements covering Arizona, California, Illinois, Indiana, Nevada,

New Jersey, Pennsylvania, and Texas. Each distributor is responsible for developing and managing a sales network within its respective territory. Typically the distributor does this by establishing direct relationships with end-users or through dealerships within the territory and overseeing the sales, installation and maintenance of our products by those dealerships. If a distributor sells any of our products outside its territory, such distributor operates as a dealer, meaning it manages end-user sales only. The distributor earns a commission on any sale of our products in its territory whether initiated by the distributor itself, a dealer, or by us.

Our standard distribution agreement gives the distributor certain exclusive rights of distribution in a particular territory, includes sales quotas that increase periodically throughout the term of the agreement, and requires the distributor to make payment to us within 30 to 60 days of product shipment. The agreement contains penalties for failure to meet quotas or make payments, including the loss of certain exclusive rights of distribution. Currently, a number of our distributors are delinquent in payments due Electric City. We are working with our distributors to address this issue and are confident that currently delinquent payments due us will be received. In addition, the agreement has a term of 10 years, after which it is renewable at our discretion, and can be terminated at our discretion if the distributor fails to meet the terms of the distribution agreement.

National accounts (such as chain stores, and large multi-site corporations), municipalities and other large campus customers are managed by our corporate sales engineering group. This group concentrates its sales efforts on the energy engineering staffs of these companies, which analyze and recommend the purchase of products like ours for their multiple sites. The sales force also supports, coordinates and manages multiple sales channels.

The product lines manufactured by our subsidiary, Switchboard Apparatus, are sold directly to original equipment manufacturers and end-users.

The building and automation controls systems installed and serviced by our subsidiary, Great Lakes Controlled Energy, are sold directly to end-users, typically commercial office buildings.

Customers

During 2001, sales to our top five EnergySaver customers comprised 59% of total EnergySaver sales. Of these five customers, Electric City of Southern California, Electric City of Illinois, Electric City of Indiana and Electric City of Pennsylvania, who are four of our distributors, collectively accounted for 53% of EnergySaver sales during 2001. During 2000, sales to our top five EnergySaver customers comprised 36% of total EnergySaver sales. Four of these top five EnergySaver customers included Electric City of Southern California, Electric City of Illinois and Electric City Southern, who are our distributors, and U.S. Power Corp, who is one of our dealers. All sales to our distributors and dealers are typically installed by end-users upon receipt of the products. Electric City of Southern California is owned by Joseph Marino, our former Chairman and Director (See, "Certain Relationships and Related Transactions").

During 2001, sales to the top five customers of Switchboard Apparatus comprised 41% of total switchgear sales, which customers included G.E. Supply Co., Zenith Controls, Inc., KMC Telecom, Electrical Controls Inc. and Malko Electric. During the period from September 2000, following our acquisition of Switchboard Apparatus, through December 31, 2000, the top five customers of Switchboard Apparatus accounted for 73% of total switchgear sales during that period. These customers included G.E. Supply Co., Zenith Controls, Inc., KMC Telecom, EOFF Electric and Kelso-Burnett. Roscoe Young, who served as a director of Electric City Corp. from April 2000 through February 2002, is President of KMC Telecom, one of the top five customers of Switchboard Apparatus for both 2000 and 2001. Sales to KMC Telecom were made on the same basis as sales to any other third party purchaser.

For the period beginning June 2000, following our acquisition of Great Lakes Controlled Energy Corp., through December 31, 2001, the top five customers of Great Lakes comprised 78% of its sales during that period, which customers included 2800 Lake Shore Drive Condominium Association, Hill Mechanical Corp., U.S. Power Corp., National Heat & Power Corp. and College of Pathologists.

Manufacturing

Our EnergySaver product line is manufactured at our facilities in Elk Grove Village, Illinois, with manufacturing and assembly scaled to order demand. The primary components for the EnergySaver are sourced from multiple manufacturers. We are in continuous discussion with additional parts suppliers, seeking to ensure lowest cost pricing and reliability of supply.

Our switchgear product line, including the TP3 product line, is manufactured at the facilities of Switchboard Apparatus in Broadview, Illinois. The key components for our switchgear product line are sourced from multiple manufacturers with the goal of achieving competitive pricing and reliability of supply.

Our key suppliers of components used in our products include Cutler-Hammer, General Electric and Siemens.

Intellectual Property

Certain technologies underlying the EnergySaver products have been patented in the U.S. and Italy by Giorgio Reverberi. A U.S. patent application was filed by Mr. Reverbveri in November 1997, and a patent was issued in June 2000.

Since January 1, 1998, we, along with Mr. Reverberi and Mr. Marino, have entered into a number of agreements relating to the license of the EnergySaver technology, which grant us the exclusive license rights of Mr. Reverberi's patent of the EnergySaver technology in all of North America, Central America, South American and the Caribbean, as well as Africa (excluding the countries of Algeria, Libya, Morocco and Tunisia). Our license expires upon the expiration of Mr. Reverberi's last expiring patent, which we expect to be on or around November 2017. If either party materially breaches the license and fails to cure the breach within 180 days after notice by the other party of the breach, the other party can terminate the license. We pay Mr. Reverberi a royalty of $200 and Mr. Marino a royalty of $100 for each EnergySaver product we make or sell in territories in which Mr. Reverberi holds a valid patent.

We have applied for registration of the name EnergySaver pursuant to a U.S. trademark application filed September 15, 2000. In addition, we filed with the U.S. Patent and Trademark Office an intent-to-use trademark application for each of GlobalCommander, Virtual Negawatt Power Plant and VNPP on November 13, 2000. During January 2002, we were notified that the application for the name VNPP had been approved and also abandoned efforts to register the name Virtual Negawatt Power Plant.

During March 2001, we established a new policy that requires all non-union employees to sign an Employee Innovations and Proprietary Rights Assignment Agreement. This agreement is intended to ensure that any intellectual property or know-how developed as part of an employee's work for the Company is and remains the property of the Company. All current non-union employees have signed such an agreement.

On April 12, 2001, Denis Enberg assigned his rights to any technology developed by him for, or on behalf of the Company or Switchboard Apparatus to the Company. Mr. Enberg had been working for the Company on the GlobalCommander Technology. Mr. Enberg was also a shareholder and director of Great Lakes, which we acquired on June 7, 2001.

Competition

There are a number of products on the market that directly or indirectly compete with the EnergySaver products. These competing products can be categorized into three general types:

- those that convert AC to DC at a central location,
- those that pulsate the power to the lighting system; and
- other control products similar to the EnergySaver system.

Products that fall into the first category convert AC to DC at a central location and do so more efficiently than it is done by the standard electronic ballast in each light fixture. The main drawback to this technology is that the transmission of DC power over any distance is generally less efficient and more dangerous than transmitting AC power. This technology also requires the rewiring of every light fixture on the circuit.

Products that pulsate the power in the lighting system turn the power off and on so quickly (120 times/second) that the lights remain on. This process, which is generally known as "wave chopping," distorts the AC waveform and thereby produces harmonics in a building's electrical system that can damage other electrical components such as electric motors and electronic devices. The process also contributes to the reduction of life of lamps and ballasts in lighting fixtures.

Control products similar to the EnergySaver system are those that control power consumption at the lights and those that control power consumption at the lighting circuit. Typically these units must be wired to each fixture or each circuit to be controlled. While the EnergySaver can be characterized as a lighting controller, it is more appropriately described as a "variable lighting control power reduction system," and it is connected to a central distribution panel rather than to each lighting fixture. Therefore the EnergySaver is much simpler and less expensive to install, generally requires less maintenance and is less expensive to purchase than other lighting control products.

Our primary competitors in the switching and monitoring systems market are national suppliers of electrical switchboards, such as Seimens and Cutler-Hammer. The principal competitive factors in this industry are price and project completion time. We believe that we can generally complete custom projects more quickly than our national competitors because we handle each project individually, as compared to our competitors, who generally do not customize projects.

As Great Lakes Controlled Energy is one of a number of distributors of products manufactured by Delta Controls, our primary competitors in the building controls and automation systems market are the several other distributors in the Chicagoland market. Other competitors include installers of Siemens control systems.

Employees

As of May 31, 2002, we had 84 full time employees, of which 19 were management and corporate staff, 1 in engineering, 15 were engaged in sales and marketing, 5 were engaged in field service and 44 were engaged in manufacturing. Of those employees engaged in manufacturing, 41 are covered by collective bargaining agreements between each of Electric City and Switchboard Apparatus and the International Brotherhood of Electrical Workers ("IBEW"), which is affiliated with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). Both collective bargaining agreements expired on May 31, 2002 and were renewed as a single consolidated agreement effective June 1, 2002 and expiring on May 31, 2005.

Research and Development

The Company, through the day-to-day use of the EnergySaver and its components, and its use at various testing sites around the country, develops modifications and improvements to its products. Total research and development costs charged to operations were approximately $289,000 and $248,000 for the years ended December 31, 2001 and December 31, 2000, respectively.

Compliance With Environmental Laws

Neither the Company's production nor sales of its products in any material way generate activities or materials that that would require compliance with federal, state or local environmental laws.

Additional Information

Additional information regarding the Company and the shares offered hereby is contained in the Registration Statement on Form SB-2 and the Amendments to Registration Statement on Form SB-2 and the exhibits thereto filed with the Commission under the Securities Act of 1933, as amended. For further information pertaining to the Company and the shares, reference is made to the Registration Statement and the exhibits thereto, which may be inspected without charge at, and copies thereof may be obtained at the prescribed rates from, the office of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Company is subject to the requirements of the Securities Exchange Act of 1934 and is required to file reports, proxy statements and other information with the Securities and Exchange Commission. Copies of any such reports, proxy statements and other information filed by the Company can be read and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company. The address of that site is http://www.sec.gov.

The Company has filed with the Securities and Exchange Commission a Registration Statement under the Securities Act of 1933, as amended, with respect to the securities offered by this prospectus. This prospectus does not contain all of the information set forth in the Registration Statement. For further information with respect to the Company and such securities, reference is made to the Registration Statement and to the exhibits filed with the Registration Statement. Statements contained in this prospectus as to the contents of any contract or other documents are summaries that are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. The Registration Statement and related exhibits may also be examined at the Commission's Internet site.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion regarding us and our business and operations contains "forward looking statements" within the meaning of the Private Securities Litigation Act of 1995. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative of such terms or other variations of such terms or comparable terminology. You are cautioned that all forward-looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements. We do not have a policy of updating or revising forward-looking statements and, therefore, you should not assume that our silence over time means that actual events are bearing out as estimated in such forward looking statements.

We have a short operating history. All risks inherent in a new and inexperienced enterprise are inherent in our business.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that effect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see "Note 2 Notes to Consolidated Financial Statements".

Use of Estimates

Preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumption affecting the reported amounts of assets, liabilities, revenues and expenses and related contingent liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenues, bad debts, income taxes and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

The Company recognizes revenue when all four of the following criteria are met: (i) persuasive evidence 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 or invoiced prior to satisfying the Company's revenue recognition criteria is recorded as deferred revenue in the accompanying balance sheet.

Impairment of Long-Lived Assets.

We record 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 will no longer be amortized but will be 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 estimated fair value. 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. Therefore, impairment losses could be recorded in the future. We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the Statement is expected to result in an increase in net income of approximately $578,813 ($0.02 per share) per year. During 2002, we will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. It is possible that, as a result of these tests, we may have to take a charge in a future period to recognize a write-down of the value of our acquisitions to their estimated future values.

Results of Operations

Our revenues reflect the sale of our products and services, net of allowances for returns and other adjustments. All of Electric City's sales are generated from the sale of products and services primarily in the U.S. One customer accounted for 13% and 14% of our total consolidated sales in 2001 and 2000, respectively.

Our cost of goods sold consist primarily of materials and labor. Also included in our cost of goods sold are freight, the costs of operating our manufacturing facilities, charges for potential future warranty claims and royalty costs related to EnergySaver sales. Cost of goods sold also include the wages and expenses of our engineering group at Switchboard Apparatus.

Sales and gross profits depend in part on the volume and mix of products sold during any given period. Generally, products that we manufacture have a higher gross profit margin than products that we purchase and resell. In addition, manufactured products that are proprietary, such as the EnergySaver, generally have higher gross margins than non-proprietary products such as switchgear or distribution panels.

A portion of our operating expense is relatively fixed, such as the cost of our facilities. Accordingly, an increase in the volume of sales will generally result in an increase to our gross margins since these fixed expenses do not increase proportionately with sales. We have never fully utilized the manufacturing capacity of our facilities and, therefore, believe that the fixed nature of some of our expenses would contribute to an increase in our gross margin in future periods if sales volumes increase. In particular we believe that our facility in Elk Grove Village can support a sales level of

EnergySavers of approximately $12 million to $15 million without a significant investment in fixed assets.

Selling, general and administrative ("SG&A") expenses include the following components:

- direct labor and commission costs related to our employee sales force;
- commission costs related to our independent sales representatives and our distributors;
- expenses related to our non-manufacturing management, supervisory and staff salaries and employee benefits;
- costs related to insurance, travel and entertainment and office supplies costs and the cost of non-manufacturing utilities;
- costs related with marketing and advertising our products;
- research and development expenses;

costs related to administrative functions that serve to support the existing businesses of the Company, as well as to provide the infrastructure for future growth.

Interest expense includes the costs and expenses associated with working capital indebtedness, the mortgage on our headquarters building, an equipment loan, the Senior Subordinated Convertible Promissory Notes, a note to the sellers of Marino Electric, a note to a seller of Switchboard Apparatus, notes to the sellers of Great Lakes, and a note to the sellers of certain distributor territories that we repurchased in June 2000, all as reflected on our current and prior financial statements. Also included in interest expense is amortization of the debt discount based on the fair value of the warrants issued to Newcourt Capital Securities as part of the issuance of the Senior Subordinated Convertible Promissory Notes, and the amortization of deferred financing costs.

We have provided analysis and discussions comparing the following periods:

the unaudited three-month period ended March 31, 2002 compared with the unaudited three-month period ended March 31, 2001;

the audited twelve-month period ended December 31, 2001 compared with the audited twelve-month period ended December 31, 2000.

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Our total revenue for the three-month period ended March 31, 2002 declined $26,231 or 0.8% to $3,135,993 as compared to $3,162,224 for the quarter ended March 31, 2001. Revenue related to EnergySaver sales increased approximately $696,000, or 132%, to approximately $1,220,000 as compared to approximately $524,000 for the same period in 2001. Revenue from the sale of building automation products and services, which benefited from the acquisition of Great Lakes in June 2001, contributed approximately $258,000 to first quarter 2002 revenue. Revenues derived from the sale of switchgear and distribution panels declined approximately $943,000 or 36% to approximately $1,644,000 during the third quarter as compared to approximately $2,587,000 for the same period in 2001. The decline in switchgear and distribution panel revenue was primarily the result of a slowdown in both general construction activity and construction activity in the telecom and Internet industries. We expect the trends in EnergySaver and building automation systems to continue for the balance of the year, while we believe the switchgear and distribution panel business has stabilized and should show improving trends in coming periods.

Cost of sales for the three-month period ended March 31, 2002 totaled $2,731,713 as compared to $2,815,246 for the three-month period ended March 31, 2001. Gross profit for the first quarter of 2002 increased $57,302 or 16.5% to $404,280 from $346,978 in the first quarter of 2001. The improvement in

the consolidated gross margin is primarily the result of the increase in EnergySaver sales, which generally have higher gross margins than switchgear and distribution panels, and improved utilization of our EnergySaver manufacturing facilities. The increase in EnergySaver gross profit was partially offset by a decline in the gross profit earned on switchgear and distribution panels due to the decline in revenue and lower facility utilization.

SG&A for the three-month period ended March 31, 2002 decreased $490,230, or 19.0% to $2,096,401, as compared to $2,586,631 for the three-month period ended March 31, 2001. The first quarter of 2001 included a non-cash charge of $228,000 related to the extension of the maturity date on a warrant held by an investor relations consultant. Also contributing to the decline in SG&A was a $32,000 reduction in labor expense, a $150,000 reduction in travel expense, a $132,000 reduction in amortization expense resulting from the adoption of SFAS 142, a $100,000 decline in legal expense and a $30,000 decline in the costs of outside engineering services and reductions in recruiting costs, certain utilities and investor relations related expenses. These reductions in SG&A expense were partially offset by a $190,000 increase in sales commissions primarily related to sale of EnergySavers.

Other income (expense) for the three-month period ending March 31, 2002 decreased $97,645, or 86.6% to $15,077 from $112,722 for the three-month period ended March 31, 2001. During the last half of 2001 we raised $19,000,000 through the issuance of our Series A Convertible Preferred Stock. We used the proceeds from the issuance to repay debt and payoff our revolving line of credit, which contributed to a $87,638 reduction in our interest expense when compared to the same period in 2001. The issuance of the Series A Convertible Preferred Stock also contributed to an increase of our average cash balances during the first quarter of 2002 when compared to the first quarter of 2001, which resulted in an increase in our interest income of $10,007 over the same period in 2001.

The Series A Preferred Stock accrues a dividend at the rate of 10%, which is payable at our option in cash or additional shares of Series A Preferred Stock. During the three-month period ended March 31, 2002 we accrued dividends of $491,748 on the Series A Convertible Preferred Stock. These accrued dividends were satisfied through the issuance of 49,175 shares of our Series A Convertible Preferred Stock on March 31, 2002. On March 31, 2002 we also recorded a non-cash deemed dividend of $186,864 due to the beneficial conversion feature of these shares. During 2001 we accrued dividends of $39,452 on our Series B Convertible Preferred Stock. The Series B Convertible Preferred Stock was converted into shares of our common stock on June 15, 2001.

The non-cash dividends recognized during the three months ended March 31, 2001 and 2000 are comprised of the following:

	Three months ended March 31	
	2002	2001
Accrual of Dividend on Series A Convertible Preferred	$ 491,748	$
Accrual of Series B Preferred dividend		39,452
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction of Series A Convertible Preferred dividend	186,864	
Total	$ 678,612	$ 39,452

Audited Twelve-Month Period Ended December 31, 2001 Compared With the Audited Twelve-Month Period Ended December 31, 2000

Revenue. Our revenue increased approximately $2.4 million, or 33%, to $9.6 million for the year ended December 31, 2001 compared to $7.2 million for the year ended December 31, 2000. Revenue from the sale of the EnergySaver increased 33% or $0.4 million, to $1.5 million in 2001 from $1.2 million in 2000. EnergySaver unit sales increased 68% from 109 units in 2000 to 175 units in 2001.

The average selling price per EnergySaver unit sold declined from $10,600 in 2000 to $8,600 in 2001. This reduction in the average selling price is a reflection of change in the mix of models sold and the sales channel responsible for the sale. When the Company sells its products through a distributor, it records less revenue than when it sells direct to the end user. If a dealer is involved in a direct sale or if the direct sale is in a distributor's territory, then commissions will be due to the dealer and/or distributor, with commission expense reported as a selling, general and administrative expense. Sales of EnergySavers were particularly strong during the fourth quarter of 2001, when the sale of 66 units was recorded as revenue. We expect to recognize the revenue on these units during the first half of 2002. Demand for the EnergySaver has remained strong into the first quarter of 2002 and we expect full year revenue for the EnergySaver to exceed the levels achieved in 2001.

Sales of switchgear and distribution panels manufactured by one of our subsidiaries, Switchboard Apparatus, increased $1.8 million, or 33%, to $7.5 million during 2001 compared to $5.7 million in 2000. However, almost the entire increase in sales of switchgear and distribution panels is due to the inclusion of twelve-months of results of Switchboard Apparatus, which was acquired in August 2000. Sales of switchgear and distribution panels were adversely impacted by a slowdown in the telecom and general construction industries. This segment of our business was particularly impacted during the third quarter of 2001, but realized modest recovery during the fourth quarter, which has continued into the first quarter of 2002. We anticipate that sales from this division will continue to recover throughout 2002 and expect that full year sales will meet or exceed the levels achieved in 2001.

The acquisition of Great Lakes Controlled Energy Corp. in June 2001 is responsible for $281,000 of the total increase in revenue for 2001. During the first quarter of 2002, Great Lakes was awarded a large contract for building controls which will contribute to a significant increase in revenues for this subsidiary during 2002. However, Great Lakes' total revenues are expected to be less than 10% of our 2002 consolidated sales.

Other revenue declined by $95,000 or 24% to $299,000 in 2001 compared to $394,000 recorded in 2000. Other revenue includes revenue from ancillary products and installation for the EnergySaver, deferred revenue, freight, etc.

Gross Profit. Our gross profit declined approximately $126,000, or 22%, to $437,000 for 2001 compared to $567,000 during the twelve-month period ended December 31, 2000. Our gross profit as a percentage of sales decreased to 4.6% for 2001 compared to 7.8% during 2000. The margins at our EnergySaver division improved throughout the year as production and sales volume increased, but the margins in the switchgear division fell significantly due primarily to our failure to reduce labor expense as sales began to slow during the third quarter of the year. During the fourth quarter, we implemented layoffs and reduced our headcount by approximately 25%, which contributed to improvements in fourth quarter margins. We have been able to maintain our reduced headcount down through the first quarter of 2002, which will contribute to

improved margins during 2002.

SG&A Expenses. SG&A expense increased approximately $860,000 to $9.9 million for the year ended December 31, 2001 from approximately $9.1 million during the year ended December 31, 2000. Most of the increase in SG&A expense was due to the inclusion of twelve months of expenses from Switchboard Apparatus, which was acquired on August 31, 2000, and the inclusion of seven months of expenses from Great Lakes, which was acquired in June 2001.

Repurchase of Distributor Territories & Legal Settlement. Our 2000 operating results include charges related to the repurchase of eleven distribution territories from three distributors and the settlement of a suit brought by a former consultant. We repurchased the eleven distribution territories, including the exclusive rights to sell the EnergySaver in Ohio, Michigan, Northern California, Florida, Georgia, North Carolina, South Carolina, Virginia, Arizona, Colorado and Nebraska, for $1,280,000 plus options to purchase 65,000 shares of our common stock at $2.50 each. These options were valued at $199,550

using a modified Black-Sholes option pricing model. A portion of the cash payment represents a refund of a $125,000 cash security deposit paid by the distributors to the Company. All but $100,000 of the cash portion of the repurchase price was deferred in the form of a note until the Company completed its Series A preferred stock offering, which closed in September 2001. The deferred payment accrued interest at the rate of 12% per year until it was paid in September 2001. The Company recorded total expense of $1,354,794 in 2000 related to the repurchase of the distributor territories. During 2000 we also settled a suit alleging breach of contract brought by a former consultant, for $15,000 in cash, 60,000 shares of Electric City common stock and options to purchase 40,000 shares at $7.00 per share. The total charge recognized as a result of this settlement was $325,600.

Other Non-Operating Income (Expense). Other non-operating expense is comprised of interest expense and interest income. Interest expense increased $3,254,000 to $3,533,000 during the 2001 as compared to $279,000 for the year ended December 31, 2000. As is more fully explained in note 8 to the consolidated financial statements, included in the 2001 interest expense was the cost of issuance and the value of the warrants issued in connections with the Senior Subordinated Promissory Notes. The costs of issuance were $187,000 and the value ascribed to the warrants was $2,917,000. The actual 2001 cash interest on the senior subordinated promissory notes was $76,000. The other components of 2001 the interest expense included $108,000 on the distributor note, $79,000 on our various lines of credit, $63,000 on our mortgage, $67,000 on notes payable to the sellers of Marino Electric, Switchboard Apparatus and Great Lakes Controlled Energy, $34,000 on equipment loans and $2,000 on various auto loans. During 2000, we recorded $107,000 in interest expense on the Marino term note, $73,000 on the deferred portion of the repurchase price of the distributors' territories, $64,000 on our mortgage, $21,000 on our working capital line and $14,000 on our equipment loan.

Interest income earned during the year ended December 31, 2001 decreased $161,000 or 69% to $71,000 from $232,000 earned during the same period in 2000. The interest income earned during 2001 was attributable to the investment of our excess cash balances during the year. During 2000 we earned $120,000 on a loan of to one our stockholders and $112,000 on our excess cash balances.

Preferred Stock Dividends.

There were two series of our convertible preferred stock issued and outstanding during 2001, including our Series B Convertible Preferred Stock ("Series B Preferred Stock") issued during October 2000, and our Series A Convertible Preferred Stock ("Series A Preferred Stock"), which was issued during September 2001 and November 2001.

On October 17, 2000, we raised $2 million through the issuance of our Series B Preferred Stock (See, Footnote 9 to "Security Ownership of Certain Beneficial Owners and Management"). The Series B Preferred Stock was considered to have a beneficial conversion feature because it was convertible at any time into shares of the Company's common stock at a conversion price that was lower than the market price on the date of issuance. Accounting rules require us to recognize, on the date of issuance, the intrinsic value of this beneficial conversion feature as a non-cash dividend. The value of this beneficial conversion feature, along with the value of the warrants was considered to be a deemed dividend, the value of which was capped at the $2 million of gross proceeds. The value of the warrants was determined to be $624,000 using a modified Black-Sholes option pricing model. The value of the beneficial conversion feature was calculated as the sum of (i) the market value of the common stock into which the Series B Preferred Stock was convertible on the date of issuance, minus (ii) the allocated proceeds of the Series B Preferred Stock on the date of issuance.

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. 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 11 to "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 "Security Ownership of Certain Beneficial Owners and Management"). The Series A Preferred Stock is also 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 at our option in cash or additional shares of Series A Preferred Stock. During 2001, we accrued dividends totaling $669,933 on the shares of Series A Preferred Stock, which we elected to pay by issuing additional shares of Series A Preferred Stock. On the date that we issued these additional shares, we were required to recognize a deemed dividend of $283,776 due to the beneficial conversion feature associated with the additional shares of Series A Convertible Preferred Stock that was issued.

The non-cash dividends recognized during 2001 and 2000 are comprised of the following:

	Year ended December 31, 2001	Year ended December 31, 2000
Deemed dividend associated with beneficial conversion feature of Series B Convertible Preferred Stock	$	$ 2,000,000
Deemed dividend associated with beneficial conversion feature of Series A Convertible Preferred Stock	19,000,000	
Accrual of Dividend on Series A Convertible Preferred	669,933	
Deemed dividend associated with beneficial conversion price on shares issuable in satisfaction of Series A Convertible Preferred dividend	283,776	
Accrual of Series B Preferred dividend	73,206	32,877
Deemed dividend associated with beneficial conversion price on shares issued in satisfaction of Series B Preferred dividend	92,024	
Total	$ 20,118,939	$ 2,032,877

Liquidity and Capital Resources

As of December 31, 2001, we had cash and cash equivalents of $5,486,073, compared to cash and cash equivalents of $629,436 on December 31, 2000. Our debt obligations as of December 31, 2001 consisted of a mortgage in the amount of $738,818 on our facility in Elk Grove Village Illinois, an equipment loan of $425,000, a note due the seller of Marino Electric for $219,067 and vehicle loans totaling $51,133. In addition we had a $2 million line of credit that had no borrowings on it as of December 31, 2001. As of March 31, 2002, we had cash and cash equivalents of $3,335,136, as compared to $5,486,073 on December 31, 2001. Our debt obligations as of March 31, 2002 consisted of a mortgage of approximately $733,000 on our facility in Elk Grove Village Illinois, an equipment loan of $400,000, vehicle loans of approximately $44,000, and a note due the sellers of Marino Electric of approximately $89,000.

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 those providing accounting, legal, engineering and consulting services, and the funding of inventory and accounts receivable, and capital expenditures. We have financed our operations since inception primarily through the private placement of its common stock and preferred stock.

Net cash increased $4,856,637during the year ended December 31, 2001 while net cash declined $5,536,761 during the year ended December 31, 2000. Operating activities consumed $9,839,575 and $7,110,038 during the twelve-month periods ended December 31, 2001 and December 31, 2000, respectively. Cash used to fund the net loss was the largest operating use of cash in each of these periods. We used some of the cash raised through the issuance of preferred stock to pay overdue payables and to satisfy a portion of our accrued expenses. The decline in these accounts more than offset the cash generated from a decline in our inventories and other current assets. Inventories declined as we shifted to a "make to order" rather than a "make to inventory" process in the manufacture of our EnergySaver products. Net cash decreased $2,150,937 during the first three months of 2001 as compared to declining $602,435 during the same period in 2001. Operating activities consumed $1,981,283 and $1,263,714 during the first three months of 2001 and 2000, respectively. Cash used to fund the net loss after adjusting for the cumulative effect of accounting changes, declined $645,177 or 27.4%, to $1,707,198 during the first quarter of 2002 from $2,352,375 during the same period in 2001.

Increases in accounts receivable and inventory consumed $2,037,135 during the first three months of 2002 as compared to consuming $89,992 during the same period in 2001. The increase in accounts receivable and inventory are primarily the result of increased sales activity in the EnergySavers business. These uses of cash were partially offset by cash generated from increases in accounts payable, accrued expenses and deferred revenue. Accounts payable increased $954,439 during 2002 compared to an increase of $304,654 during 2001, accrued expenses increased $384,171 during the first three months of 2002 compared to an increase of $260,723 during the same period in 2001 and deferred revenue increase $468,427 during the first quarter of 2002 as compared to declining $12,500 during the same period in 2001. The increase in accounts payable and accrued expenses during 2002 was again primarily the result of the increased business activity in the EnergySaver business. The increase in deferred revenue during 2002 was related primarily to a single order that was shipped during the quarter but was recorded as deferred revenue pending satisfaction of final revenue recognition criteria.

Investing activities used $69,487 during 2001 as compared to generating $457,514 during 2000. During 2001 we spent $121,586 on new equipment, but generated $52,099 through the sale of equipment that we no longer needed. The year ended December 31, 2000 benefited from a $600,000 repayment of a loan made to a founding stockholder and $67,637 of cash acquired in the Switchboard acquisition. These sources were partially offset by purchases of property and equipment totaling $210,123. Investing activities consumed $4,692 of cash during the three-month period ending March 31, 2002, as compared to generating $8,691 during the three-month period ending March 31, 2001. During the first quarter of 2002 we purchased $4,692 of new equipment as compared to $16,551 for the first quarter of 2001. During the first quarter of 2001 we sold certain assets that we no longer required, primarily as a result of the acquisition of Switchboard, generating proceeds of $25,242.

Financing activities generated $14,765,699 during 2001 compared to generating $1,115,763 during 2000. During 2001, we raised $19 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 $15.8 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.

During 2000, we generated net proceeds of $1,830,000 by selling 2,000 shares of Series B Convertible Preferred Stock in a private placement, $44,900 from the sale of 20,000 shares of our common stock in a private placement and $500,000 through borrowings under our working capital line. These sources were partially offset by payments made on the note to the sellers of Marino Electric totaling $1,083,286, as well as $57,351 paid to reduce the balances on our mortgage, equipment loan and auto loans. We also refunded $110,000 to two investors in our private placement prior to issuing their stock certificates and repurchased 1,000 shares of our common stock for $8,500.

Financing activities consumed $164,963 of cash during the three-month period ending March 31, 2002, compared to generating $652,588 during the same period in 2001. During the first quarter of 2002 we made schedule principal payments of $130,350 on the note to the sellers of Marino Electric and $34,613 on our equipment loan. During the 2001 period we borrowed $726,535 on our line of credit and paid $118,007 owed to the sellers of Marino Electric. In March 2001 we also refinanced and increased an equipment loan, which generated approximately

$50,000. This was partially offset by scheduled principal reductions on our mortgage and auto loans of approximately $6,000.

On March 19, 2002, American National Bank informed the us that it would not renew our $2 million revolving credit facility, which was scheduled to expire on March 25, 2002, but did agree to extend the facility until May 31, 2002 in order to provide us with time to find a replacement lender. On May 29, 2002, we entered into a Loan Agreement with American Chartered Bank that provides for (i) a Revolving Credit Facility with a maximum principal amount at any one time outstanding equal to the lesser of (a) $2,000,000 or (b) the Borrowing Base (defined as the sum of 70% of the face amount of Eligible Receivables of Electric City Corp. plus 80% of the face amount of Eligible Receivables of Switchboard Apparatus and Great Lakes), (ii) a Term Loan in the principal amount of $400,000 and (iii) a Mortgage Loan in the principal amount of $735,000. These borrowings are secured by a first security interest in all assets of the Borrowers, including, but not limited to, all of Borrower's accounts receivable, inventory, equipment, trademarks, general intangibles, insurance and insurance proceeds and any and all other assets and property (both real and personal) and all products and proceeds therefrom, and including a first priority mortgage and assignment of rents on the land and building located at 1280 Landmeier Road, Elk Grove Village, Illinois (See, "Note 6" to Financial Statements). As part of this transaction, we refinanced our mortgage loan on our property located at 1280 Landmeier Road in Elk Grove Village, Illinois.

Our ability to continue the development, manufacturing and the expansion of sales of our products, including the EnergySaver, the GlobalCommander and TP3, 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 additional manufacturing equipment.

We were successful in raising $21 million of gross proceeds from preferred stock issuances during 2001 and 2002, which has significantly improved our liquidity position and allowed us to continue to execute our business plan without any interruptions. Our Board of Directors has instructed senior management to evaluate the feasibility of raising additional capital during 2002, believing that it may be prudent to add to our liquidity to ensure cash availability until our operations begin to produce positive cash flow. If our Board decides to raise 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.

Our current projections indicate that the combination of the cash raised in the recent sale of preferred stock and a working capital line should provide 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.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and that the pooling-of-interests method is no longer permitted. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. The Company adopted SFAS No. 141 for all future acquisitions.

SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The amortization of goodwill included in other expenses will also no longer be recorded upon adoption of the new rules. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121. 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, we completed our transitional impairment testing of intangible assets during the first 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. This allocation resulted in a write-down of recorded goodwill in the amount of $2,894,000, which has been reported as the cumulative effect of a change in accounting principle, as of March 31, 2002, in the accompanying consolidated statements of earnings.

In addition, SFAS 142 provides that goodwill no longer be amortized, and as a result, the Company recorded no goodwill amortization in the first quarter of 2002, whereas the Company had recorded approximately $132,000 of goodwill amortization in the first quarter of 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," which is effective for years beginning after June 15, 2002. Accordingly, the Company will adopt SFAS No. 143 beginning January 1, 2003. SFAS No. 143 addresses legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Any associated asset retirement costs are to be capitalized as part of the carrying amount of the long-lived asset and expensed over the life of the asset. The Company has not yet determined what, if any, effect that SFAS No. 143 will have on the earnings and financial position of the Company.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides accounting guidance for financial accounting and reporting impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." It also supersedes the accounting and reporting of APB Opinion No. 30, "Reporting the Results of Operations Reporting the Events and Transactions" related to the disposal of a segment of a business. SFAS No. 144 is effective for fiscal years beginning January 1, 2002. We do not believe that the adoption of SFAS No. 144 will have a material effect on the earnings or financial position of the Company.

DESCRIPTION OF PROPERTY

Our headquarters and the EnergySaver system production facility are located at 1280 Landmeier Road in Elk Grove Village, Illinois. This facility is approximately 13,000 square feet and houses the corporate headquarters, manufacturing operations and warehouse. We acquired this facility in August 1998 for a purchase price of $1,140,000, $800,000 of which we financed through a mortgage with CNB Bank and $340,000 of which we paid by issuing to the sellers 340,000 shares of our common stock. The CNB Bank mortgage bore interest at the rate of 8.25% per annum and was payable in monthly installments of principal and interest of $6,876 until August 2003, with a final balloon payment of $710,000 due in August 2003. There was no penalty for prepayment of the mortgage and the outstanding balance on May 31, 2002 was $731,728.42. Effective May 31, 2002, we refinanced this facility with a mortgage from American Chartered Bank in the principal amount of $735,000 that was used to pay the outstanding balance due on the CNB Bank mortgage. The American Chartered Bank mortgage bears interest at the prime rate plus 0.5% and provides for a monthly payment amount of $3,000 plus accrued interest until April 2004.

Switchboard Apparatus currently conducts business from a facility located in Broadview, Illinois, which is approximately 19,000 square feet and houses Switchboard's office and manufacturing operations. We assumed the lease for this facility in August 2000 in connection with the acquisition of Switchboard Apparatus. The building is owned by a partnership that includes, among others, some of the former owners of Switchboard Apparatus, one of which is currently an employee of the Company. The lease provides for monthly payments of $9,250 per month during the first three years of the lease term, beginning on May 1, 1999, with payments increasing to $10,000 per month during the last two years of the lease term. The lease expires April 30, 2004, unless sooner terminated in accordance with the lease provisions.

On June 7, 2001, we acquired Great Lakes Controlled Energy Corporation ("Great Lakes"). Great Lakes currently operates its business from a facility located in Elk Grove Village, Illinois, which is approximately 10,000 square feet. In connection with our acquisition of Great Lakes, we entered into a three-year lease beginning on the date of the acquisition at a monthly rate of $10,000, with an option to purchase the

facility. The building is owned by the former shareholders of Great Lakes, Eugene Borucki and Denis Enberg, both of whom are currently employed by the Company.

We believe that the space and location of our current facilities are sufficient to reach a level of production projected for the current year.

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 fully paid and retired during May 2002.

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. As of December 31, 2000 and 2001, the balance of our accounts receivable from Electric City of Illinois, LLC was $229,757 and $107,297, respectively, and sales to Electric City of Illinois were $334,000 and $157,000 for 2000 and 2001, respectively. As of December 31, 2000 and 2001, the balance of our accounts receivable from Electric City of Indiana was $63,925 and $65,077, respectively, and sales to Electric City of Indiana were $105,000 and $113,000 for 2000 and 2001, respectively.

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 it negotiated with an unaffiliated third party. As of December 31, 2000 and 2001, our accounts receivable from Electric City of Southern California was $300,000 and $438,675, respectively, and sales to Electric City of Southern California were $362,000 and $590,000 for 2000 and 2001, respectively.

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, 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.

During 2001, our subsidiary, Switchboard Apparatus, Inc. paid $328,323 to Harbrook Tool and Manufacturing Company ("Harbrook") for manufacturing and installing safety devices to distribution panels made by various manufacturers. For the period from September 2000 (effective with our purchase of Switchboard Apparatus) through December 31, 2000, we paid $68,385 for the safety devices. 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. During 2001, we paid $111,000 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. During 2001, we paid $70,000 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.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

From November 4, 1999 to January 31, 2000, while our registration statement on Form 10SB was awaiting clearance by the SEC, our common stock was traded on the "Pink Sheets", a quotation medium which generally provides a less liquid trading market. From February 1, 2000 to December 11, 2000, out stock was traded on the OTC Bulletin Board under the symbol "ECCC." Our common stock has traded since December 12, 2000 on The American Stock Exchange under the symbol "ELC."

The following table sets forth the quarterly high and low closing prices for our common stock as reported on The American Stock Exchange, the OTC Bulletin Board and the Pink Sheets since January 1, 2000. With respect to the prices reported by the Pink Sheets and OTC Bulletin Board inter-dealer quotation system, such prices reflect inter-dealer prices, without retail mark-up, markdown or commission and may

not represent actual transactions.

	Common Stock	
	High	Low
Fiscal Year Ended December 31, 2000:		
Fiscal Quarter Ended March 31, 2000	$ 13.00	$ 6.56
Fiscal Quarter Ended June 30, 2000	6.50	3.69
Fiscal Quarter Ended September 30, 2000	5.75	2.78
Fiscal Quarter Ended December 31, 2000	4.50	2.50
Fiscal Year Ended December 31, 2001:		
Fiscal Quarter Ended March 31, 2001	$ 3.72	$ 2.00
Fiscal Quarter Ended June 30, 2001	$ 4.45	$ 1.80
Fiscal Quarter Ended September 30, 2001	$ 4.08	$ 1.49
Fiscal Quarter Ended December 31, 2001	$ 1.80	$ 1.01
Fiscal Year Ended December 31, 2002:		
Fiscal Quarter Ended March 31, 2002	$ 2.29	$ 1.15
Fiscal Quarter Ended June 30, 2002	$ 1.68	$ 1.15

Holders

As of June 30, 2002, we had approximately 7,500 holders of record of our common stock and 31,196,378 shares of common stock outstanding.

Dividends

Dividends on our Series A Convertible Preferred Stock are payable when declared by our Board of Directors, but will continue to accrue at an annual rate of 10% of the gross sale amount, are cumulative and will be paid prior to any dividends paid on our common stock. For the six months ended June 30, 2002, we declared and paid the following dividends on our Series A Convertible Preferred Stock:

On March 27, 2002, the Board of Directors declared dividends payable on our Series A Convertible Preferred Stock for the first calendar quarter ending March 31, 2002 to shareholders of record of our Series A Convertible Preferred Stock as of March 31, 2002. The dividends were paid on March 31, 2002 in additional shares of Series A Convertible Preferred Stock to the holders as follows: 10,424 shares to EP Energy Finance, L.L.C., 10,337 shares to Newcourt Capital USA, Inc., 9,902 shares to Morgan Stanley Dean Witter Equity Funding, Inc., 521 shares to Originators Investment Plan, L.P., 10,424 shares to Duke Capital Partners, LLC and 7,567 shares to Leaf Mountain Company, LLC. Each share of Series A Convertible Preferred Stock is convertible into 10 shares of our common stock.

On May 22, 2002, the Board of Directors declared dividends payable on our Series A Convertible Preferred Stock for the second calendar quarter ending June 30, 2002 to shareholders of record of our Series A Convertible Preferred Stock as of June 30, 2002. The dividends were paid on June 30, 2002 in additional shares of Series A Convertible Preferred Stock to the holders as follows: 10,684 shares to EP Power Finance, L.L.C., 10,596 shares to Newcourt Capital USA, Inc., 10,150 shares to Morgan Stanley Dean Witter Equity Funding, Inc., 534 shares to Originators Investment Plan, L.P., 10,684 shares to Duke Capital Partners, LLC and 7,756 shares to Leaf Mountain Company, LLC. Each share of Series A Convertible Preferred Stock is convertible into 10 shares of our common stock.

On June 11, 2002, the Board of Directors, by unanimous consent, declared dividends payable on our Series C Convertible Preferred Stock for the second calendar quarter ending June 30, 2002 to shareholders of record of our Series C Convertible Preferred Stock as of June 30, 2002. The dividends were paid on June 30, 2002 in 1,444 additional shares of Series C Convertible Preferred Stock to the holder, Richard Kiphart.

For a further discussion regarding preferred stock dividends, see "Management's Discussion and Analysis or Plan of Operations Preferred Stock Dividends."

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. See "Management's Discussion and Analysis of Results of Operations and Financial Condition Liquidity and Capital Resources."

Equity Compensation Plan Information

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2001, including options granted to certain of our employees on a discretionary non-plan basis and under our 2001 Employee Stock Incentive Plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)	(d) Total of Securities Reflected in Columns (a) and (c)
Equity Compensation Plans Approved by Shareholders(1)	-0-	$ 0.00	1,300,000	1,300,000
Equity Compensation Plans Not Approved by Shareholders(2)(3)	9,774,634	$ 4.12	-0-	9,774,634
TOTALS	9,774,634		1,300,000	11,074,634

(1) The 2001 Employee Stock Incentive Plan ("Plan") was approved by the Company's stockholders at its 2001 Annual Meeting of Stockholders. The Plan called for 800,000 shares of the Company's Common Stock be reserved for issuance upon approval of the Plan by the Company stockholders and additional reserves of 500,000 shares of the Company's Common Stock on each January 1, beginning January 1, 2002. As of June 30, 2002, there have been no grants of stock options, warrants or rights made to employees under this Plan. For a more detailed explanation of the Plan, please refer to "Executive Compensation Stock Options and Incentive Compensation."

(2) Prior to the adoption of the 2001 Employee Stock Incentive Plan, the Company had granted to certain of its employees stock options on a discretionary basis. These grants were not made pursuant to any formal plan. Grants made to employees pursuant to this method were discontinued during May 2001.

(3) The Company grants stock options to its non-employee directors pursuant to a Directors Stock Option Plan (See, "Executive Compensation Compensation of Directors"), which grants are included in this category.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table summarizes the total compensation paid or awarded to each of our named executive officers whose total compensation exceeded $100,000 during the fiscal year ended December 31, 2001 and for each of our fiscal years ended December 31, 2000 and 1999. No bonuses were earned during the fiscal year ended December 31, 2001.

		Annual Compensation			Long Term Compensation
Name and Principal Position	**Period**	**Salary($)**	**Bonus($)**	**Other Annual Compensation ($)**	**Securities Underlying Options (#)**
John P. Mitola(1)	12/31/01	$ 350,000		$ 14,370(6)	
our chief executive officer and director	12/31/00	$ 350,000	$ 140,000	$ 9,190(6)	1,000,000
	12/31/99				
Brian J. Kawamura(1)(2)	12/31/01	$ 350,000		$ 10,050(7)	
our former president, chief operating officer and director	12/31/00	$ 350,000	$ 140,000	$ 6,600(8)	1,500,000
	12/31/99				
Michael R. Pokora(1)(3)	12/31/01	$ 250,000		$ 12,274(9)	
our former executive vice president of business operations and sales	12/31/00	$ 250,000	100,000	$ 8,695(9)	500,000
	12/31/99				
Jeffrey R. Mistarz(4)	12/31/01	$ 175,000		$ 7,657(10)	
our chief financial officer and treasurer	12/31/00	$ 175,000	$ 70,000	$ 2,320(10)	200,000
	12/31/99				
William A. Karambelas (5).	12/31/01	$ 167,197		$ 110(11)	150,000
our senior vice president of western region operations	12/31/00				
	12/31/99				

(1) Each of Messrs. Mitola, Kawamura and Pokora entered into employment agreements with us on November 18, 1999 for a term of three years that 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 each of Messrs. Mitola, Kawamura and Pokora pursuant to their employment agreements.

(2) Mr. Kawamura resigned his positions as President, Chief Operating Officer and a director of the Company, as well as his positions as a director of each of our subsidiaries, Switchboard Apparatus, Inc. and Great Lakes Controlled Energy Corp., effective April 26, 2002.

(3) Mr. Pokora resigned his position as Executive Vice President-Business Operations and Sales of the Company effective January 31, 2002.

(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) 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.

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

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

(8) This represents a monthly auto allowance of $550 for Mr. Kawamura.

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

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

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

Option/SAR Grants in 2001

The following table sets forth information regarding stock option grants made to our executive officers during the fiscal year ended December 31, 2001.

Name	Period	Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Period	Exercise of Base Price ($/SH)	Expiration Date
John P. Mitola	12/31/01				
Brian J. Kawamura	12/31/01				
Michael R. Pokora	12/31/01				
Jeffrey R. Mistarz	12/31/01				
William A. Karambelas	12/31/00	150,000(1)	9%	$ 7.00	3/26/11

(1) One fourth of this option became exercisable on March 26, 2002 and one fourth will become exercisable on each of March 26, 2003, 2004 and 2005.

Aggregated Option/SAR Exercises in 2001 and December 31, 2001 Option/SAR Values

The following table sets forth information regarding the number and value of unexercised options held by each of our named executive and principal officers as of December 31, 2001. 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, 2001.

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End #		Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John P. Mitola			666,667	333,333	$ 0	$0(1)
Brian J. Kawamura			1,000,000	500,000	$ 0	$0(1)
Michael R. Pokora			333,333	166,667	$ 0	$0(1)
Jeffrey R. Mistarz			66,667	133,333	$ 0	$0(1)
William A. Karambelas			0	150,000	$ 0	$0(1)

(1) These figures reflect that the exercise price per option of $7.00 per share was greater than the closing market price of our Common Stock as reported on The American Stock Exchange on December 31, 2001, which was $1.25 per share.

Long-Term Incentive Plans Awards in 2001

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold ($ or #)	Target ($ or #)	Maximum ($ or #)
John P. Mitola					
Brian J. Kawamura					

	Estimated Future Payouts Under Non-Stock Price-Based Plans
Michael R. Pokora	
Jeffrey R. Mistarz	
William Karambelas	

As of December 31, 2001, the Company had not adopted, nor made any awards, under a long-term incentive plan.

Report on Repricing of Options/SARs

During the fiscal year ended December 31, 2001, the Company did not adjust or amend the exercise price of stock options or SARs previously awarded to any of our named executive or principal officers.

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 may be delivered under the Plan to certain employees of the Company or any of its subsidiaries. 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 Company's 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 Company's 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 therefor, 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 will be 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 amount 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 January 1, 2002, there were 1,300,000 shares of Common Stock reserved under the Plan. There were no grants or issuances of Common Stock under the Plan during 2001

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

John Mitola

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 provides 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 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 in certain respects with respect to registrations undertaken on behalf of the holders of our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock.

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

Brian Kawamura

Effective January 3, 2000, we entered into an employment agreement with Brian Kawamura, our former president and chief operating 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 met or exceeded the terms of our annual business plan. The agreement also provided for a monthly automobile allowance of $550 and the reimbursement of Mr. Kawamura's business-related cellular phone calls.

Under the employment agreement, we granted to Mr. Kawamura an option to purchase 1,500,000 shares of our common stock at $7.00 per share, which became exercisable with respect to 500,000 shares on December 31, 2000, 500,000 shares on December 31, 2001 and which would have become exercisable with respect to 500,000 shares on December 31, 2002. Mr. Kawamura has piggyback registration rights with respect to all shares of our stock obtained through the exercise of these options but has waived such rights in certain respects with respect to registrations undertaken on behalf of the holders of our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock.

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

Effective April 26, 2002, Mr. Kawamura resigned his positions as President, Chief Operating Officer and a director of the Company and as a director of each of our subsidiaries, Switchboard Apparatus, Inc. and Great Lakes Controlled Energy Corp. Concurrent with his resignation, the Company entered into a separation agreement with Mr. Kawamura which provides that he will receive a severance payment equal to approximately 62 percent of his remaining annual salary for the period beginning May 1, 2002 and continuing until December 31, 2002. The total amount to be paid will be $145,472, which will be paid in equal semi-monthly installments of $8,978.01. Mr. Kawamura has also agreed to forego reimbursement of $62,139 of business related expenses. These severance payments are subject to certain reductions in the event Mr. Kawamura becomes employed or engaged as a consultant (other than engaged by the Company as a consultant) and earns compensation as a result, during the term of the severance payments. In addition, these severance payments will cease if Mr. Kawamura violates the non-competition, non-solicitation or confidentiality provisions of his employment agreement or ceases to perform under the consulting agreement. The 500,000 stock option shares that were to

become exercisable on December 31, 2002 pursuant to his employment agreement were extinguished and terminated as of April 26, 2002.

In addition, effective April 26, 2002, the Company entered into a consulting agreement with Mr. Kawamura whereby Mr. Kawamura will provide sales representative and consulting services to the Company from time to time until December 31, 2002 (unless another termination date is agreed to by the parties). The consulting agreement provides for Mr. Kawamura to remain involved with certain sales opportunities that the Company is pursuing and to receive a commission fee of 5% of the sales proceeds, with half of the commission retained by the Company until it is reimbursed for severance payments paid under his separation agreement, after payment of which Mr. Kawamura will receive the entire commission fee for the successful closings of these sales opportunities.

Michael Pokora

Effective January 3, 2000, we entered into an employment agreement with Michael Pokora, our former executive vice president of operations and sales, for a three-year period beginning on January 3, 2000 and ending on December 31, 2002. The agreement provided for a base salary of $250,000 per year and a discretionary bonus of up to forty percent (40%) of his annual salary payable if we met or exceeded the terms of our annual business plan. The agreement also provided for a monthly automobile allowance of $550 and the reimbursement of Mr. Pokora's business-related cellular phone calls.

Under the employment agreement, we granted to Mr. Pokora an option to purchase 500,000 shares of our common stock at $7.00 per share which became exercisable with respect to 166,667 shares on December 31, 2000, 166,666 shares on December 31, 2001 and which will become exercisable with respect to 166,666 shares on December 31, 2002. Mr. Pokora has piggyback registration rights with respect to all shares of our stock obtained through the exercise of these options but has waived such rights in certain respects with respect to registrations undertaken on behalf of the holders of our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock.

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

Mr. Pokora resigned his position with the Company effective January 31, 2002. The 166,667 stock option shares that were to become exercisable on December 31, 2002 pursuant to his employment agreement were extinguished and terminated as of January 31, 2002.

Jeffrey Mistarz

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 provides for a salary of $175,000 per year and a discretionary bonus payable if Mr. Mistarz attains established performance goals to be agreed upon by Mr. Mistarz and our chief executive officer. The agreement also provides for the reimbursement of Mr. Mistarz's business expenses such as business-related cellular phone calls.

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 vest with respect to 66,667 shares on December 31, 2000 and 66,667 shares on December 31, 2001 and which will vest with respect to 66,666 shares on December 31, 2002. Of the vested options, 22,223 became exercisable on December 31, 2000, 44,444 became exercisable on December 31, 2001, and 44,444 becoming exercisable on December 31, 2002, etc. Mr. Mistarz has piggyback registration rights with respect to all shares of our stock obtained through the exercise of these options but has waived such rights in certain respects

with respect to registrations undertaken on behalf of the holders of our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock.

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

Director Compensation

All non-employee directors, excluding founder-directors (the "Eligible Directors") receive grants of stock options pursuant to the Directors' Stock Option Plan. Upon appointment to the board of directors, each Eligible Director is granted options to purchase 75,000 shares of the Company's common stock at an exercise price that is equal to the closing price of the Company's common stock on the grant date. These options vest one-third on the grant date and one-third on January 1 of each of the two succeeding years. In addition, if an Eligible Director is serving as director on his or her annual anniversary date of appointment, such director is granted options to purchase 25,000 shares of the Company's common stock on that grant date. These options vest one-third on the grant date and one-third on each of the two succeeding anniversary dates.

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) are eligible to be awarded stock options. All non-employee directors are reimbursed for travel expenses and other out-of-pocket costs incurred in connection with their attendance at board and committee meetings.

We expect to grant similar option packages to other outside directors that join our Board of Directors in the future, including any directors elected by the holders of our Series A Convertible Preferred Stock.

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.

FINANCIAL STATEMENTS
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CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable

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, 2001 and 2000, and the related consolidated statements of operations, shareholders' 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, 2001 and 2000, 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.

/s/ BDO SEIDMAN, LLP

Chicago, Illinois
February 18, 2002, except for note 19,
which is as of April 9, 2002.

Electric City Corp.

Consolidated Balance Sheets

December 31,

	2001	2000
Assets		
Current Assets		
Cash and cash equivalents	**$ 5,486,073**	$ 629,436
Accounts receivable, less allowance for doubtful accounts of $256,000 and $84,000 at December 31, 2001 and 2000, respectively (Note 17)	**2,772,773**	2,611,291
Inventories (Note 4)	**1,654,634**	2,000,353
Prepaid expenses and other, including $31,000 notes receivable From employees as of December 31, 2001 and 2000	**128,849**	300,620
Total Current Assets	**10,042,329**	5,541,700
Net Property and Equipment (Note 5)	**1,767,576**	1,962,778
Cost in Excess of Assets Acquired, net of amortization of $1,148,386 and $593,320 at December 31, 2001 and 2000, respectively (Note 3)	**4,623,445**	4,626,939
Other Assets	**2,513**	2,699
	$ 16,435,863	$ 12,134,116
Liabilities and Stockholders' Equity		
Current Liabilities		
Lines of credit (Note 7)	**$**	$ 852,200
Due to former distributors (Note 12)		1,252,853
Current maturities of long-term debt (Note 9)	**356,438**	577,984
Accounts payable	**1,310,852**	2,846,764
Accrued expenses (Note 6)	**417,397**	1,132,792
Deferred revenue	**487,596**	50,000
Total Current Liabilities	**2,572,283**	6,712,593
Deferred Revenue	**329,167**	379,167
Long-Term Debt, less current maturities (Note 9)	**1,077,580**	1,348,310
Common Stock Subject to Rescission (Note 13)		45,000
Commitments (Note 12)		
Stockholders' Equity (Notes 14, 15 and 16)		
Preferred stock, $.01 par value; 5,000,000 shares authorized, Series A 1,966,993 and 0 issued and outstanding as of December 31, 2001 and December 31, 2000, respectively	**19,670**	
Series B 0 and 2,000 issued and outstanding as of December 31, 2001 and December 31, 2000, respectively		20
Common stock, $.0001 par value; 85,000,000 shares authorized, 31,113,842 issued as of December 31, 2001 and 30,000,000 authorized, 28,954,755 issued as of December 31, 2000	**3,112**	2,894
Additional paid-in capital	**44,215,331**	22,456,335
Accumulated deficit	**(31,772,780)**	(18,801,703)
	12,465,333	3,657,546
Less treasury stock, at cost, 1,000 shares as of December 31, 2001 and December 31, 2000	**(8,500)**	(8,500)
Total Stockholders' Equity	**12,456,833**	3,649,046

	December 31,	
	$ 16,435,863	$ 12,134,116

See accompanying notes to consolidated financial statements.

Electric City Corp.

Consolidated Statements of Operations

	Year ended December 31, 2001	Year ended December 31, 2000	
Revenue	**$ 9,624,206**	$ 7,227,212	
Expenses			
Cost of sales	**9,187,341**	6,660,545	
Selling, general and administrative	**9,946,324**	9,086,315	
Repurchase of distributor territories and legal settlement (Note 12)		1,680,394	
	19,133,665	17,427,254	
Operating loss	**(9,509,459)**	(10,200,042)	
Other Income (Expense)			
Interest income	**71,322**	232,242	
Interest expense	**(3,532,940)**	(278,876)	
Total other income (expense)	**(3,461,618)**	(46,634)	
Net Loss	**(12,971,077)**	(10,246,676)	
Less Preferred Stock Dividends	**(20,118,939)**	(2,032,877)	
Net Loss Available to Common Shareholder	**$ (33,090,016)**	$ (12,279,553)	
Basic and Diluted Loss Per Common Share	**$ (1.10)**	$ 89	*
David Hornik	3,286	*	3,286 *
Sydney Lagier	20,886[90]	*	20,886[90] *
Joan McGrath	1,382[91]	*	1,382[91] *
William Scoville	265	*	265 *
Judith L. Smith	1,181[92]	*	1,181[92] *
Nancy L. White	786[93]	*	786[93] *
Karen Wilson	330	*	330 *
Laurie Wilson	330	*	330 *
Jordan Wilson-Dalzell	655	*	655 *
Mark C. Wilson-Dalzell	655	*	655 *
	771,220[95]	*	638,950 132,270 *

	Year ended December 31, 2001		Year ended December 31, 2000		
David Marquardt[94]					
John R. Johnston	305,525	*	305,525		*
Andy Rappaport	450,990	*	394,750	56,240	*
Andrew Anker	96,410	*	96,410		*
Mark G. Wilson	89,967[96]	*	75,907[96]	14,060	*
Won Chung	20,173[97]	*	11,741[97]	8,432	*
Rebecca Wargo	1,850[98]	*	1,850[98]		*
Senior Management, Their Transferees and Certain Other Holders[99]:					
William D. Watkins[100]	3,039,061[101]	*	785,115[102]	2,253,946	*
Charles C. Pope[103]	994,409[104]	*	80,280[105]	914,129	*
David A. Wickersham[106]	1,579,487[107]	*	252,840[108]	1,326,647	*
Brian Dexheimer[109]	1,925,556[110]	*	346,495[111]	1,579,061	*
William Hudson[112]	1,160,812[113]	*	230,860[114]	929,952	*
Stephen J. Luczo[115]	7,775,846[116]	1.6	2,441,520[117]	5,334,326	1.1
Townsend Porter[118]	984,463[119]	*	327,805[120]	656,658	*
Beverly Porter	166,551[121]	*	55,515[122]	111,036	*
John P. Weyandt[118]	915,870[123]	*	212,390[124]	703,480	*
Carol J. Weyandt	8,554[125]	*	2,850[126]	5,704	*
Arla Jean Pope	3,283	*	1,095	2,188	*
Cathy Ann Pope	3,283	*	1,095	2,188	*
Donald Blane Larsen	3,283	*	1,095	2,188	*
Doris Jeanette Sherwood	3,283	*	1,095	2,188	*
Priscilla Dawn Larsen	3,283	*	1,095	2,188	*

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Name of Selling Shareholder	Prior to the Offering		Number of Common Shares Registered for Resale[2]	After the Offering	
	Number of Common Shares Beneficially Owned[1]	Percentage of Common Shares Outstanding		Number of Common Shares Beneficially Owned	Percentage of Common Shares Outstanding
Hal Ronald Cornum	3,283	*	1,095	2,188	*
James Arthur Hatch	3,283	*	1,095	2,188	*
Jana Pope	3,283	*	1,095	2,188	*
Letitia Illene Brackeen	3,283	*	1,095	2,188	*
Mary Louise Cornum	3,283	*	1,095	2,188	*
Norman Danny Sherwood	3,283	*	1,095	2,188	*
Patricia Ann Hatch	3,283	*	1,095	2,188	*
Rachel Anne Pope	3,283	*	1,095	2,188	*
Randal Price Pope	3,283	*	1,095	2,188	*
Richard Wiley Pope	6,570	*	2,190	4,380	*
Robert Dean Porter	6,570	*	2,190	4,380	*
Robinson Keith Pope	3,283	*	1,095	2,188	*
Sterling Ty Brackeen	3,283	*	1,095	2,188	*
Susan Pope	3,283	*	1,095	2,188	*
Taylor Lorin Pope	3,283	*	1,095	2,188	*
Terrel Nelson Pope	3,283	*	1,095	2,188	*
Terry Lynn Pope	3,283	*	1,095	2,188	*
Theodore Kyle Pope	3,283	*	1,095	2,188	*
William Alfred Pope IV	3,283	*	1,095	2,188	*
Stanley and Deidra Smith	6,570	*	2,190	4,380	*
Donald L. Waite[118]	1,614,556[127]	*	476,585[128]	1,137,971	*
Patrick J. Waite[118]	108,687[129]	*	35,295[130]	73,392	*
David J. Waite	39,441[131]	*	13,145[131]	26,296	*
Michael W. Waite	41,941[131]	*	13,145[131]	28,796	*
Margaret Waite Clayton	39,845[131]	*	13,145[131]	26,700	*
Mark Waite	39,441[131]	*	13,145[131]	26,296	*
C.G. Charitable Fund[132]	1,742,203	*	580,735	1,161,468	*
Bernard Carballo[118]	733,560[133]	*	244,520[134]	489,040	*
Karl Chicca[135]	397,978[136]	*	85,775	312,203	*
James Chirico Jr.[135]	1,413,480[137]	*	226,310	1,187,170	*
The Educational Foundation, Inc.[138]	15,000	*	15,000		*
Michael Covault[118]	127,256[139]	*	13,590	113,666	*
J. Kenneth Davidson[118]	605,138	*	201,035	404,103	*
Douglas J. DeHaan[135]	379,725[140]	*	44,105	335,620	*
Jaroslaw S. Glembocki[135]	1,650,354[141]	*	273,595[142]	1,376,759	*
Karen Jean Hanlon[135]	85,251	*	28,415	56,836	*
Ralph McLaughlin[135]	491,344	*	163,300	328,044	*
Patrick Joseph O Malley III[135]	648,501[143]	*	121,165	527,336	*
Glen A. Peterson[135]	127,662[144]	*	34,875	92,787	*
Pornchai Piemsomboon[135]	628,129[145]	*	135,370	492,759	*
Charles M. Sander[118]	1,106,803	*	368,935	737,868	*
Leann J. Sander	42,334[146]	*	14,110[147]	28,224	*
Lam Truong[118]	140,687	*	46,895	93,792	*
Robert W. Whitmore[135]	152,288[148]	*	22,200	130,088	*
Jeremy Tennenbaum[118] [149]	370,936	*	122,720	248,216	*
Stephen P. Sedler[135]	142,003[150]	*	47,335[151]	94,668	*
Joel Stead[118]	330,938[152]	*	110,310[153]	220,628	*
Thomas F. Mulvaney[118]	1,057,440[154]	*	352,480[155]	704,960	*

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Name of Selling Shareholder	Prior to the Offering: Number of Common Shares Beneficially Owned[1]	Prior to the Offering: Percentage of Common Shares Outstanding	Number of Common Shares Registered for Resale[2]	After the Offering: Number of Common Shares Beneficially Owned	After the Offering: Percentage of Common Shares Outstanding
Ly Truong	140,687	*	46,895	93,792	*
Thorsten Heine	6,437	*	2,145	4,292	*
Gunter Heine QTIP Trust[156]	99,651	*	33,215	66,436	*
Brent Bargmann[135]	267,122[157]	*	37,690	229,432	*
Sherman Black[135]	150,547[158]	*	23,805	126,742	*
Teck Huei Chee[135]	148,836[159]	*	23,365	125,471	*
Paul A. Fasching[135]	178,676[160]	*	34,900	143,776	*
Edwin Gomez[118]	108,197	*	36,065	72,132	*
Jeffrey K. Lacroix[135]	115,163[161]	*	16,930	98,233	*
Chun Lau[118]	173,129[162]	*	22,925	150,204	*
Broderick W. Rogers[135]	120,986[163]	*	19,260	101,726	*
Kwee Teck Say[135]	137,906[164]	*	17,850	120,056	*
Miran J. Sedlacek [118]	181,339[165]	*	16,470	164,869	*
Chung Yuang Shih[135]	161,022[166]	*	39,070[167]	121,952	*
Kathleen Snouffer[135]	194,600[168]	*	39,075	155,525	*
Barry C. Sterling[135]	129,852[169]	*	20,820	109,032	*
Julie A. Still[135]	167,282[170]	*	34,875	132,407	*
Joel Weiss[135]	91,820[171]	*	21,345	70,475	*
Cheong Phong Wong[135]	169,599[172]	*	26,620	142,979	*
All Other New SAC Shareholders and Their Transferees Who Beneficially Own, in the Aggregate, Less Than 1% of Our Outstanding Common Shares	2,793,968	*	728,640	2,065,328	*
Any Other Holder of Common Shares or Future Transferee, Pledgee, Donee or Successor of Any Holder Listed Above [173]	3,474,541	*	977,145	2,497,396	*

* Represents less than 1% of the Seagate common shares outstanding as of October 21, 2005.

1 The amounts set forth in this column include the common shares beneficially owned by each selling shareholder as of October 21, 2005 (including options to purchase Seagate common shares that are exercisable as of October 21, 2005 or will become exercisable within sixty days thereof) as well as those common shares that have been or will be distributed on a monthly basis to such selling shareholder by New SAC subsequent to September 30, 2005 as part of New SAC s previously disclosed distribution strategy with respect to its holdings of Seagate common shares. In addition, unless otherwise noted, these amounts include the quarterly distribution of Seagate common shares to the selling shareholders by New SAC that is expected to be made in January 2006.

2 The amounts set forth in this column are the amounts of Seagate common shares that may be offered by each selling shareholder using this prospectus and represent those Seagate common shares that have been or will be distributed on a monthly basis to such selling shareholder by New SAC subsequent to September 30, 2005 as part of New SAC s previously disclosed distribution strategy with respect to its holdings of Seagate common shares. These amounts do not include the quarterly distributions to the selling shareholders by New SAC that were made in May, July and October 2005 or the quarterly distribution that is expected to be made in January 2006 or any other common shares of ours that selling shareholders may own beneficially or otherwise.

3 Represents Seagate common shares expected to be retained by New SAC following the monthly and quarterly distributions discussed above. Messrs. Austin, Bonderman, Coulter, Davidson, Hutchins, Luczo and Marquardt, in their capacities as directors of New SAC, may be deemed to have shared voting or dispositive power over these Seagate common shares. Each of them, however, disclaims this beneficial ownership.

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4 The general partner of Silver Lake Partners Cayman, L.P. and Silver Lake Investors Cayman, L.P. is Silver Lake Technology Associates Cayman, L.P. (SLTA Cayman). The general partner of SLTA Cayman and Silver Lake Technology Investors Cayman, L.P. is Silver Lake (Offshore) AIV GP, Ltd. (Offshore AIV GP). The shareholders of Offshore AIV GP are Alan Austin, James Davidson, Glenn Hutchins, Dave Roux and Integral Capital Partners SLP, LLC (collectively, the Offshore Shareholders). Each of the Offshore Shareholders disclaims beneficial ownership of the Seagate common shares beneficially owned by each of Silver Lake Partners Cayman, L.P., Silver Lake Investors Cayman, L.P. and Silver Lake Technology Investors Cayman, L.P., except to the extent of any pecuniary interest therein. The directors of Silver Lake New York, Inc. are Messrs. Austin, Davidson, Hutchins and Roux. Each of them disclaims beneficial ownership of the Seagate common shares held by Silver Lake New York, Inc., except to the extent of any pecuniary interest therein. Mr. Austin is a member of the board of directors of New SAC, Seagate s largest shareholder. Messrs. Davidson and Hutchins are members of both New SAC s and Seagate s boards of directors. Mr. Roux was a member of New SAC s board of directors until August 5, 2004 and was a member of Seagate s board of directors until July 2, 2003. In connection with the closing of Seagate s initial public offering, Seagate paid Silver Lake Technology Management, L.L.C., an affiliate of Silver Lake Investors Cayman, L.P., approximately $7.8 million in exchange for the discontinuation of annual monitoring fees.

5 Silver Lake Partners, L.P., Silver Lake Investors, L.P. and Silver Lake Technology Investors, L.L.C. (affiliates of Silver Lake Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Technology Investors Cayman, L.P. and Silver Lake New York, Inc.) hold interests in Ameritrade Holding Corporation. Silver Lake Partners TSA, L.P., Silver Lake Investors, L.P., Silver Lake Partners II TSA, L.P. and Silver Lake Technology Investors II, L.L.C. (affiliates of Silver Lake Investors Cayman, L.P., Silver Lake Investors Cayman, L.P., Silver Lake Technology Investors Cayman, L.P. and Silver Lake New York, Inc.) indirectly hold interests in The Nasdaq Stock Market, Inc. Silver Lake Partners, L.P., Silver Lake Investors, L.P., Silver Lake Partners II, L.P. and Silver Lake Technology Investors II, L.L.C. have (through an acquisition vehicle) entered into agreements to purchase the institutional brokerage business of Instinet Group Incorporated.

6 This number does not include approximately 39,580 exercisable options to purchase Seagate common shares under Seagate s stock options plans held by James Davidson and Glenn Hutchins, each of whom is a member of the board of directors of Seagate.

7 TPG SAC Advisors III Corp. (Advisors III) is the general partner of TPG SAC GenPar III, L.P. (SAC GenPar), which is the general partner of SAC Investments, L.P. Advisors III may be deemed to be the beneficial owner of Seagate common shares beneficially owned by SAC Investments, L.P. but disclaims such beneficial ownership. David Bonderman, James G. Coulter and William S. Price III are shareholders (the Advisors Shareholders) of Advisors III and exercise dispositive power with respect to the Seagate common shares held by SAC Investments, L.P. Each Advisors Shareholder may be deemed to be the beneficial owner of the Seagate common shares held by SAC Investments, L.P. but disclaims such beneficial ownership.

8 This number does not include approximately 19,790 exercisable options to purchase Seagate common shares under Seagate s stock options plans held by James G. Coulter, a partner at Texas Pacific Group and a member of the board of directors of Seagate.

9 The general partner of J.P. Morgan Partners (BHCA), L.P. (JPMP BHCA) is JPMP Master Fund Manager, L.P. (JPMP MFM). The general partner of JPMP MFM is JPMP Capital Corp. (JPMP Capital), a wholly owned subsidiary of JPMorgan Chase & Co., a publicly traded company (JPM Chase). As a result thereof, each of JPMP MFM and JPMP Capital may be deemed to beneficially own the shares held by JPMP BHCA. The foregoing shall not be an admission that such persons are the beneficial owners of shares held by JPMP BHCA and each disclaims any such beneficial ownership to the extent that it exceeds such person s pecuniary interest in the shares held by JPMP BHCA, if any. Each of JPMP BHCA, JPMP MFM and JPMP Capital are members of the private equity business unit of JPM Chase.

10 J.P. Morgan Partners (BHCA), L.P. is an affiliate of the following registered broker-dealers: J.P. Morgan Securities Inc., J.P. Morgan Invest, LLC, Banc One Securities Corporation, JPMorgan Distribution Services,

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Inc., Chase Investment Services Corp., J.P. Morgan Institutional Investments Inc., Investors Brokerage Services, Inc. and PMG Securities Corporation.

11 Goldman, Sachs & Co. serves as the investment manager for each of GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs, GmbH, Stone Street Fund 2000, L.P. and Bridge Street Special Opportunities Fund 2000, L.P. (collectively, the Funds). Affiliates of Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. are the general partner, managing partner or managing general partner of each of the Funds. The Principal Investment Area Investment Committee of Goldman, Sachs & Co. is responsible for making all investment and management decisions regarding Seagate Technology stock ownership for each of the Funds. Each of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the shares beneficially owned by such investment funds except to the extent of their pecuniary interests therein.

12 Goldman, Sachs & Co., an affiliate of each of GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P., Goldman, Sachs & Co. Verwaltungs, GmbH, Stone Street Fund 2000, L.P. and Bridge Street Special Opportunities Fund 2000, L.P., is a registered broker-dealer.

13 This number does not include shares of Seagate common stock which may be deemed to be beneficially owned by Goldman, Sachs & Co. as a result of ordinary trading activities from time to time or shares held in client accounts with respect to which Goldman, Sachs & Co. or its employees have voting or investment discretion or both.

14 Roger McNamee, John Powell, Pamela Hagenah, Charles Morns, Brian Stansky and Glen Kacher are the managing members of Integral Capital Management V, LLC, the sole general partner of Integral Capital Partners V, L.P. Dispositive powers reside in a majority of such managers.

15 Roger McNamee, John Powell, Pamela Hagenah and Glen Kacher are the managing members of ICP Management V, LLC, the sole general partner of Integral Capital Partners V Side Fund, L.P. Dispositive powers reside in a majority of such managers.

16 Jon R. Staenberg, a managing director of Staenberg Venture Partners II, LP and Staenberg Seagate Partners, LLC, exercises dispositive power with respect to the Seagate common shares held by Staenberg Venture Partners II, LP and Staenberg Seagate Partners, LLC.

17 Mr. Thompson has served as a member of the board of directors of Seagate since November 2000.

18 Includes (i) exercisable options to purchase 19,790 Seagate common shares held by Mr. Thompson and (ii) 161,910 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the John and Sandra Thompson Trust U/D/T 5/2/03 for which Mr. Thompson and Sandra Thompson serve as trustees.

19 Includes 53,970 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the John and Sandra Thompson Trust U/D/T 5/2/03 for which Mr. Thompson and Sandra Thompson serve as trustees.

20 Includes 4,504 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Thompson Family Trust u/d/t 12/27/02 FBO: Chelsea A. Thompson for which Bessemer Trust Company, N.A. serves as trustee. Thomas J. Frank, Jr. is a managing director of Bessemer Trust Company, N.A. which exercises dispositive power over the Seagate common shares.

21 Includes 1,500 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Thompson Family Trust u/d/t 12/27/02 FBO: Chelsea A. Thompson for which Bessemer Trust Company, N.A. serves as trustee. Thomas J. Frank, Jr. is a managing director of Bessemer Trust Company, N.A. which exercises dispositive power over the Seagate common shares.

22 Includes 4,504 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Thompson Family Trust u/d/t 12/27/02 FBO: John E. Thompson for which Bessemer Trust Company, N.A. serves as trustee. Thomas J. Frank, Jr. is a managing director of Bessemer Trust Company, N.A. which exercises dispositive power over the Seagate common shares.

23 Includes 1,500 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Thompson Family Trust u/d/t 12/27/02 FBO: John E. Thompson for which Bessemer Trust Company, N.A. serves as trustee. Thomas J. Frank, Jr. is a managing director of Bessemer Trust Company, N.A. which exercises dispositive power over the Seagate common shares.

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24 Gregory Kerfoot, a director of the Loyalty Foundation, exercises dispositive power over the Seagate common shares.

25 This category includes selling shareholders who will receive the Seagate common shares that investment partnerships affiliated with August Capital III, L.P. (collectively, August Capital) have received and are expected to receive as part of the monthly New SAC distributions discussed above. Unless otherwise noted, the amounts reflected in this category do not include any other Seagate common shares that such selling shareholders may be deemed to beneficially own as a result of their affiliation with or investment in August Capital, including, without limitation, the quarterly distributions to the selling shareholders by New SAC that were made in May, July and October 2005 or the distribution that is expected to be made in January 2006.

26 Paul M. Bancroft and James R. Bancroft exercise dispositive power over the Seagate common shares pursuant to partnership and management agreements.

27 Paul M. Bancroft exercises dispositive power over the Seagate common shares pursuant to partnership and management agreements.

28 D. Ellen Shuman, Vice President and Chief Investment Officer of the Carnegie Corporation of New York, exercises dispositive power over the Seagate common shares.

29 All Seagate common shares held by Cascade Investment, L.L.C. (Cascade) may be deemed to be beneficially owned by William H. Gates III as the sole member of Cascade. Michael Larson, as Business Manager of Cascade, has voting and investment power with respect to the Seagate common shares held by Cascade. Mr. Larson disclaims any beneficial ownership of the Seagate common shares owned by Cascade and Mr. Gates.

30 Fairfield Partners 1999, LLC is the general partner of Commonfund Capital Partners 1999, L.P. Any of the following individuals are authorized to execute legal documents for the general partner: Linda Costa, Susan Carter, Gregory Janzen, Donald Pascal, Kent Scott and Peter Burns. Commonfund Capital Partners 1999, L.P. is a limited partnership whose sole general partner is in common control with Commonfund Securities Inc., a registered broker-dealer that engages solely in placement activities.

31 Donald H. Fehrs, Chief Investment Officer of Cornell University, exercises dispositive power over the Seagate common shares.

32 Stephanie S. Lynch, the Chief Investment Officer of the Duke Endowment, exercises dispositive power over the Seagate common shares.

33 Fairfield Partners Management, LLC is the general partner of Endowment Venture Partners IV, L.P. Any of the following individuals may sign on behalf of the general partner: Susan Carter, Linda Costa, Gregory Jansen, Donald Pascul, James Seymour, Peter Burns and Kent Scott. Endowment Venture Partners IV, L.P. is a limited partnership whose sole general partner is in common control with Commonfund Securities Inc., a registered broker-dealer that engages solely in placement activities.

34 Linda B. Strumpf, Vice President and Chief Investment Officer of the Ford Foundation, Eric W. Doppstadt, Director, Private Equity of the Ford Foundation, and Kim Y. Lew, Senior Manager, Private Equity of the Ford Foundation, exercise dispositive power over the Seagate common shares.

35 The following individuals are Managing Directors of Horsley Bridge Partners LLC and have been delegated authority to exercise dispositive power over the Seagate common shares held by Horsley Bridge Fund VI, L.P. and HB-PGGM Fund III L.P.: Fred Berkowitz, Gary L. Bridge, Lance Cottrill, Josh Freeman, Alfred J. Giuffrida, Phillip Horsley, Duane Phillips and N. Dan Reeve.

36 Elizabeth Obershaw, Vice President and Chief Investment Officer for the Hewlett-Packard Company Group Trust, exercises dispositive power over the Seagate common shares.

37 Landis Zimmerman, Vice President and Chief Investment Officer of Howard Hughes Medical Institute exercises dispositive power over the Seagate common shares on behalf of Howard Hughes Medical Institute.

38 Does not include 70,142 Seagate common shares over which an external manager of the Howard Hughes Medical Institute exercises sole voting rights. The Howard Hughes Medical Institute has an agreement with such manager which provides that such voting rights can be rescinded at a future time.

39 Decisions regarding dispositions of the Seagate common shares require the agreement of one A director and one B director. The A directors are Lisa Crawford, Wayne Tollowin and Mary Lacey. The B directors are Anders Berg, Marc Hollander and Robert de Heus.

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40 Knightsbridge Allianz, L.P., Knightsbridge Netherlands III, L.P., and Knightsbridge Venture Capital IV, L.P. (the Knightsbridge Funds) are limited partnerships advised by Knightsbridge Advisers Incorporated (Knightsbridge). Knightsbridge serves as Manager of the General Partner of, or as investment adviser to, the Knightsbridge Funds. The Managing Principals of Knightsbridge are Joel C. Romines, Judith B. Elsea, Tim E. Bliamptis and L. Bradford Hammond.

41 Basil P. Livanos, investment officer of MONY Insurance Company, exercises dispositive power over the Seagate common shares. The following affiliates of MONY Insurance Company are registered broker-dealers: AllianceBernstein Investment Research & Management, Inc.; AXA Distributors, LLC; AXA Advisors, LLC; Sanford C. Bernstein & Co., LLC; Enterprise Fund Distributors, Inc.; Advest, Inc.; and MONY Securities Corporation.

42 Amos B. Hostetter, Jr., Benjamin A. Gomez and Sharon G. Siegel exercise dispositive power over the Seagate common shares on behalf of PH Investments, LLC.

43 Affiliated with Deutsche Bank Securities Inc., a registered broker-dealer.

44 Alex Flagg and Denise Flagg are the trustees of the Flagg Living Trust and exercise dispositive power over the Seagate common shares.

45 Affiliated with UBS Financial Services, a registered broker-dealer.

46 Erica Warren and William Long are the trustees of the Warren-Long Family Trust and exercise dispositive power over the Seagate common shares.

47 Fred Gerson and Roben Gerson are the trustees of the Gerson 2000 Trust and exercise dispositive power over the Seagate common shares.

48 Charles Geschke and Nancy Geschke are the trustees of the Geschke Family Trust and exercise dispositive power over the Seagate common shares.

49 Does not include any beneficial interest that the selling shareholder may be deemed to have in Seagate common shares as a result of a minority investment in Integral Capital Partners V, L.P.

50 M. Bruce Nakao is the trustee of the M. Bruce Nakao 1994 Trust and exercises dispositive power over the Seagate common shares.

51 Susan E. Manske, Vice President and Chief Investment Officer of the John D. and Catherine T. MacArthur Foundation, exercises dispositive power over the Seagate common shares.

52 Lisa Danzig, pursuant to authority delegated to her by the Investment Committee of the Rockefeller University Board of Trustees, exercises dispositive power over the Seagate common shares.

53 Christopher A. Dauvos, portfolio manager for TIFF Advisory Services, Inc., the sole manager for TIFF Partners III, LLC, exercises dispositive power over the Seagate common shares.

54 Paul Allen is the sole owner of Vulcan Ventures, Inc. and exercises dispositive power over the Seagate common shares.

55 Dispositive power over the Seagate common shares is exercised by David F. Swensen, Yale University s Chief Investment Officer, pursuant to a formal delegation of authority from the University s Vice President for Finance and Administration, which has been approved by the Finance Committee of the Yale Corporation pursuant to Yale University s by-laws.

56 David F. Swensen, Chief Investment Officer of Yale University, exercises dispositive power over the Seagate common shares pursuant to a trust agreement with State Street Bank and Trust Company, the trustee of the plan.

57 Harris Barton and Ronnie Lott, acting as managing members of 1999 Champion Management, LLC, the general partner of 1999 Champion Ventures, LP, exercise dispositive power over the Seagate common shares.

58 Joseph M. Beninato and Beth F. Beninato are trustees of the Beninato Living Trust and exercise dispositive power over the Seagate common shares.

59 James L. Callinan is the trustee of the Callinan Rev. Trust DTD 2/22/99 and exercises dispositive power over the Seagate common shares.

60 Howard S. Charney and Alida C.S. Charney are the trustees of the Charney 1996 Trust and exercise dispositive power over the Seagate common shares.

61 Timothy Dattels and Kristine Johnson are the trustees of the Dattels/Johnson 1992 Family Trust and exercise dispositive power over the Seagate common shares.

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62 Harris Barton, Ronnie Lott and Joe Montana, acting as general partners of Eleven Rings LLC, exercise dispositive power over the Seagate common shares.
63 Barry Kramar, Laird Simons and Matt Quilter exercise dispositive power over the Seagate common shares pursuant to a limited liability company agreement dated June 23, 2000.
64 Randy Korba and Janica Lane are the trustees of Korba-Lane 2004 Trust and exercise dispositive power over the Seagate common shares.
65 Matt Kursh exercises dispositive power over the Seagate common shares as manager of Kurshioni Investments LLC.
66 Thomas H. Layton exercises dispositive power over the Seagate common shares on behalf of the Layton 2000 CRUT.
67 David D. Lee and Joanne W. Lee are the trustees of the David & Joanne Lee Trust 3/15/00 and exercise dispositive power over the Seagate common shares.
68 Russ Hall and Chris A. Eyre are the managing members of Legacy Venture Management which exercises dispositive power over the Seagate common shares.
69 Douglas S. Luke, as the managing member of Lamont Partners, LLC, the general partner of LJH Partners L.P., exercises dispositive power over the Seagate common shares.
70 Stanley J. Meresman and Sharon A. Meresman are the trustees of the Meresman Family Trust UDA 9/13/89 and exercise dispositive power over the Seagate common shares.
71 Burton J. McMurtry, the managing member of Octave West LLC, exercises dispositive power over the Seagate common shares.
72 Gregorio Reyes and Vanessa Reyes are the trustees of the Gregorio and Vanessa Reyes UDT 4/22/83 and exercise dispositive power over the Seagate common shares. Gregorio Reyes has been a member of the board of directors of Seagate since April 2004.
73 Does not include exercisable options to purchase 46,353 Seagate common shares held by Mr. Reyes.
74 Jan M. Leeman and Maria S. Leeman are the trustees of the Sherlee Trust Dtd 1/31/00 and exercise dispositive power over the Seagate common shares.
75 Albert Yu is the trustee of the Albert Yu Trust Dtd 8/9/96 and exercises dispositive power over the Seagate common shares.
76 Amos Wilnai and Ruth Wilnai are the trustees of Amos Wilnai Family Trust dtd 6/10/97 and exercise dispositive power over the Seagate common shares.
77 Phillip S. Dauber and Elayne R. Dauber are the trustees of the Pserd Trust Dtd 3/11/86 and exercise dispositive power over the Seagate common shares.
78 Robert V. Gunderson, Jr., Scott C. Dettmer, and Brooks Stough, general partners in G&H Partners, exercise dispositive power over the Seagate common shares.
79 GCWF Investments LLC is the managing partner of GCWF Investment Partners II. The Board of Directors of GCWF Investments LLC exercises voting and dispositive power over the securities held by the partnership. The members of the Board of Directors are: Gilles Attia, T. Knox Bell, Raymond Dearchs, Maureen Dorney, Gregory Gallo, James Kushland, James Montgomery, John Steel, Lawrence Tannenbaum and Andrew Zeit.
80 Jeff Heimbuck and Caron Heimbuck are trustees of the Heimbuck Family Trust Dtd 8/13/1985 and exercise dispositive power over the Seagate common shares.
81 John L. Hennessy and Andrea J. Hennessy are the trustees of the Hennessy 1993 Rev. Trust and exercise dispositive power over the Seagate common shares.
82 John O. Paivinen and Carol Q. Paivinen are the trustees of the Paivinen Revocable Trust and exercise dispositive power over the Seagate common shares.
83 Eric Ponteri and Jane Anderson are the trustees of the Ponteri/Anderson Living Trust 8/7/96 and exercise dispositive power over the Seagate common shares.
84 Eric Schmidt, the partner of Schmidt Investments LP, exercises dispositive power over the Seagate common shares.
85 Nirav Tolia, President of Tolia Investments, exercises dispositive power over the Seagate common shares.
86 Toni C. Cupal and Michelangelo A. Volpi are the trustees of the Volpi-Cupal Family Trust and exercise dispositive power over the Seagate common shares.

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87 The plan is self-directed by Diane Dalton.
88 The plan is self-directed by Leila Parrot.
89 Includes 65 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Stella Daire which is self-directed.
90 Includes 1,051 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Syndey Lagier which is self-directed.
91 Includes 656 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Joan McGrath which is self-directed.
92 Includes 656 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Judi Smith which is self-directed.
93 Includes 656 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Nancy White which is self-directed.
94 Mr. Marquardt has been a member of the board of directors of Seagate since November 2000.
95 Includes exercisable options to purchase 19,790 Seagate common shares held by Mr. Marquardt.
96 Includes 5,717 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Mark Wilson which is self-directed.
97 Includes 2,631 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Won Chung which is self-directed.
98 Includes 265 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the ACM Retirement Plan FBO: Rebecca Wargo which is self-directed.
99 This category includes selling shareholders who (i) are currently or have in the past served in a senior management capacity for Seagate (i.e. Senior Vice President and above), (ii) are currently members of the board of directors of Seagate who are not otherwise described in this table, (iii) will hold more than 100,000 shares of Seagate stock upon completion of the monthly and quarterly distributions discussed above or (iv) have received shares of New SAC from any of such persons described in (i), (ii) or (iii).
100 Mr. Watkins has been a member of the board of directors of Seagate since November 2000 and currently serves as President and Chief Executive Officer of Seagate. Mr. Watkins was a member of the board of directors and president of New SAC until September 2005.
101 Includes (i) exercisable options to purchase 680,506 Seagate common shares held by Mr. Watkins, (ii) 2,038,258 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Watkins Family Trust Dated 1-7-1994 for which Mr. Watkins serves as a trustee and (iii) 320,297 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Wolfpack Family Limited Partnership DTD 10-25-01 for which Mr. Watkins is a general partner and exercises dispositive power over the Seagate common shares.
102 Includes (i) 678,350 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Watkins Family Trust Dated 1-7-1994 for which Mr. Watkins serves as a trustee and (ii) 106,765 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Wolfpack Family Limited Partnership DTD 10-25-01 for which Mr. Watkins is a general partner and exercises dispositive power over the Seagate common shares.
103 Mr. Pope has been an Executive Vice President of Seagate since April 1999 and Chief Financial Officer of Seagate since February 1998.
104 Includes (i) exercisable options to purchase 753,069 Seagate common shares held by Mr. Pope and (ii) 241,340 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Pope Family Reserve Trust.
105 Includes 80,280 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Pope Family Reserve Trust.
106 Mr. Wickersham has been the Chief Operating Officer of Seagate since April 2004.
107 Includes (i) exercisable options to purchase 816,217 Seagate common shares held by Mr. Wickersham and (ii) 113,228 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by Arlie Enterprises Limited Partnership for which Mr. Wickersham serves as a Class A General Partner and exercises dispositive power over the Seagate common shares.

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108 Includes 45,290 Seagate common shares that will be held upon completion of the monthly distributions discussed above by Arlie Enterprises Limited Partnership for which Mr. Wickersham serves as a Class A General Partner and exercises dispositive power over the Seagate common shares.

109 Mr. Dexheimer has been the Executive Vice President of Worldwide Sales, Marketing and Customer Service of Seagate since August 2000.

110 Includes (i) exercisable options to purchase 572,065 Seagate common shares held by Mr. Dexheimer (ii) 30,000 Seagate common shares held by the Dexheimer Family Trust, (iii) 4,000 Seagate common shares held by the Dexheimer GRANTOR Annuity Trust and (iv) 459,994 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Silver Sea Limited Partnership for which Mr. Dexheimer serves as the general partner and exercises dispositive power over the Seagate common shares.

111 Includes 153,330 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Silver Sea Limited Partnership for which Mr. Dexheimer serves as the general partner and exercises dispositive power over the Seagate common shares.

112 Mr. Hudson has been an Executive Vice President since November 2002 and General Counsel and Corporate Secretary since January 2000. Mr. Hudson also serves as executive vice president, general counsel and corporate secretary of New SAC.

113 Includes (i) exercisable options to purchase 245,826 Seagate common shares held by Mr. Hudson and (ii) 131,481 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Carbonero Creek Limited Partnership for which Mr. Hudson serves as the general partner and exercises dispositive power over the Seagate common shares.

114 Includes 43,825 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Carbonero Creek Limited Partnership for which Mr. Hudson serves as the general partner and exercises dispositive power over the Seagate common shares.

115 Mr. Luczo has been a member of the board of directors of Seagate since November 2000 and Chairman of the board of directors of Seagate since June 2002. Mr Luczo also serves as Chief Executive Officer and as a member of the board of directors of New SAC.

116 Includes (i) exercisable options to purchase 215,446 Seagate common shares held by Mr. Luczo, (ii) exercisable options to purchase 59,880 Seagate common shares held by the Steven J. Luczo Revocable Trust dated January 26, 2001, (iii) 6,356,586 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Steven J. Luczo Revocable Trust dated January 26, 2001, (iv) 617,987 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by Red Zone Holdings Limited Partnership for which Mr. Luczo serves as a general partner and exercises dispositive power over the Seagate common shares and (v) 525,947 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by Red Zone II Limited Partnership for which Mr. Luczo serves as a general partner and exercises dispositive power over the Seagate common shares.

117 Includes (i) 2,060,210 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Steven J. Luczo Revocable Trust dated January 26, 2001, (ii) 205,995 Seagate common shares that will be held upon completion of the monthly distributions discussed above by Red Zone Holdings Limited Partnership for which Mr. Luczo serves as a general partner and exercises dispositive power over the Seagate common shares and (iii) 175,315 Seagate common shares that will be held upon completion of the monthly distributions discussed above by Red Zone II Limited Partnership for which Mr. Luczo serves as a general partner and exercises dispositive power over the Seagate common shares.

118 Former Seagate employee.

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119 Includes (i) 265,667 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by Porter Venture Limited Partnership for which Mr. Porter serves as the general partner and exercises dispositive power over the Seagate common shares, (ii) 500,211 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Townsend H. Porter Living Trust U/A DTD September 8, 2003 for which Mr. Townsend serves as a trustee and (iii) 166,551 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Townsend H. Porter 2004 Grantor Retained Annuity Trust for which Mr. Townsend serves as a trustee.

120 Includes (i) 88,555 Seagate common shares that will be held upon completion of the monthly distributions discussed above by Porter Venture Limited Partnership for which Mr. Porter serves as the general partner and exercises dispositive power over the Seagate common shares, (ii) 166,735 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Townsend H. Porter Living Trust U/A DTD September 8, 2003 for which Mr. Townsend serves as a trustee and (iii) 55,515 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Townsend H. Porter 2004 Grantor Retained Annuity Trust for which Mr. Townsend serves as a trustee.

121 Includes 166,551 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Beverly G. Porter 2004 Grantor Retained Annuity Trust for which Ms. Porter and Howard Rubin serve as trustees.

122 Includes 55,515 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Beverly G. Porter 2004 Grantor Retained Annuity Trust for which Ms. Porter and Howard Rubin serve as trustees.

123 Includes (i) exercisable options to purchase 278,696 Seagate common shares held by Mr. Weyandt and (ii) 607,187 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the John P. Weyandt Revocable Trust for which Mr. Weyandt serves as trustee.

124 Includes 202,395 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the John P. Weyandt Revocable Trust for which Mr. Weyandt serves as a trustee.

125 Includes 8,554 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Carol J. Weyandt Revocable Trust for which Ms. Weyandt serves as a trustee.

126 Includes 2,850 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Carol J. Weyandt Revocable Trust for which Ms. Weyandt serves as a trustee.

127 Includes (i) 979,577 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Waite Family Trust u/t/d 12/21/1989 as amended for which Donald L. Waite serves as a trustee and (ii) 450,176 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by ATW Family Partners, L.P. for which Mr. Waite serves as a general partner and exercise dispositive power over the Seagate common shares.

128 Includes (i) 326,525 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Waite Family Trust u/t/d 12/21/1989 as amended for which Donald L. Waite serves as a trustee and (ii) 150,060 Seagate common shares that will be held upon completion of the monthly distributions discussed above by ATW Family Partners, L.P. for which Mr. Waite serves as a general partner and exercises dispositive power over the Seagate common shares.

129 Includes 14,144 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Anna T. Waite Education Trust for which Mr. Waite serves as a trustee.

130 Includes 4,380 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Anna T. Waite Education Trust for which Mr. Waite serves as a trustee.

131 Does not include any beneficial interest that the selling shareholder may be deemed to have in Seagate common shares as a result of his or her limited partner interest in ATW Family Partners, L.P.

132 Rickie Gardner and Brad Farnsworth, the independent directors of C.G. Charitable Fund, exercise dispositive power over the Seagate common shares.

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133 Includes 733,560 Seagate common shares held by Carballo Charitable Ltd. Mr. Carballo serves as President of Carballo Charitable Ltd. and exercises dispositive power over the Seagate common shares.
134 Includes 244,520 Seagate common shares held by Carballo Charitable Ltd.
135 Current Seagate employee.
136 Includes exercisable options to purchase 130,651 Seagate common shares held by Mr. Chicca.
137 Includes exercisable options to purchase 679,554 Seagate common shares held by Mr. Chirico.
138 Dawn McPherson, the Director of Administration for The Educational Foundation, Inc., exercises dispositive power over the Seagate common shares.
139 Includes exercisable options to purchase 84,510 Seagate common shares held by Mr. Covault.
140 Includes (i) exercisable options to purchase 220,244 Seagate common shares held by Mr. DeHaan and (ii) exercisable options to purchase 23,886 Seagate common shares held by Mr. DeHaan s grantor retained annuity trust.
141 Includes (i) exercisable options to purchase 497,872 Seagate common shares held by Mr. Glembocki, (ii) exercisable options to purchase 231,683 Seagate common shares held by the Jaroslaw Glembocki 2001 Revocable Trust for which Mr. Glembocki serves as a trustee, (iii) 723,437 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Jaroslaw Glembocki 2001 Revocable Trust for which Mr. Glembocki serves as a trustee, (iv) 31,551 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Jaroslaw Glembocki 2001 Childrens Trust f.b.o. Stefan Glembocki for which Mr. Glembocki serves as a trustee and (v) 31,551 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above the Jaroslaw Glembocki 2001 Childrens Trust f.b.o. Renee Glembocki for which Mr. Glembocki serves as a trustee.
142 Includes (i) 241,145 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Jaroslaw Glembocki 2001 Revocable Trust for which Mr. Glembocki serves as a trustee, (ii) 10,515 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Jaroslaw Glembocki 2001 Childrens Trust f.b.o. Stefan Glembocki for which Mr. Glembocki serves as a trustee and (iii) 10,515 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Jaroslaw Glembocki 2001 Childrens Trust f.b.o. Renee Glembocki for which Mr. Glembocki serves as a trustee.
143 Includes exercisable options to purchase 218,478 Seagate common shares held by Mr. O Malley.
144 Includes exercisable options to purchase 20,254 Seagate common shares held by Mr. Peterson.
145 Includes exercisable options to purchase 217,174 Seagate common shares held by Mr. Piemsomboon.
146 Includes (i) 21,167 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Alexa Kristine Sander Trust for which Ms. Sander serves as a trustee and (ii) 21,167 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Charles Morris Sander, III, Trust for which Ms. Sander serves as a trustee.
147 Includes (i) 7,055 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Alexa Kristine Sander Trust for which Ms. Sander serves as a trustee and (ii) 7,055 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Charles Morris Sander, III, Trust for which Ms. Sander serves as a trustee.
148 Includes exercisable options to purchase 85,684 Seagate common shares held by Mr. Whitmore.
149 Mr. Tennenbaum is affiliated with Saber Partners, LLC, a registered broker-dealer.
150 Includes 142,003 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Sedler Family Revocable Living Trust for which Mr. Sedler serves as a trustee.
151 Includes 47,335 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Sedler Family Revocable Living Trust for which Mr. Sedler serves as a trustee.
152 Includes 142,003 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by Oxley Ventures LLLP for which Mr. Stead serves as a partner and exercise dispositive power over the Seagate common shares.

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153 Includes 110,310 Seagate common shares that will be held upon completion of the monthly distributions discussed above by Oxley Ventures LLLP for which Mr. Stead serves as a partner and exercise dispositive power over the Seagate common shares.
154 Includes 1,057,440 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by The Mulvaney Family Trust dated 11/28/1995, as Amended and Restated in 2003 for which Thomas F. Mulvaney and Karen G. Mulvaney serve as trustees.
155 Includes 352,480 Seagate common shares that will be held upon completion of the monthly distributions discussed above by The Mulvaney Family Trust dated 11/28/1995, as Amended and Restated in 2003 for which Thomas F. Mulvaney and Karen G. Mulvaney serve as trustees.
156 Michael J. McCabe is the trustee for the Gunter Heine QTIP Trust.
157 Includes exercisable options to purchase 64,348 Seagate common shares held by Mr. Bargmann.
158 Includes exercisable options to purchase 79,130 Seagate common shares held by Mr. Black.
159 Includes exercisable options to purchase 78,739 Seagate common shares held by Mr. Chee.
160 Includes exercisable options to purchase 69,154 Seagate common shares held by Mr. Fasching.
161 Includes exercisable options to purchase 64,373 Seagate common shares held by Mr. Lacroix.
162 Includes exercisable options to purchase 104,348 Seagate common shares held by Mr. Lau.
163 Includes exercisable options to purchase 63,206 Seagate common shares held by Mr. Rogers.
164 Includes exercisable options to purchase 84,348 Seagate common shares held by Mr. Say.
165 Includes exercisable options to purchase 131,929 Seagate common shares held by Mr. Sedlacek.
166 Includes (i) exercisable options to purchase 38,963 Seagate common shares held by Mr. Shih and (ii) 111,758 Seagate common shares that will be held upon completion of the monthly and quarterly distributions discussed above by the Shih-Chen Family Trust U/ADTD 9/21/03 for which Mr. Shih and Ling Chen serve as trustees.
167 Includes 37,250 Seagate common shares that will be held upon completion of the monthly distributions discussed above by the Shih-Chen Family Trust U/ADTD 9/21/03 for which Mr. Shih and Ling Chen serve as trustees.
168 Includes exercisable options to purchase 77,373 Seagate common shares held by Ms. Snouffer.
169 Includes exercisable options to purchase 64,413 Seagate common shares held by Mr. Sterling.
170 Includes exercisable options to purchase 61,172 Seagate common shares held by Ms. Still.
171 Includes exercisable options to purchase 27,783 Seagate common shares held by Mr. Weiss.
172 Includes exercisable options to purchase 60,763 Seagate common shares held by Mr. Wong.
173 To the extent required, holders in this category shall be added to this table as selling shareholders by means of a prospectus supplement or a post-effective amendment to this registration statement.

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CERTAIN INCOME TAX CONSIDERATIONS

Cayman Islands Tax Considerations

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the common shares. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor s particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

You will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your common shares. In addition, you will not be subject to withholding tax on payments of dividends or distributions, including upon a return of capital, nor will gains derived from the disposal of common shares be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of common shares. However, an instrument transferring title to a common share, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

We have been incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking in August 2000 from the Governor in Council of the Cayman Islands substantially that, for a period of twenty years from the date of such undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall, apply to us and no such tax and no tax in the nature, of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our common shares.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling our common shares under the laws of their country of citizenship, residence or domicile.

U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences, as of the date of this prospectus, of the ownership of our common shares by beneficial owners that hold the common shares as capital assets and that are U.S. holders. As used herein, you are a U.S. holder if you are, for U.S. federal income tax purposes:

- a citizen or resident of the U.S.;
- a corporation or partnership created or organized in or under the laws of the U.S. or any political subdivision thereof;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust that (i) is subject to the supervision of a court within the U.S. and one or more U.S. persons control all substantial decisions of the trust, or (ii) has, a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, and regulations, rulings and judicial decisions thereunder as of the date of this prospectus, and such authorities may be repealed, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. This summary does not represent a detailed description of the U.S. federal income tax consequences to you in light of your particular circumstances and prospective investors should consult their own tax advisors as to the tax consequences of an investment in our common shares, including the application to their

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particular situations of the tax considerations discussed below and the application of state, local, foreign or other federal tax laws. In addition, it does not represent a description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a trader in securities if you elect to use a mark-to-market method of accounting for your securities holdings;
- a financial institution;
- an insurance company;
- a tax-exempt organization;
- a person liable for alternative minimum tax;
- an investor in a pass through entity;
- a person holding common shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle; or
- a person whose functional currency is not the U.S. dollar.

In particular, it does not represent a description of the U.S. federal income tax consequences applicable to you if you are a person owning, actually or constructively, 10% or more of our voting stock or 10% or more of the voting stock of any of our non-U.S. subsidiaries.

If a partnership holds our common shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares, you should consult your tax advisor.

Taxation of Dividends. The gross amount of distributions paid to you will generally be treated as dividend income to you if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Such income will be includible in your gross income on the day you actually or constructively receive it. Corporations that are U.S. holders will not be entitled to claim a dividends received deduction because we are not a U.S. corporation.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, the distribution will first be treated as a tax-free return of capital, causing a reduction in your adjusted basis in the common shares (thereby increasing the amount of gain, or decreasing the amount of loss, you will recognize on a subsequent disposition of the shares), and the balance in excess of your adjusted basis will be taxed as capital gain recognized on a sale or exchange. We did not have current or accumulated earnings and profits

for U.S. federal income tax purposes for our taxable year ended July 1, 2005. There can be no assurance that we will not have current or accumulated earnings and profits in the current year or in future years.

Under prior law, U.S. shareholders who were individuals may not have been eligible for reduced rates of taxation applicable to certain dividend income (currently a maximum rate of 15% on qualifying dividends) on distributions made from our current or accumulated earnings and profits if we were a foreign personal holding company in the taxable year in which such dividends were paid or in the preceding taxable year. We believe that we were a foreign personal holding company for our taxable years ended July 1, 2005 and July 2, 2004.

Pursuant to the American Jobs Creation Act of 2004, the foreign personal holding company rules have been repealed. Such rules will no longer apply with respect to any taxable year of Seagate Technology beginning after Seagate Technology s taxable year ending July 1, 2005. As a result, if we make distributions before January 1,

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2009 from our current or accumulated earnings and profits, U.S. holders who are individuals may be eligible for reduced rates of taxation applicable to dividend income so long as our shares are readily tradable on an established securities market in the United States. We believe that our common shares, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our common shares will continue to be readily tradable on an established securities market in later years (or that our shares will be readily tradable on an established securities market in any given year). Individuals that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of the trading status of our shares. Holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

Disposition of Common Shares. When you sell or otherwise dispose of your common shares in a taxable transaction you will recognize capital gain or loss in an amount equal to the difference between the amount you realize for the shares and your adjusted tax basis in them. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss.

Information Reporting and Backup Withholding. In general, unless you are an exempt recipient such as a corporation, information reporting will apply to dividends in respect of the common shares or the proceeds received on the sale, exchange or redemption of those common shares paid to you within the U.S. and, in some cases, outside of the U.S. Additionally, if you fail to provide your taxpayer identification number, or fail either to report in full dividend and interest income or to make certain certifications, you will be subject to backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the Internal Revenue Service.

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ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated as an exempted company with limited liability under the laws of the Cayman Islands. A substantial portion of our assets are located outside of the United States. As a result, it may be difficult for persons purchasing the common shares to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the Untied States or any state of the United States.

We have been advised by our Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not a kind, the enforcement of which is contrary to public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will: (i) recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States, or (ii) in original actions brought in the Cayman Islands, impose liabilities predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States, on the grounds that such provisions are penal in nature.

The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

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PLAN OF DISTRIBUTION

The common shares are being registered to permit public secondary trading of these securities by the holders thereof from time to time after the date of this prospectus and to facilitate the continued orderly disposition of our common shares held by former shareholders of New SAC. We will not receive any of the proceeds from the sale of the common shares by the selling shareholders. The selling shareholders will receive all of the proceeds from the sale of the common shares being offered through this prospectus.

New SAC, our largest shareholder, has stated that it has suspended any further significant sales of common shares and intends to dispose of its remaining shares through staged distributions to its more than 200 shareholders. In particular, New SAC stated that, in addition to planned quarterly distributions of an aggregate of 100 million of our common shares that it expects to complete by January 2006, it will distribute its remaining holdings of approximately 50 million of our common shares by making monthly distributions of approximately 10 million of our common shares to New SAC shareholders. New SAC made the first of these monthly distributions on September 30, 2005, the second of these monthly distributions was made on October 21, 2005 and the third of these monthly distributions was made on November 18, 2005. For additional information on the monthly and quarterly distributions, please refer to the section of this prospectus entitled Selling Shareholders About New SAC and its Distributions to the Selling Stockholders. Offers to the public by the selling shareholders of the approximately 50 million common shares distributed by New SAC on a monthly basis may be made pursuant to the registration statement of which this prospectus forms a part.

The selling shareholders and their pledgees, assignees, donees, or other successors-in-interest who acquire their shares after the date of this prospectus, may sell the common shares directly to purchasers or through underwriters, broker-dealers or agents.

If underwriters are used in a firm commitment underwriting, we and the selling shareholders will execute an underwriting agreement with those underwriters relating to the common shares that the selling shareholders will offer. Unless otherwise set forth in a prospectus supplement, the obligations of the underwriters to purchase these common shares will be subject to conditions. The underwriters, if any, will purchase the common shares on a firm commitment basis and will be obligated to purchase all of these common shares.

The common shares subject to the underwriting agreement will be acquired by the underwriters for their own account and may be resold by them from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from the purchasers of these common shares for whom they may act as agent. Underwriting discounts and commissions will not exceed 8%. Underwriters may sell these common shares to or through dealers. These dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent. Any public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

The selling shareholders may authorize underwriters to solicit offers by institutions to purchase the common shares subject to the underwriting agreement from the selling shareholders at the public offering price stated in a prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. If the selling shareholders sell common shares pursuant to these delayed delivery contracts, the prospectus supplement will state that as well as the conditions to which these delayed delivery contracts will be subject and the commissions payable for that solicitation.

The applicable prospectus supplement will set forth whether or not underwriters may over-allot or effect transactions that stabilize, maintain or otherwise affect the market price of the common shares at levels above those that might otherwise prevail in the open market, including, for

example, by entering stabilizing bids,

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effecting syndicate covering transactions or imposing penalty bids. Underwriters are not required to engage in any of these activities, or to continue such activities if commenced.

If dealers are utilized in the sale of common shares, the selling shareholders will sell such common shares to the dealers as principals. The dealers may then resell such common shares to the public at varying prices to be determined by such dealers at the time of resale. The names of the dealers and the terms of the transaction will be set forth in a prospectus supplement, if required.

The selling shareholders may also sell common shares through agents designated by them from time to time. We will name any agent involved in the offer or sale of the common shares and will list commissions payable by the selling shareholders to these agents in a prospectus supplement, if required. These agents will be acting on a best efforts basis to solicit purchases for the period of its appointment, unless we state otherwise in any required prospectus supplement.

The selling shareholders may sell any of the common shares directly to purchasers. In this case, the selling shareholders may not engage underwriters or agents in the offer and sale of these common shares.

We and the selling shareholders may indemnify underwriters, dealers or agents who participate in the distribution of securities against certain liabilities, including liabilities under the Securities Act and agree to contribute to payments which these underwriters, dealers or agents may be required to make.

The common shares may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale, or at negotiated prices. Sales may be effected in transactions, which may involve block transactions or crosses:

- on any national securities exchange or quotation service on which the common shares may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on exchanges or quotation services or in the over-the-counter market;
- through the exercise of purchased or written options; or
- through any other method permitted under applicable law.

In connection with sales of the common shares or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the common shares in the course of hedging the positions they assume. The selling shareholders may also sell short the common shares and deliver the common shares to close out short positions, or loan or pledge the common shares to broker-dealers that in turn may sell the common shares.

The aggregate proceeds to the selling shareholders from the sale of the common shares offered by the selling shareholders hereby will be the purchase price of the common shares less discounts and commissions, if any. The selling shareholders reserve the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common shares to be made directly or through agents.

In order to comply with the securities laws of some states, if applicable, the common shares may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common shares may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling shareholders and any underwriters, broker-dealers or agents that participate in the sale of the common shares may be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the common shares may be underwriting discounts

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and commissions under the Securities Act. Any selling shareholder who is an underwriter within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The selling shareholders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M.

We are not aware of any plans, arrangements or understandings between the selling shareholders and any underwriter, broker-dealer or agent regarding the sale of the common shares by the selling shareholders. We do not assure you that the selling shareholders will sell any or all of the common shares offered by it pursuant to this prospectus. In addition, we do not assure you that the selling shareholders will not transfer, devise or gift the common shares by other means not described in this prospectus. Moreover, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this prospectus.

Our common shares are listed on the New York Stock Exchange under the trading symbol STX.

Pursuant to a shareholders agreement with New SAC, we have granted the selling shareholders certain registration rights pertaining to common shares held by them. The agreement provides for cross-indemnification of the selling shareholders and us and its and our respective directors, officers and controlling persons against specific liabilities in connection with the offer and sale of the common shares, including liabilities under the Securities Act. We have agreed, among other things, to bear all expenses payable by us (other than underwriting discounts and selling commissions) in connection with the registration and sale of the common shares covered by this prospectus, except in specified circumstances. We estimate that the expenses for which we will be responsible in connection with filing this registration statement will be approximately $450,000.

LEGAL MATTERS

The validity of the common shares to be sold in this offering has been passed upon by Maples and Calder, Cayman Islands.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements included in our Annual Report on Form 10-K for the year ended July 1, 2005, and management s assessment of the effectiveness of our internal control over financial reporting as of July 1, 2005, as set forth in their reports, which are incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements and management s assessment are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

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ADDITIONAL INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and therefore file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Such reports, proxy statements and other information filed by us may be inspected and copied at the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Our SEC filings are available to the public over the Internet at the SEC s website at http://www.sec.gov.

INCORPORATION BY REFERENCE

We incorporate by reference into this prospectus some of the information that we file with the SEC, which means that we can disclose important information to you by referring you to those filings. Any information contained in future SEC filings that are incorporated by reference into this prospectus will automatically update this prospectus, and any information included directly in this prospectus updates and supersedes the information contained in past SEC filings incorporated by reference into this prospectus. The information incorporated by reference, as updated, is an important part of this prospectus. We incorporate by reference the following documents:

- our annual report on Form 10-K filed on August 1, 2005 for the fiscal year ended July 1, 2005;
- our quarterly report on Form 10-Q filed on October 28, 2005 for the quarterly period ended September 30, 2005;
- our current reports on Form 8-K filed on August 3, 2005, August 4, 2005, September 7, 2005 and October 19, 2005;
- the description of our common shares in our registration statement on Form 8-A filed on December 6, 2002; and
- all documents that we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the completion of the resale of the common shares by the selling shareholders pursuant to this prospectus; provided, however, that we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any current report on Form 8-K.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document that is or is deemed to be incorporated by reference into this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person to whom a copy of this prospectus has been delivered, upon the written or oral request of such person, a copy of any and all of the documents that have been or may be incorporated by reference in this prospectus, other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such document. In addition, we make available free of charge all documents we file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Seagate Technology

920 Disc Drive

P.O. Box 66360

Scotts Valley, California 95067

Attn: Investor Relations

(831) 439-5337

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26,737,880 Shares

SEAGATE TECHNOLOGY

COMMON SHARES

MORGAN STANLEY