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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2001.

OR

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

For the transition period from __________________ to ____________________.

Commission file number 001-16583

ACUITY BRANDS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	58-2632672
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1420 Peachtree Street, N.E., Atlanta, Georgia 30309-3002
- --
(Address of principal executive offices) (Zip Code)

(404) 853-1400
- --
(Registrant's telephone number, including area code)

None
- --
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock - $0.01 Par Value - 41,311,469 shares as of December 31, 2001.

ACUITY BRANDS, INC. AND SUBSIDIARIES

INDEX

COMBINED BALANCE SHEETS (UNAUDITED)

ACUITY BRANDS, INC.
(In thousands, except share and per-share data)

	November 30, 2001	August 31, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,427	$ 10,337
Receivables, less reserves for doubtful accounts of $9,076 at November 30, 2001 and $8,195 at August 31, 2001	300,418	297,762
Inventories, at the lower of cost (on a first-in, first-out basis) or market	224,884	210,783
Deferred income taxes	17,069	16,326
Prepayments and other current assets	30,026	23,908
Total Current Assets	587,824	559,116
Property, Plant, and Equipment, at cost:		
Land	16,147	16,009
Buildings and leasehold improvements	162,294	161,779
Machinery and equipment	342,464	326,160
Total Property, Plant, and Equipment	520,905	503,948
Less-Accumulated depreciation and amortization	266,443	255,525
Property, Plant, and Equipment-net	254,462	248,423
Other Assets:		
Goodwill and other intangibles	470,456	468,944
Other	49,414	54,092
Total Other Assets	519,870	523,036
Total Assets	$ 1,362,156	$ 1,330,575
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 317	$ 357
Credit line	156,500	105,000
Short-term secured borrowings	102,800	105,100
Notes payable	12,720	24,666
Accounts payable	104,113	108,380
Accrued salaries, commissions, and bonuses	37,884	36,070
Current portion of self-insurance reserves	3,492	3,588
Other accrued liabilities	76,416	58,906
Total Current Liabilities	494,242	442,067
Long-Term Debt, less current maturities	371,315	373,707
Deferred Income Taxes	28,728	31,759
Self-Insurance Reserves, less current portion	13,969	14,350
Other Long-Term Liabilities	77,169	85,394
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
NSI investment	--	400,296
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued	--	--
Common stock, $0.01 par value, 500,000,000 shares authorized, 41,311,469 shares issued and outstanding	413	--
Paid-in capital	394,547	--
Unearned compensation on restricted stock	(677)	--
Accumulated other comprehensive income items	(17,550)	(16,998)
Total Stockholders' Equity	376,733	383,298
Total Liabilities and Stockholders' Equity	$ 1,362,156	$ 1,330,575

The accompanying notes to combined financial statements are an integral part of these statements.

COMBINED STATEMENTS OF INCOME (UNAUDITED)

ACUITY BRANDS, INC.
(In thousands, except per-share data)

	THREE MONTHS ENDED NOVEMBER 30	
	2001	2000
Net sales	$ 481,691	$ 502,646
Costs and Expenses:		
Cost of products sold	285,019	286,484
Selling and administrative expenses	166,339	176,438
Amortization expense	1,096	4,333
Interest expense, net	10,521	12,822
Other expense, net	116	57
Total Costs and Expenses	463,091	480,134
Income before Provision for Income Taxes	18,600	22,512
Provision for Income Taxes	7,066	9,005
Net Income	$ 11,534	$ 13,507
Pro Forma Earnings per Share:		
Basic earnings per share (Note 6)	$ .28	$ .33
Basic weighted average number of shares outstanding (Note 6)	41,221	40,941

The accompanying notes to combined financial statements are an integral part of these statements.

COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED)

ACUITY BRANDS, INC.
(In thousands)

	THREE MONTHS ENDED NOVEMBER 30	
	2001	2000
Cash Provided by (Used for) Operating Activities		
Net income	$ 11,534	$ 13,507
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	12,756	15,573
Provision for losses on accounts receivable	1,106	931
(Gain) loss on the sale of property, plant, and equipment	(57)	158
Change in assets and liabilities net of effect of acquisitions and divestitures-		
Receivables	(3,954)	22,407
Inventories, net	862	(14,469)
Deferred income taxes	(3,774)	(5,581)
Prepayments and other current assets	(5,820)	(2,564)
Accounts payable and accrued liabilities	13,463	(16,580)
Self-insurance reserves and other long-term liabilities	(6,501)	738
Net Cash Provided by Operating Activities	19,615	14,120
Cash Provided by (Used for) Investing Activities		
Purchases of property, plant, and equipment	(8,945)	(11,349)
Sale of property, plant, and equipment	180	406
Acquisitions	(26,387)	--
Change in other assets	4,500	3,192
Net Cash Used for Investing Activities	(30,652)	(7,751)
Cash Provided by (Used for) Financing Activities		
Repayments of notes payable, net	(11,946)	(246)
Issuances of commercial paper, net (less than 90 days)	--	15,601
Issuances of commercial paper (greater than 90 days)	--	1,338
Repayments of commercial paper (greater than 90 days)	--	(9,000)
Proceeds from credit line, net	51,500	--
Repayments of short-term secured borrowings, net	(2,300)	--
Repayments of long-term debt	(2,432)	(335)
Net activity with NSI	(18,723)	(7,312)
Net Cash Provided by Financing Activities	16,099	46
Effect of Exchange Rate Changes on Cash	28	(33)
Net Change in Cash and Cash Equivalents	5,090	6,382
Cash and Cash Equivalents at Beginning of Period	10,337	1,510
Cash and Cash Equivalents at End of Period	$ 15,427	$ 7,892
Supplemental Cash Flow Information:		
Income taxes paid during the period	$ 3,443	$ 2,647
Interest paid during the period	$ 12,777	$ 9,235

The accompanying notes to combined financial statements are an integral part of these statements.

NOTES TO COMBINED FINANCIAL STATEMENTS (UNAUDITED)

ACUITY BRANDS, INC.
(Dollar amounts in thousands, except share and per-share data and as indicated)

1. SPIN-OFF AND BASIS OF PRESENTATION

On November 7, 2001, the board of directors of National Service Industries, Inc. ("NSI") approved the spin-off of its lighting equipment and chemicals businesses into a separate publicly-traded company with its own management and board of directors. The spin-off was effected on November 30, 2001 through a tax-free distribution ("Distribution" or "Spin-off") of 100% of the outstanding shares of common stock of Acuity Brands, Inc. ("Acuity" or the "Company"), at that time a wholly-owned subsidiary of NSI owning and operating its lighting equipment and chemicals businesses. Each NSI stockholder of record as of November 16, 2001, the record date for the distribution, received one share of Acuity common stock for each share of NSI common stock held at that date, and Acuity became a separate, stand-alone company on November 30, 2001 which wholly owns all subsidiaries comprising the lighting equipment and chemicals businesses. Upon completion of the Distribution, NSI retained its textile rental and envelope businesses.

These combined financial statements include the accounts of the former NSI businesses that comprise Acuity's lighting equipment and chemicals businesses. The lighting equipment segment produces and distributes a variety of fluorescent and non-fluorescent fixtures for markets throughout the United States, Canada, Mexico, and overseas. The chemicals segment produces and distributes maintenance, sanitation, and water treatment products for customers throughout the United States, Canada, and Western Europe.

The combined financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in the United States and present Acuity's financial position, results of operations, and cash flows as derived from NSI's historical financial statements. All material intercompany transactions between the entities included in Acuity's combined financial statements have been eliminated. Acuity has been allocated certain NSI corporate assets, liabilities, and expenses based on an estimate of the proportion of such amounts allocable to Acuity, utilizing such factors as total revenues, employee headcount, and other relevant factors. Acuity believes these allocations have been made on a reasonable basis. Acuity believes all amounts allocated to Acuity are a reasonable representation of the costs that would have been incurred if Acuity had performed these functions as a stand-alone company.

In conjunction with the separation of their businesses, Acuity and NSI entered into various agreements that address the allocation of assets and liabilities and that define Acuity's relationship with NSI after the Distribution, including a distribution agreement, a tax disaffiliation agreement, an employee benefits agreement, a transition services agreement, a lease agreement, and a put option agreement. Under the tax disaffiliation agreement, Acuity will indemnify NSI for certain taxes and liabilities that may arise related to the Distribution. The agreement also sets out each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state, local, or foreign taxes for periods before and after the Distribution. The transition services agreement provides that NSI and Acuity will provide each other services in such areas as information management and technology, employee benefits administration, payroll, financial accounting and reporting, claims administration and reporting, legal, and other areas where NSI and Acuity may need transitional assistance and support. Management believes the amounts paid or received associated with these services are representative of the fair value of the services provided. For additional information related to these agreements, refer to the exhibits filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2001.

The interim combined financial statements included herein have been prepared by the Company without audit and the balance sheet as of August 31, 2001 has been derived from audited statements. These interim combined financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the combined financial position as of November 30, 2001, the combined results of operations for the three months ended November 30, 2001 and 2000, and the combined cash flows for the three months ended November 30, 2001 and 2000. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the combined financial statements of Acuity as of and for the three years ended August 31, 2001, and notes thereto included in the Company's Registration Statement on Form 10 filed with the Securities and Exchange Commission on November 9, 2001 (the "Form 10").

The results of operations for the three months ended November 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year because the Company's revenues and income are generally higher in the second half of its fiscal year and because of the uncertainty of general economic conditions.

For a discussion of certain risks and uncertainties related to the Distribution (including, without limitation, the risk that the Distribution could be challenged in court by creditors of NSI), see the disclosure under the caption "Risk Factors" set forth on pages 9 to 18 of the Information Statement attached as an exhibit to the Form 10, which disclosure is incorporated herein by reference.

For additional information related to the businesses retained by NSI and NSI's financial position, results of operations, and litigation, investors should consult NSI's periodic filings with Securities and Exchange Commission.

2. RECENT ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement No. 141 ("SFAS 141"), "Business Combinations," and Statement No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 141 prospectively prohibits the pooling of interests method of accounting for business combinations initiated after June 30, 2001. SFAS 142 requires companies to cease amortizing goodwill that existed at June 30, 2001 and establishes a new method for testing goodwill for impairment on an annual basis (or an interim basis if an event occurs that might reduce the fair value of a reporting unit below its carrying value.) Any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS 142 also requires that an identifiable intangible asset which is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a fair value based approach.

The Company adopted SFAS 142 effective September 1, 2001. As a result, the amortization of existing goodwill and intangibles with indefinite useful lives ceased on August 31, 2001, which will result in an estimated decrease in amortization expense of approximately $11,700 during fiscal 2002.

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

	November 30, 2001		August 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Trade names and trademarks	$ 13,030	$ (1,021)	$ 13,030	$ (912)
Distribution network	53,000	(4,122)	53,000	(3,681)
Other	17,083	(6,726)	20,470	(6,889)
Total	$ 83,113	$ (11,869)	86,500	$ (11,482)
Unamortized intangible assets				
Trade name	$ 62,563		$ 62,563	
Total	$ 62,563		$ 62,563	

The Company amortizes trade names with definite lives, trademarks, and the distribution network over their estimated useful lives of 30 years. Other amortized intangible assets consists primarily of patented technology and restrictive covenant agreements, which are amortized over their estimated useful lives of 12 years and 3 years, respectively. The Company recorded amortization expense of $1,096 and $1,752 related to intangible assets with definite lives in the first three months of fiscal 2002 and fiscal 2001, respectively.

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

	Lighting Equipment	Chemicals	Total
Balance as of August 31, 2001	$ 301,350	$ 30,013	$ 331,363
Goodwill acquired during the quarter	3,076	--	3,076
SFAS 141/142 adoption reclassification	2,692	--	2,692
Other	(393)	(89)	(482)
Balance as of November 30, 2001	$ 306,725	$ 29,924	$ 336,649

The lighting equipment and chemical segments each tested goodwill and intangible assets with indefinite useful lives for impairment during the first quarter of 2002 as required by SFAS 142, utilizing a combination of valuation techniques including the expected present value of future cash flows, a market multiple approach and a comparable transaction approach. This process did not result in an impairment to be recorded upon the adoption of SFAS 142 as of September 1, 2001.

Prior to the adoption of SFAS 142, $3,460 of goodwill associated with a 1969 acquisition was not amortized. Remaining amounts of goodwill ($327,903 at August 31, 2001) were amortized over estimated useful lives ranging from 10 years to 40 years. Had the Company accounted for goodwill consistent with the provisions of SFAS 142 in prior periods, the Company's net income would have been affected as follows:

	Three Months Ended November 30	
	2001	2000
Reported net income	$ 11,534	$ 13,507
Add back: Goodwill amortization	--	2,581
Add back: Trade name amortization	--	248
Adjusted net income	$ 11,534	$ 16,336
Pro-forma basic earnings per share:		
Reported net income	$ 0.28	$ 0.33
Add back: Goodwill amortization	--	0.06
Add back: Trade name amortization	--	--
Adjusted net income	$ 0.28	$ 0.39

The Company is required to test its goodwill and intangibles with indefinite useful lives for impairment on an annual basis, which could have an adverse effect on the Company's future results of operations if these assets are deemed impaired.

3. BUSINESS SEGMENT INFORMATION

THREE MONTHS ENDED NOVEMBER 30, 2001	NET SALES	OPERATING PROFIT	DEPRECIATION AND AMORTIZATION EXPENSE	CAPITAL EXPENDITURES AND ACQUISITIONS
Lighting Equipment	$ 364,110	$ 24,933	$ 10,514	$ 34,060
Chemicals	117,581	6,845	2,054	1,270
	481,691	31,778	12,568	35,330
Corporate		(2,657)	188	2
Interest expense, net		(10,521)		
Total	$ 481,691	$ 18,600	$ 12,756	$ 35,332

THREE MONTHS ENDED NOVEMBER 30, 2000	NET SALES	OPERATING PROFIT	DEPRECIATION AND AMORTIZATION EXPENSE	CAPITAL EXPENDITURES AND ACQUISITIONS
Lighting Equipment	$ 377,394	$ 33,276	$ 12,583	$ 8,891
Chemicals	125,252	6,537	2,847	2,127
	502,646	39,813	15,430	11,018
Corporate		(4,479)	143	331
Interest expense, net		(12,822)		
Total	$ 502,646	$ 22,512	$ 15,573	$ 11,349

	Total Assets	
	November 30, 2001	August 31, 2001
Lighting Equipment	$ 1,122,953	$ 1,082,676
Chemicals	207,971	211,579
	1,330,924	1,294,255
Corporate	31,232	36,320
Total	$ 1,362,156	$ 1,330,575

4. INVENTORIES

Major classes of inventory as of November 30, 2001 and August 31, 2001 were as follows:

	November 30, 2001	August 31, 2001
Raw Materials and Supplies	$ 84,378	$ 85,208
Work-in-Process	23,314	18,262
Finished Goods	117,192	107,313
Total	$ 224,884	$ 210,783

5. EARNINGS PER SHARE

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

6. PRO FORMA EARNINGS PER SHARE (UNAUDITED)

Pro forma basic earnings per share is calculated as net income divided by the pro forma weighted average number of common shares outstanding. Pro forma weighted average shares outstanding has been computed by applying the distribution ratio of one share of Acuity common stock to the historical NSI weighted average shares outstanding for the same period presented.

7. COMPREHENSIVE INCOME

The Company accounts for comprehensive income as prescribed by Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires the reporting of a measure of all changes in equity that result from recognized transactions and other economic events other than transactions with owners in their capacity as owners. Other comprehensive income (loss) for the three months ended November 30, 2001 and 2000 includes only foreign currency translation adjustments. The calculation of comprehensive income is as follows:

	Three Months Ended November 30	
	2001	2000
Net income	$ 11,534	$ 13,507
Other comprehensive loss	(552)	(2,518)
Comprehensive Income	$ 10,982	$ 10,989

8. STOCKHOLDERS' EQUITY

Upon completion of the Distribution on November 30, 2001, Acuity became an independent Company owned by the shareholders of NSI on record as of November 16, 2001. Prior to November 30, 2001, Acuity and the subsidiaries comprising the lighting equipment and chemicals businesses were wholly owned by NSI. Accordingly, prior to November 30, 2001, stockholders' equity was comprised of NSI's investment in these subsidiaries. Beginning on November 30, 2001 stockholders' equity reflects the outstanding stock, paid-in capital, and other stockholders' equity items of Acuity and its wholly owned subsidiaries.

Pursuant to the employee benefits agreement, NSI stock options held by Acuity's employees were converted to, and replaced by, Acuity stock options at the time of the Distribution. Acuity multiplied the number of shares purchasable under each converted stock option by a ratio determined at the time of the Distribution, based on the respective fair values of NSI and Acuity, and divided the exercise price per share of each option by the same ratio. Fractional shares were rounded down to the nearest whole number of shares. All other terms of the converted stock options remain the same as those in effect immediately prior to the Distribution. Accordingly, no compensation expense will result from the replacement of the options. At November 30, 2001, Acuity employees held 4,217,649 stock options with exercise prices ranging from $16.50 to $39.83.

At November 30, 2001, 231,280 shares of Acuity common stock are subject to restricted stock awards held by Acuity's officers and other key employees. The restricted shares are granted in 20 percent increments when the Company's stock price equals or exceeds certain stock price targets for thirty consecutive calendar days. The first stock price target was acheived and 40,380 shares were granted and outstanding at November 30, 2001. The granted shares vest ratably in four equal annual installments beginning one year from the date of grant. At the time of the Distribution and in accordance with the employee benefits agreement, each Acuity employee holding outstanding shares of NSI restricted stock received a dividend of one Acuity share for each NSI restricted share held. Acuity shares received as a dividend on NSI restricted stock (the previously referenced 40,380 shares) are subject to the same restrictions and terms, including vesting provisions of the NSI restricted stock.

9. SECURED BORROWINGS

In May 2001, NSI entered into a three-year agreement (the "Receivables Facility") to borrow, on an ongoing basis, up to $150.0 million secured by undivided interests in a defined pool of trade accounts receivable of the lighting equipment and chemicals segments. Effective November 30, 2001, Acuity assumed all of the outstanding borrowings and other obligations under the Receivables Facility. Net trade accounts receivable pledged as security for borrowings under the Receivables Facility totaled $220.5 million at November 30, 2001. Interest rates under the Receivables Facility vary with commercial paper rates plus an applicable margin.

10. ACQUISITION

In October 2001, Acuity acquired certain assets and assumed certain liabilities of the American Electric Lighting(R) and Dark-to-Light(R) product lines of the Thomas & Betts Corporation for approximately $26.4 million in cash. The preliminary allocation of the purchase price resulted in additional goodwill of approximately $3.1 million. The acquisition will provide the lighting equipment segment with scale in the utility and transportation infrastructure markets and will add breadth to the Company's current utility offerings in high-end decorative street and area lighting.

11. COMMITMENTS AND CONTINGENCIES

Litigation

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

Various legal claims are pending or may be instituted against NSI or its various operating subsidiaries. Because Acuity and its subsidiaries are separate corporations which did not engage in the activities giving rise to these legal claims, Acuity's management believes the risk that Acuity's assets could be subject to these claims and liabilities (except those claims and liabilities expressly assumed in the distribution agreement entered into in connection with the Spin-off) is remote.

Environmental Matters

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

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

Certain environmental laws can impose liability regardless of fault. The federal Superfund law is an example of such an environmental law. However, liability under Superfund is mitigated by the presence of other parties who will share in the costs associated with the clean-up of sites. The extent of liability is determined on a case-by-case basis taking into account many factors, including the number of other parties whose status or activities also subjects them to liability regardless of fault.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the combined financial statements and related notes.

SEPARATION FROM NATIONAL SERVICE INDUSTRIES, INC. (NSI)

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

These combined financial statements include the accounts of the former NSI businesses that comprise Acuity's lighting equipment and chemicals businesses. The lighting equipment segment produces and distributes a variety of fluorescent and non-fluorescent fixtures for markets throughout the United States, Canada, Mexico, and overseas. The chemicals segment produces and distributes maintenance, sanitation, and water treatment products for customers throughout the United States, Canada, and Western Europe.

Acuity's combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and reflect the historical financial position, results of operations, and cash flows of the businesses transferred to Acuity from NSI as part of the Distribution. The financial information included in this filing, however, is not necessarily indicative of what Acuity's results of operations or financial position would have been had it operated as an independent company during the periods presented, nor is it necessarily indicative of its future performance as an independent company.

All material intercompany transactions between the entities included in Acuity's combined financial statements have been eliminated. Acuity has been allocated certain NSI corporate assets, liabilities, and expenses based on an estimate of the proportion of such amounts allocable to Acuity, utilizing such factors as total revenues, employee headcount, and other relevant factors. Acuity believes these allocations have been made on a reasonable basis. Acuity believes all amounts allocated to Acuity are a reasonable representation of the costs that would have been incurred if Acuity had performed these functions as a stand-alone company.

In conjunction with the separation of their businesses, Acuity and NSI entered into various agreements that address the allocation of assets and liabilities and that define Acuity's relationship with NSI after the Distribution, including a distribution agreement, a tax disaffiliation agreement, an employee benefits agreement, a transition services agreement, a lease agreement, and a put option agreement.

RESULTS OF OPERATIONS

Acuity generated sales of $481.7 million in the three months ended November 30, 2001, a 4.2 percent decrease from $502.6 million in the previous year. Net income totaled $11.5 million for the three months ended November 30, 2001, a 14.6 percent decrease from last year's $13.5 million. First quarter pro forma earnings per share was $0.28 compared to $0.33 in the prior year, a decrease of 15.2 percent. The decline in earnings for the first quarter of fiscal 2002 was primarily due to lost contribution margin on lower sales caused by a weakening economy. This decline was partially offset by previously implemented cost containment programs, profit improvement initiatives, and the adoption of a new accounting standard that eliminated the amortization of goodwill and certain intangibles.

Lighting Equipment Segment

The lighting equipment segment reported sales of $364.1 million for the first quarter, a 3.5 percent decrease from the prior year. Excluding sales associated with the acquisition of the American Electric Lighting(R) and Dark-to-Light(R) product lines, which was completed in October 2001, sales would have declined 6.4 percent. In general, the drop in sales of the lighting segment was consistent with the declines experienced in many of the key lighting markets served by the Company as a result of overall softness in customer demand and price competition. Operating profit in the lighting segment was $24.9 million compared to $33.3 million in the prior year. The decline in operating profit was due to the lost contribution margin on the lower sales, increased medical and property insurance costs, and increased costs associated with strategic initiatives. These higher costs were partially offset by reduced costs resulting from numerous profit improvement initiatives including better material sourcing and improved manufacturing efficiency. Operating profit was not materially impacted in the quarter by the addition of the American Electric Lighting and Dark-to-Light product lines. Additionally, operating profit benefited by approximately $2.5 million in the first quarter of 2002 as a result of the adoption of a new accounting standard related to the amortization of goodwill and certain intangibles.

Chemicals Segment

Chemicals segment sales for the quarter were $117.6 million, down 6.1 percent from the prior year. Excluding prior year sales of the French and Australian operations, which were divested in the third quarter of fiscal 2001, sales were flat with the prior year. However, the Company was able to gain share in certain niche markets from greater penetration of its numerous product brands in spite of continued weak demand in various specialty chemical markets served by the Company. Operating profit increased 4.7 percent to $6.8 million. This increase was the result of divesting the French and Australian operations, which historically operated at a loss, and cost savings related to a sourcing initiative, hiring controls, delays in discretionary spending, and the elimination of approximately $0.4 million of goodwill amortization.

Corporate

Allocated corporate expenses declined $1.8 million from the prior year primarily due to lower compensation expense. Interest expense of $10.5 million was $2.3 million less than the prior year due to lower interest rates.

Outlook

Based on current market trends, management does not expect a strong economic recovery developing in the second half of the fiscal year as originally anticipated. As a consequence, sales for fiscal 2002 compared to 2001 could be down as much as five percent, especially in the lighting equipment segment, resulting in lost contribution margin and lower earnings. Accordingly, management lowered the full year earnings estimate to a range of $1.10 to $1.30 per share. Acuity will continue to aggressively pursue initiatives that are expected to reduce costs, improve customer service, increase manufacturing efficiency, reduce debt, and expand product offerings and brands in the market through a variety of channels.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Operations provided cash of $19.6 million during the first quarter of fiscal 2002 compared with $14.1 million during the respective period of the prior year. Fiscal 2002 operating cash flow was higher primarily as a result of improvements in inventory and accounts payable and accrued liabilities, partially offset by a greater investment in accounts receivable and the decrease in net income.

Investing Activities

Investing activities used cash of $30.7 million versus $7.8 million in the prior year. The change in investing cash flows related primarily to the acquisition of the American Electric Lighting and Dark-to-Light product lines offset somewhat by a decrease in purchases of property, plant, and equipment.

Capital expenditures totaled $8.9 million compared to $11.3 million in the first quarter of last year. Capital expenditures in the lighting equipment segment related primarily to manufacturing upgrades and improvements. In the chemicals segment, capital expenditures were associated with manufacturing and computer equipment.

Financing Activities

Cash provided by financing activities totaled $16.1 million in the current-year first quarter. The increase in cash provided by financing activities primarily resulted from an increase in cash provided by net borrowings of $27.5 million, partially offset by an increase in the cash used for the net activity with NSI of $11.4 million. Fiscal 2002 borrowings were used for general corporate purposes, including the acquisition of the American Electric Lighting and Dark-to-Light product lines, working capital requirements, and capital expenditures.

In October 2001, NSI, on behalf of Acuity, negotiated a $240.0 million, 364-day committed credit facility with six domestic and international banks that replaced NSI's $250.0 million credit facility on November 30, 2001. The facility includes an option for additional lenders to enter the agreement to provide up to a total of $300.0 million in commitments. The facility contains financial covenants including a leverage ratio of total indebtedness to EBITDA and an interest coverage ratio. Interest rates under the facility are based on the LIBOR rate or other rates, at Acuity's option. Acuity will pay an annual fee on the commitment based on Acuity's credit rating for unsecured long-term public debt. The principal lighting equipment subsidiary and the principal chemicals subsidiary are guarantors of the facility.

The Company's ongoing liquidity will depend upon a number of factors, including available cash resources, cash flows from operations, its ability to comply with covenants contained in its financing agreements, and the renewal or replacement of its 364-day committed credit facility when due. Although the Company is currently in compliance with the existing covenants, management anticipates that waivers of or modifications to certain covenants contained in the financing agreements may be required. In the event the Company is unsuccessful in negotiating these waivers or modifications, if necessary, or if management's expectations regarding any of the other factors enumerated above are not realized, the Company may be required to modify its planned business activities or restructure a portion of the existing debt on potentially less favorable terms.

Legal Proceedings

For information concerning legal proceedings, see footnote 11 to the financial statements included in this filing.

Environmental Matters

For information concerning environmental matters, see footnote 11 to the financial statements included in this filing.

Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rates- Interest rate fluctuations expose the Company's variable-rate debt to changes in interest expense and cash flows. The Company's variable-rate debt, primarily short-term secured borrowings and amounts outstanding under Acuity's credit line, amounted to $283.5 million at November 30, 2001. Based on outstanding borrowings at quarter end, a 10 percent adverse change in effective market interest rates at November 30, 2001 would result in additional annual after-tax interest expense of approximately $0.7 million. Although a fluctuation in interest rates would not affect interest expense or cash flows related to the publicly traded notes, the Company's primary fixed-rate debt, a 10 percent increase in effective market interest rates at November 30, 2001 would decrease the fair value of these notes to approximately $369.7 million.

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

Cautionary Statement Regarding Forward-Looking Information

This filing contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Consequently, actual results may differ materially from those indicated by the forward-looking statements. Statements made herein that may be considered forward looking include statements concerning: (a) management's expectations related to the development of an economic recovery in the second half of the fiscal year; (b) future sales, contribution margin, and earnings; (c) the impact on the Company's operations of initiatives that are expected to reduce costs, improve customer service, increase manufacturing efficiency, reduce debt, and expand product offerings and brands in the market through a variety of channels; and (d) potential future waivers of or modifications to certain covenants contained in the Company's financing arrangements and the impact on the Company's planned business activities, existing debt, or financing terms in the event the Company is unsuccessful in negotiating these waivers or modifications. A variety of risks and uncertainties could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties include without limitation the following: (a) the uncertainty of general business and economic conditions, including the potential for a more severe slowdown in non-residential construction, interest rate changes, and fluctuations in commodity and raw material prices or foreign currency rates; (b) unexpected developments and outcomes in the Company's legal and environmental proceedings; (c) the Company's ability to successfully negotiate waivers of or modifications to terms of its financing arrangements; (d) the impact of competition; (e) the risk that underlying assumptions or expectations related to the Distribution prove to be inaccurate or unrealized; and (f) the Company's ability to realize the anticipated benefits of initiatives related to increased productivity, new product development, technological advances, cost synergies, sourcing, decreases in net working capital, and the achievement of sales growth across the business segments.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information concerning legal proceedings, see footnote 11 to the financial statements included in this filing.

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

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits are listed on the Index to Exhibits (page 17).

(b) An 8-K was filed on December 14, 2001 related to the completion of the distribution of the common stock of Acuity Brands, Inc.

SIGNATURES

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

ACUITY BRANDS, INC.
REGISTRANT

DATE: January 14, 2002

/s/ Kenyon W. Murphy

KENYON W. MURPHY
SENIOR VICE PRESIDENT AND
GENERAL COUNSEL

DATE: January 14, 2002

/s/ Vernon Nagel

VERNON NAGEL
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

INDEX TO EXHIBITS

EXHIBIT 2	Agreement and Plan of Distribution by and between National Service Industries, Inc. and Acuity Brands, Inc., dated as of November 30, 2001.	Reference is made to Exhibit 2.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 3	(a) Restated Certificate of Incorporation of Acuity Brands, Inc.	Reference is made to Exhibit 3.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(b) Amended and Restated By-Laws of Acuity Brands, Inc.	Reference is made to Exhibit 3.2 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 4	(a) Form of certificate representing Acuity Brands, Inc. common stock.	Reference is made to Exhibit 4.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(b) Stockholder Protection Rights Agreement, dated as of November 12, 2001, between Acuity Brands, Inc. and Wells Fargo Bank Minnesota, N.A.	Reference is made to Exhibit 4.2 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 10(i)A	(1) Tax Disaffiliation Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.	Reference is made to Exhibit 10.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(2) Transition Services Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.	Reference is made to Exhibit 10.2 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(3) Agreement and Plan of Distribution.	Reference is made to Exhibit 2.1 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(4) Employee Benefits Agreement, by and between National Service Industries, Inc. and Acuity Brands, Inc., dated as of November 30, 2001.	Reference is made to Exhibit 10.4 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(5) Lease Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.	Reference is made to Exhibit 10.9 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(6) First Supplemental Indenture, dated as of October 23, 2001, to Indenture dated January 26, 1999, between National Service Industries, Inc., L&C Spinco, Inc., L&C Lighting Group, Inc., The Zep Group, Inc. and SunTrust Bank.	Reference is made to Exhibit 10.10 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

	(7)	Indenture dated as of January 26, 1999.	Reference is made to Exhibit 10.11 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 6, 2001, which is incorporated herein by reference.
	(8)	Form of 6% Note due 2009.	Reference is made to Exhibit 10.12 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 6, 2001, which is incorporated herein by reference.
	(9)	Form of 8.375% Note due August 1, 2010.	Reference is made to Exhibit 10.13 to Amendment No. 2 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 6, 2001, which is incorporated herein by reference.
	(10)	364-Day Revolving Credit Agreement, dated as of October 3, 2001, among L&C Spinco, Inc., the Subsidiary Borrowers from time to time parties thereto, the Lenders from time to time parties thereto, Bank One, N.A., as Administrative Agent, Wachovia Bank, N.A., as Syndication Agent and SunTrust Bank as Documentation Agent.	Reference is made to Exhibit 10.23 to Amendment No. 4 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on October 29, 2001, which is incorporated herein by reference.
	(11)	Put Option Agreement, dated as of November 30, 2001, by and between National Service Industries, Inc. and Acuity Brands, Inc.	Reference is made to Exhibit 10.24 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
EXHIBIT 10(iii)A	Management Contracts and Compensatory Arrangements:		
	(1)	Acuity Brands, Inc. Long-Term Incentive Plan.	Reference is made to Exhibit 10.5 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(2)	Acuity Brands, Inc. 2001 Nonemployee Directors' Stock Option Plan.	Reference is made to Exhibit 10.6 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
	(3)	Amendment No. 1 to Acuity Brands, Inc. Nonemployee Directors' Stock Option Plan, dated December 20, 2001.	Filed with the Commission as part of this Form 10-Q.
	(4)	Form of Indemnification Agreement.	Reference is made to Exhibit 10.7 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. with the Commission on July 3, 2001, which is incorporated herein by reference.

(5)	Form of Severance Protection Agreement.	Reference is made to Exhibit 10.8 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(6)	Acuity Brands, Inc. Supplemental Deferred Savings Plan.	Reference is made to Exhibit 10.14 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(7)	Acuity Brands, Inc. Executives' Deferred Compensation Plan.	Reference is made to Exhibit 10.15 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(8)	Acuity Brands, Inc. Senior Management Benefit Plan.	Reference is made to Exhibit 10.16 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(9)	Acuity Brands, Inc. Nonemployee Director Deferred Stock Unit Plan.	Reference is made to Exhibit 10.17 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(10)	Acuity Brands, Inc. Executive Benefits Trust.	Reference is made to Exhibit 10.18 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(11)	Acuity Brands, Inc. Supplemental Retirement Plan for Executives.	Reference is made to Exhibit 10.19 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(12)	Acuity Brands, Inc. Management Compensation and Incentive Plan.	Reference is made to Exhibit 10.20 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(13)	Acuity Brands, Inc. Benefits Protection Trust.	Reference is made to Exhibit 10.21 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(14)	Assumption Letter of Acuity Brands, Inc. with respect to Employment Letter Agreement between National Service Industries, Inc. and James S. Balloun.	Reference is made to Exhibit 10.22(a)(i) of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(15)	Employment Letter Agreement between National Service Industries, Inc. and James S. Balloun, dated February 1, 1996.	Reference is made to Exhibit 10(iii)A(2) of the Form 10-Q of National Service Industries, Inc. for the quarter ended November 30, 1997, which is incorporated herein by reference.

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(16)	Assumption Letter of Acuity Brands, Inc. with respect to Employment Letter Agreement between National Service Industries, Inc. and Joseph G. Parham, Jr.	Reference is made to Exhibit 10.22(b)(i) of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(17)	Employment Letter Agreement between National Service Industries, Inc. and Joseph G. Parham, Jr., dated May 3, 2000.	Reference is made to Exhibit 10(iii)A(2) of the Form 10-Q of National Service Industries, Inc. for the quarter ended May 31, 2000, which is incorporated herein by reference.
(18)	Assumption Letter of Acuity Brands, Inc., with respect to Employment Letter Agreement between National Service Industries, Inc. and James H. Heagle.	Reference is made to Exhibit 10.22(c) of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.
(19)	Employment Letter Agreement between National Service Industries, Inc. and James H. Heagle, dated March 28, 2000.	Reference is made to Exhibit 10.22(d) to Amendment No. 3 to the Registration Statement on Form 10, filed by L&C Spinco, Inc. on September 27, 2001, which is incorporated herein by reference.
(20)	Employment Letter Agreement between Acuity Brands, Inc. and Vernon J. Nagel, dated as of October 30, 2001.	Filed with the Commission as part of this Form 10-Q.
(21)	Form of Acuity Brands, Inc. Letter regarding bonuses.	Reference is made to Exhibit 10.25 of registrant's Form 8-K as filed with the Commission on December 14, 2001, which is incorporated herein by reference.

AMENDMENT NO. 1
TO
ACUITY BRANDS, INC. 2001 NONEMPLOYEE DIRECTORS' STOCK OPTION PLAN

THIS AMENDMENT made as of the 20th day of December, 2001, by ACUITY BRANDS, INC. (the "Company"):

W I T N E S S E T H

WHEREAS, the Company has previously established the Acuity Brands, Inc. 2001 Nonemployee Directors' Stock Option Plan ("Plan") to provide nonemployee directors an opportunity to purchase stock in the Company; and

WHEREAS, the Company now desires to amend the Plan in the manner provided below;

NOW, THEREFORE, the Plan is hereby amended as follows:

1.

Section 5 of the Plan is hereby amended by adding a new Section 5.3 as provided below and renumbering current Sections 5.3 through 5.9 as Sections 5.4 through 5.10:

"5.3 Discretionary Grant. The Board (or a Committee designated for such purpose by the Board) may from time to time grant Options to Nonemployee Directors in addition to those provided for in Sections 5.1 and 5.2 above. The Board (or a Committee of the Board) shall have the sole discretion to determine whether to grant such Options and the number of Options to grant a Nonemployee Director. The purchase price for the Shares under each Option granted under this Section 5.3 shall be not less than 100% of the Fair Market Value of a Share on the date the Option is granted. Unless otherwise provided in the Option Agreement, the terms of such Options shall follow the general terms of the Plan. The Board (or Committee) may in making a discretionary grant pursuant to this Section 5.3 combine such grant with a grant under Sections 5.1 and 5.2 above and issue such grant pursuant to a single Option Agreement."

2.

This Amendment No. 1 shall be effective as of the date hereof. Except as hereby modified, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to be executed by its duly authorized officer as of the date first above written.

ACUITY BRANDS, INC.

By: /s/James S. Balloun

Exhibit 10(iii)A(20)

October 30, 2001

Mr. Vernon J. Nagel
36 Islanders Retreat
Savannah, Georgia 31411

Dear Vern:

This letter will confirm the terms of your employment by L & C Spinco, Inc. ("Spinco"), effective November 15, 2001 (the "Effective Date"). We are enthusiastic about your decision to join Spinco and look forward to working with you to build a bigger, stronger Spinco.

The terms of your employment, which are subject, of course, to approval by our Executive Resource and Nominating Committee and the Board of Directors (or its Executive Committee) and satisfactory completion of Spinco's normal pre-employment screening procedures, will be as follows:

1. Title and Duties - As Executive Vice President and Chief Financial Officer, you will be an executive officer of Spinco reporting to the Chairman, President, and Chief Executive Officer of Spinco. You will have responsibilities commensurate with the position of Chief Financial Officer of Spinco and its businesses and any other duties consistent with your position which may be assigned to you by the Chairman, President, and Chief Executive Officer of Spinco. You will devote substantially all of your working time and attention to the business and affairs of Spinco.

2. Base Salary - Your base salary for the fiscal year ending August 31, 2002 ("Fiscal 2002") will be at an annual rate of Three Hundred Fifty-Seven Thousand Two Hundred Dollars ($357,200). Thereafter, your base salary will be subject to annual review for increases at such time as Spinco conducts salary reviews for executive officers generally. In addition, you will receive a signing bonus of One Hundred Thousand Dollars ($100,000), subject to withholding of applicable taxes, payable within thirty (30) days after the Effective Date.

3. Annual Incentive Compensation - You will participate in the Spinco Management Compensation and Incentive Plan (the "MCIP") for Fiscal 2002 with a target bonus equal to 45% of your base salary and a maximum bonus of 90% of base salary (or higher at the discretion of the Executive Committee of the Board of Directors). The bonus will be prorated for the number of days during Fiscal 2002 that you were employed.

4. Long-Term Incentive Plan - You will receive a grant of employee stock options under Spinco's Long-Term Incentive Plan for the greater of (i) one hundred sixty thousand (160,000) shares of stock or (ii) twice the number of shares of stock for which you would be eligible under the current plan formula. The grant will be made as soon as practicable after the Effective Date and no later than December 21, 2001 and the grant price will be the fair market value of the stock on the grant date. The option will vest monthly over a three-year period (1/36 per month) commencing one month after the grant date and will become 100% vested on the third anniversary of the grant date. The option will be exercisable in accordance with the customary terms of the Long-Term Incentive Plan. You will not be eligible to receive any additional grants or awards under the Long-Term Incentive Plan for two years (i.e. until grants and awards for the 2004 fiscal year are made), unless otherwise granted by the Executive Committee of the Board of Directors.

5. Retirement Plans - Upon satisfying the eligibility requirements, you will be eligible to participate in Spinco's tax-qualified retirement plans, Spinco Pension Plan C and the Spinco 401(k) Plan for Corporate Office Employees. In addition, upon employment, you will become a participant in the Supplemental Retirement Plan for Executives of Spinco (the "SERP"). Your benefits under the SERP will be determined pursuant to the standard terms of the SERP.

6. Deferred Compensation Plans - You will be eligible to participate immediately in the Spinco Executives' Deferred Compensation Plan (the "EDCP") and the Spinco Supplemental Deferred Savings Plan (the "SDSP"). Under the EDCP, you will initially be able to defer up to $2500 from your annual bonus; the deferred amount is matched by Spinco and bears interest at a variable rate, currently the prime rate less two percentage points. Under the SDSP, you may defer up to 50% of your annual cash compensation, and your deferral earns interest at the prime rate. (As an executive officer with eligibility for the SERP, you will not be eligible to receive the company contribution or match under the SDSP.)

7. Medical, Life Insurance, and Other Employee Benefits - You will be eligible to participate in the medical, dental, life insurance, disability, and other benefit programs generally made available by Spinco to its executive officers and their families. We will reimburse you for your COBRA expenses (if you have them) until you are covered under our program. In addition, you will be entitled to four (4) weeks vacation per calendar year.

8. Relocation Expenses - Spinco will pay the following relocation expenses:

a) Rent and related temporary living expenses in Atlanta for a period of up to one year from the Effective Date pending your relocation to Atlanta;

b) Travel expenses to and from Atlanta from your current residence for a period of up to one year pending your relocation;

c) The expenses provided for in this section shall not exceed $42,000 for the year, provided that to the extent any such amounts are included in your gross income, Spinco will provide you an appropriate tax gross-up.

9. Employment at Will/Severance Payment/Change in Control - Your employment will be at will and may be terminated by either Spinco or you at any time for any reason, with or without notice. Except in the event of termination in connection with a Change in Control of Spinco (as defined in the Severance Protection Agreement that will cover you), you will be entitled to the following severance payment if your employment is terminated for any reason other than voluntary termination (including early or normal retirement), termination upon death or Disability (as defined below), or termination by Spinco for Cause (as defined below): you will receive a severance payment (payable in semi-monthly installments) equal to your then current base salary for a period of twelve (12) months, subject to your execution of a release and severance agreement in a form acceptable to both parties.

For purposes of entitlement to a severance benefit, "Cause" shall mean any act(s) on your part that constitutes fraud, a felony involving dishonesty, a breach of fiduciary duty, insubordination, or gross malfeasance or habitual neglect of your duties for Spinco, and "Disability" shall mean a physical or mental infirmity which impairs your ability to substantially perform your duties as Executive Vice President and Chief Financial Officer with or without reasonable accommodation for a period of one hundred eighty (180) consecutive days.

With respect to Change in Control situations, you will be covered by a Severance Protection Agreement with the same provisions as are applicable to Spinco's executive officers generally. In the event of your termination in connection with a Change in Control that entitles you to benefits under the Severance Protection Agreement, you will receive the greater of the payments and benefits provided under the Severance Protection Agreement or the severance payments described above.

The base salary, annual incentive, long-term incentives, nonqualified retirement benefits, and any severance payments will be structured to ensure the tax deductibility to Spinco of the payments and benefits under the Internal Revenue Code of 1986.

We are delighted you are joining Spinco and we look forward to a long and mutually satisfactory relationship. This letter outlines your employment relationship with Spinco; if you agree with the employment terms as outlined above, please sign and date both copies of this letter agreement and return one copy to me at your earliest convenience.

Sincerely,

/s/ James S. Balloun

James S. Balloun

ACCEPTED AND AGREED TO THIS
30th DAY OF OCTOBER, 2001.

/s/ Vernon J. Nagel
- -----------------------------------
Vernon J. Nagel