



NATIONAL LINEN SERVICE

National Linen Service is one of the largest multi-service textile rental suppliers in the U.S., serving dining and food service, healthcare, lodging and country club, and facility service customers.

**MAJOR PRODUCTS:** Napkins, table and bed linens, bath towels, bar and shop towels, blankets, mats, mops, scrubs, and operating room garments.



ATLANTIC ENVELOPE

Atlantic Envelope Company is the third largest U.S. producer of custom printed envelopes, serving energy, finance, direct mail, transportation, and package delivery customers.

**MAJOR PRODUCTS:** Custom business envelopes, courier packages, and specialty filing products.

National Service Industries, Inc. (NYSE: NSI), with roots traceable to 1893, is a growth-oriented, diversified industrial company that, as of November 30, 2001, operates in two segments: textile rental and envelopes. The textile rental segment, National Linen Service, is one of the largest multi-service textile rental companies in the U.S. The envelope segment, Atlantic Envelope Company, ranks third in the custom printed envelope market in the U.S. Prior to November 30, 2001, NSI also included a lighting equipment segment and a chemicals segment. As will be described in further detail in this report, these latter two segments were spun off, as of November 30, 2001, to NSI's shareholders as a new, publicly held, NYSE-listed company called Acuity Brands, Inc. The lighting equipment and chemicals segments are classified in the accompanying financial statements as discontinued operations.



**Brock Hattox**

*Chairman,  
Chief Executive Officer & President*

For NSI, fiscal year 2001 was a year of transitions. In June, our board of directors made the decision to pursue a spin-off of our lighting equipment and chemicals businesses into a new company via a tax-free dividend to our shareholders. With this transition complete, NSI is now positioned to begin a new era of stability and profitable growth with the time-tested strengths of National Linen Service and Atlantic Envelope Company.

Jim Balloun, NSI's chairman, president, and chief executive officer since 1996, has become chairman, president, and chief executive officer of the new company, Acuity Brands, Inc. I consider it a great honor to have been asked to succeed him as chairman, chief executive officer and president of NSI. The six years I have been with the company as chief financial officer have been extremely gratifying, and I am now very excited to be leading this company as it turns another page in its history.

With the spin-off now complete, our goal for the next year is to make customer and employee relationship-building our top priority. It is my belief that, with all of our employees engaged in building extraordinary customer service and business relationships, NSI will have many years of consistent, steady, and profitable growth, thereby placing our businesses as top performers in their respective markets.

### **Financial Report**

For fiscal 2001, NSI's continuing operations generated a 3 percent increase in revenue to \$563 million and incurred a net loss of \$15 million, or \$.37 per share. Like many companies, we felt the negative impact of the weakening economy. In addition, we took actions resulting in charges that will position us for future growth.

For the past fiscal year, both of our continuing businesses generated modest revenue growth. National Linen Service's revenue increased 4.1 percent to \$335 million while Atlantic Envelope Company's revenue increased 1.5 percent to \$229 million. On the

other hand, profitability in both businesses declined due to poor economic conditions and restructuring expenses. National Linen Service's operating profit totaled \$13 million, down \$16 million from the prior year. Atlantic Envelope Company incurred an operating loss of \$13 million, down \$18 million from the prior year. Both businesses' operating profits were negatively impacted by a total of \$10 million in restructuring expense, asset impairment, and other charges. While these charges were necessary, both of our businesses are better prepared to meet the near-term challenges of a stagnant economy.

NSI's profitability was also negatively impacted by \$16 million of corporate charges largely related to an increased allocated share of asbestos-related settlements (previously reached by the Center for Claims Resolution on behalf of its members) for which insurance coverage is uncertain.

All in all, last year's \$15 million net loss from continuing operations was disappointing. However, I believe these two businesses, both of which generate positive cash flow, are well positioned to capitalize on a recovering economy. Both companies have impressive strengths in their customer relationships and sales staffs that set the standard in their industries. It is in this area that NSI and its companies hold a strategic advantage.

### **National Linen Service**

National Linen Service is a well-recognized brand name with more than 50,000 customers and 80 years of customer service experience. Any business

with this foundation would be formidable; however, the real strength of the company is in its people and organization. With 6,400 associates, the company has a large, professional sales force with a notable depth of customer contacts, knowledge, tools, training, and experience. It has an extensive customer service infrastructure, local and regional operations and production staffs, experienced route drivers, and a variety of tools and systems that generate sales and maximize customer value.

These strengths enable National Linen Service to attract and retain new business in the face of start-up competition and a difficult economy. In fact, in 2001 the company experienced its third straight year of business growth because of its continuously improving selling processes, improved service levels, and service consistency. It should be no surprise that National Linen Service has the highest customer retention rates in the industry.

Over the next year, this company will take its success to an even higher level by refocusing around specific geographic end users, differentiating service levels to capitalize on growth opportunities, and improving facility operations beyond normal industry standards. The company's investments in staff recruitment, development, and training have paid off handsomely, and we expect that they will continue to do so for many years to come.

National Linen Service President Richard LeBer and his staff have built a solid brand, and I am confident in the future of this company, its value, its staff, and its potential for steady, profitable growth.

### Atlantic Envelope Company

Atlantic Envelope Company (AECO) has similar strengths in its systems and its associates. Established in 1893, it enjoys a leading position in the envelope manufacturing industry. From its headquarters in Atlanta, AECO serves more than 3,200 customers and employs a stable and committed workforce of approximately 1,200 associates.

Over the last three years, AECO has invested heavily in new plants and equipment and has enhanced its capacity, product quality, and service capabilities. It can custom manufacture a broad range of envelope products for nearly every conceivable use and industry.

The company will soon complete its enterprise resource planning system and is well on the way to implementing a Q6 Quality Improvement Program. Over the last year, it has gained efficiencies by consolidating its operations on the West Coast and in the Southeast, and it has made significant investments in new flexographic processes that create real value for customers in the direct mail and marketing industries.

AECO President Randy Zook and his solid and experienced staff are well positioned to capitalize on growth in this industry, and I am certain that this company will play a major role in NSI's profitable growth.

### The Next Year

With the recent spin-off of Acuity Brands, we have separated from many long time friends both on the board and throughout the company. I want to extend my personal thanks to board members Tom Gallagher, Roy Richards, Kathy White, and Barrie Wigmore, who have left the board. Their insights and contributions have been invaluable.

Bud Baker, Peter Browning, John Clendenin, Ray Robinson, and Neil Williams will be moving over to the Acuity Brands board of directors. Betty Siegel will remain on the NSI board, and Dennis Beresford, John Cay, Don Chapman, Joia Johnson, and Michael Kay will join her. I am excited to be working with this new board of directors. With their support, along with the support of all our employees, NSI will be positioned for long-term success.

In summary, our strategy for the next year will be to focus on strengthening relationships with our customers and employees. We will continue controlling costs to enable NSI to improve margins, deliver consistent profitable growth, and increase shareholder value. I am confident that we will demonstrate this to you in 2002 and continue to earn your trust and ownership.



**Brock Hattox**

*Chairman, Chief Executive Officer & President*

## Revenue from Continuing Operations

In millions of dollars

1999	\$ 514
2000	\$ 547
2001	\$ 563

## Net Income (Loss) from Continuing Operations\*

In millions of dollars

1999	\$ 34.9
2000	\$ 17.1
2001	\$ (15.3)

## Earnings Per Share from Continuing Operations\*

In dollars

1999	\$ .85
2000	\$ .42
2001	\$ (.37)

\*The 1999 financial results include \$9,291 of pretax gains from the reversal of a prior year's restructuring expense and asset impairment charges and \$11,220 from pretax gains on the sale of businesses. Included in the 2001 results were \$26,073 of pretax restructuring expense, asset impairment, and other charges and \$2,359 of pretax gains from the sale of businesses.

## FOR THE YEAR *In thousands, where applicable*

	2001	2000
<b>Continuing Operations</b>		
Revenue	\$ 563,282	\$ 546,712
Pretax restructuring expense, asset impairment, and other charges	(26,073)	—
Pretax operating (loss) profit	(24,271)	27,897
Net (loss) income	(15,291)	17,073
(Loss) earnings per share (diluted)	(.37)	.42
Dividends paid	54,450	53,357
Capital expenditures	23,053	45,485
Depreciation and amortization	\$ 27,633	\$ 25,227
Diluted weighted average number of shares	41,068	40,727

## AT YEAR ENDED *In thousands, where applicable*

	2001	2000
<b>Continuing Operations</b>		
Working capital	\$ 87,721	\$ 65,686
Working capital as a percentage of revenue	16%	12%
Total debt	5,000	5,000
Total debt as a percentage of total capitalization	1%	1%
Shareholders' equity	662,628	681,210
Net book value per share	15.66	16.37
Total assets	\$ 498,098	\$ 398,904
Number of employees	7,700	7,500

*National Linen Service (National Linen), established in 1919, is a full-service linen company. Following the divestiture of its industrial and uniform business in 1997, National Linen refocused itself as a total linen solution services company primarily for the dining and food service, healthcare, lodging and country club, and facility service markets. Spearheaded by new management over the last four years, National Linen has emerged as a revitalized company, poised for growth. Among the major actions of National Linen during this period were significant investments in people, equipment, and processes, as well as strategic acquisitions to add to its competitive capabilities. These activities have resulted in improved service and increased growth.*

*Today National Linen is one of the largest multi-service textile rental companies in the U.S. Headquartered in Atlanta, Georgia, it serves over 50,000 customers in 22 states from approximately 60 locations and employs over 6,400 associates. Its lines of business consist of:*

#### **Dining and Food Service**

Provides fine dining, casual dining, chain restaurant, and food service customers with table linens, napkins, chef coats, bib aprons, and bar towels on a rental basis.

#### **Healthcare**

Provides hospitals, nursing homes, clinics, and professional offices with bath towels, hand towels, sheets, pillow cases, robes, gowns, baby linens, operating room packs and garments, scrubs, and incontinence pads. Most healthcare customers rent the use of processed linens. Some provide their own linens and pay for processing service only.

#### **Lodging and Country Club**

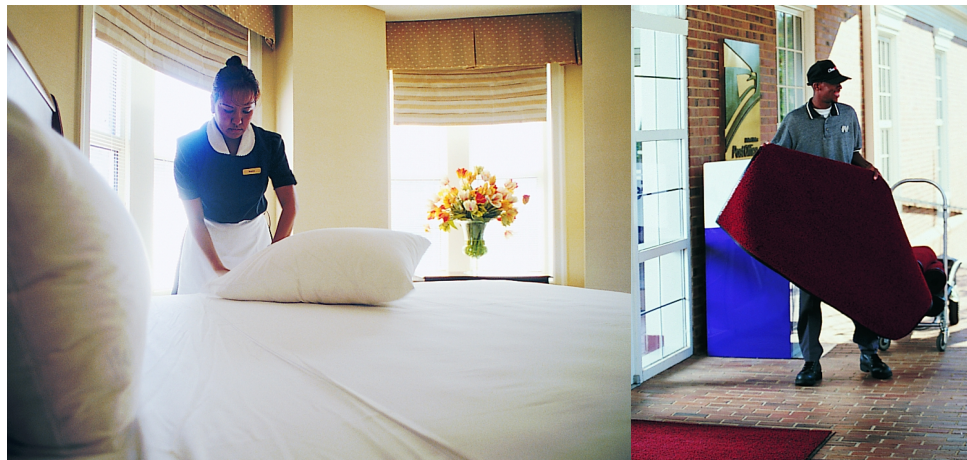
Provides hotels, lodging facilities, and hospitality customers with terry cloth towels, washcloths, bed linens, table linens, and other dining products. Most of these customers rent the use of processed linens. However, as with healthcare customers, some of these clients pay for the processing service only.

#### **Facility Service**

Provides customers with logo mats, walk-off mats, scraper mats, specialty mats, buffing pads, dry mops, wet mops, cloth restroom roll towels, soaps, deodorizers, shop towels, and gloves. Reusable products are generally provided on a rental basis. Other products are sold.



NATIONAL LINEN SERVICE



**As one of the largest multi-service textile rental companies in the U.S., National Linen's products and services are visible in almost every facet of people's lives.**







# National Linen Service

## Revenue

In millions of dollars

1999	\$ 309.1
2000	\$ 321.5
2001	\$ 334.8

## Operating Profit\*

In millions of dollars

1999	\$ 42.9
2000	\$ 28.2
2001	\$ 12.6

\*The 1999 financial results include \$9,291 of pretax gains from the reversal of a prior year's restructuring expense and asset impairment charges and \$9,230 from pretax gains on the sale of businesses. Included in the 2001 results were \$1,667 of pretax restructuring expense, asset impairment, and other charges and \$2,359 of pretax gains from the sale of businesses.



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National Linen has a unique set of competitive advantages in its industry. It enjoys a strong and well-recognized brand name, built on 80 years of customer service. The business has long-standing customer relationships with many of the most prestigious customers in each of its markets. It has a large and professional sales force, with a depth of customer contacts, knowledge, tools, training, and experience. National Linen has an extensive customer service infrastructure that includes industry specialists, local and regional service professionals, and a variety of tools and systems to help customers maximize the value of National Linen's service. It has a broad and flexible service network, backed by a commitment to investment and the development of outstanding operational processes and systems. National Linen has the scale necessary to support ongoing investments, especially with functional and customer segment specialists. Its workforce is committed, capable, and well-trained.

These advantages enable National Linen to attract and retain business in the face of competition, provide consistent quality service across its network, and provide tailored and value-added service. Based on its advantaged position, National Linen is also able to attract and develop outstanding people, invest to improve its service quality and reduce costs, and continue to develop new ways to add value to its customer relationships.

National Linen's products range from table linens and bath towels to operating room garments, specialty mats, and mops.



NATIONAL LINEN SERVICE

*Atlantic Envelope Company (AECO), established in 1893, is a technology leader in the envelope manufacturing industry, specializing in custom printed envelope products for various types of business communications. Headquartered in Atlanta, Georgia, AECO has eight facilities across the U.S. located in Atlanta, Charlotte, Fordyce (Arkansas), Houston, Louisville, Nashville, Philadelphia, and San Francisco. It serves over 3,200 customers and employs approximately 1,200 associates.*

*AECO manufactures a broad range of envelope products including expansions, jumbos, open ends, booklets, and credit card sleeves. Its filing division offers presentation and classification folders, specialty mailers, index sets, binders, color-coded tabs, and filing equipment. As a custom manufacturer of envelope products, AECO offers products and services including:*

## **Innovative Printing Technologies**

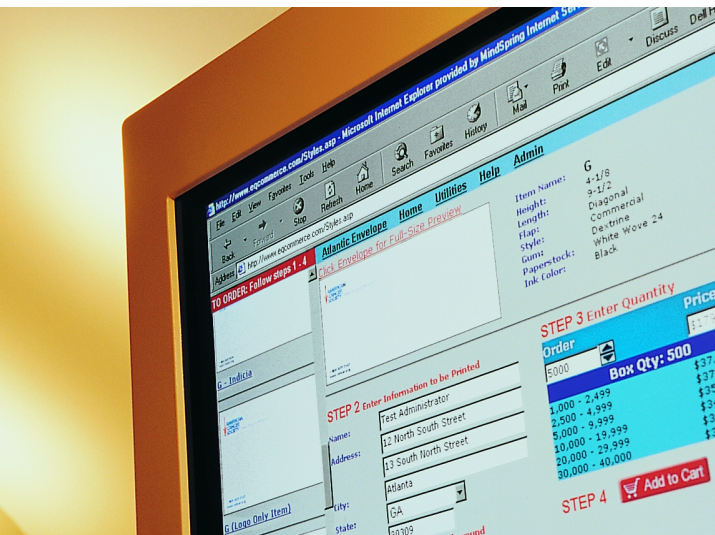
AECO features total flexibility in the printing of envelope products. AECO offers state-of-the-art printing technologies including flat sheet lithography, offset process printing, and inline process flexographic printing.

## **Specialty Products**

Each AECO customer has specific needs. For this reason, AECO maintains a library of more than 10,000 envelope and window dies. AECO's variety of dies and tooling allows for quick response and extreme flexibility in manufacturing its customers' specialty products. Some of the unique products AECO manufactures include features such as multiple or odd-shaped windows, string and button, Velcro®, specialty closures, pull tabs, attachments, patch pockets, custom paper stocks, Tyvek®, and expansion gussets. AECO also offers a reusable envelope product called Full Circle®, which allows companies to use one envelope versus two for billing applications. Additionally, AECO manufactures a rigid expansion mailer called Boxpak™. Various sizes and styles of Full Circle® and Boxpak™ are available.

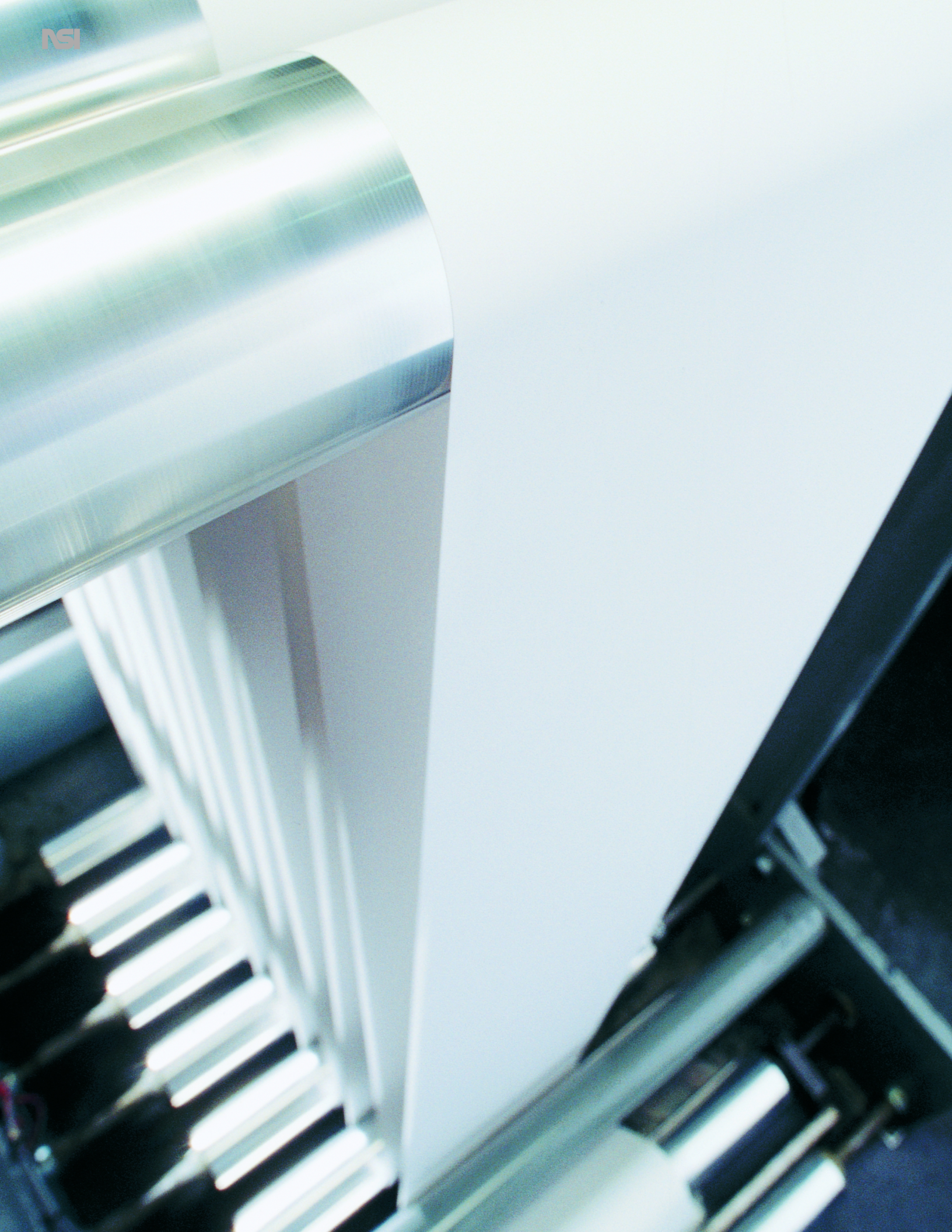
## **E-Commerce for Envelopes**

AECO offers easy and quick online ordering options for customers. Capabilities include custom Web page design and Internet catalogs, electronic data interchange connectivity, B2B marketplace trading, and electronic funds transfer. This broad capability enables AECO to provide its customers with electronic interface solutions for their business needs.



**AECO's e-commerce solution provides its customers with quick and easy online ordering options for numerous products.**





**Revenue**

*In millions of dollars*

1999	\$ 204.5
2000	\$ 225.2
2001	\$ 228.5

**Operating Profit\***

*In millions of dollars*

1999	\$ 17.7
2000	\$ 5.1
2001	\$ (13.1)

\*The 1999 financial results include \$1,990 from pretax gains on the sale of businesses. Included in the 2001 results were \$8,290 of pretax restructuring expense, asset impairment, and other charges.

AECO serves customers in a variety of industries including the financial trade, insurance, direct mail, package express, manufacturing, utility, credit information, nonprofit, publishing, and entertainment groups. AECO currently supports courier, transactional, and direct mail markets focusing on growth opportunities in the direct mail segment. Nationally, AECO ranks third in size (based on gross revenue) in the custom printed envelope segment.

AECO's continued growth strategy incorporates the acquisition of high-speed printing and converting equipment. Over the last three years, AECO has invested heavily in new plant and equipment to enhance its capacity, product quality, and service capabilities. Its state-of-the-art facilities are ready to support and service increased penetration into Fortune 1000 companies looking for direct mail printing and manufacturing expertise.

One of AECO's competitive advantages is its highly tailored customer service. AECO serves its customers by providing quality products, highly responsive service, and on-time delivery. AECO offers a broad range of innovative envelopes and filing products through advanced customer service technology including electronic data interchange as well as wireless and Internet access to customer information. Moreover, AECO adds value to products and services through partnerships with customers in an effort to help them achieve their business goals and objectives.



AECO provides innovative solutions for bill processing customers.



**Board of Directors**

**Brock A. Hattox**  
*Chairman, Chief Executive Officer and President of National Service Industries, Inc.*

**Dennis R. Beresford**  
*Ernst & Young Executive Professor of Accounting at the University of Georgia; Former Chairman of the Financial Accounting Standards Board*

**John E. Cay, III**  
*Chairman and Chief Executive Officer of Palmer & Cay, Inc.*

**Don L. Chapman**  
*Chairman and Chief Executive Officer of Tug Investment Corporation*

**Joia M. Johnson**  
*Executive Vice President and General Counsel of RARE Hospitality International, Inc.*

**Michael Z. Kay**  
*Retired President and Chief Executive Officer of Sky Chefs, Inc.; Current Chairman of the Board of Magnatrx Corporation*

**Betty L. Siegel**  
*President of Kennesaw State University*

**Committees****Audit**

**Dennis R. Beresford**  
*Chairman*

**Joia M. Johnson**

**John E. Cay, III**

**Compensation**

**Michael Z. Kay**  
*Chairman*

**Betty L. Siegel**

**Don L. Chapman**

**Executive and Nominating**

**Brock A. Hattox**

**Dennis R. Beresford**

**Michael Z. Kay**

**Don L. Chapman**

**Executive Officers**

**Chester J. (Chet) Popkowski**  
*Senior Vice President, Chief Financial Officer, and Treasurer*

**Carol Ellis Morgan**  
*Senior Vice President, General Counsel, and Secretary*

**Richard W. LeBer**  
*Executive Vice President of National Service Industries, Inc.; President of National Linen Service*

**J. Randolph (Randy) Zook**  
*Executive Vice President of National Service Industries, Inc.; President of Atlantic Envelope Company*

**Corporate Headquarters**

NSI Center  
1420 Peachtree Street, N.E.  
Atlanta, Georgia 30309-3002  
(404) 853-1000  
www.nationalservice.com

**National Linen Service**

1420 Peachtree Street, N.E.  
Atlanta, Georgia 30309-3002  
(404) 853-6000 or (800) 225-4636  
www.national-linen.com

**Atlantic Envelope Company**

1420 Peachtree Street, N.E.  
Atlanta, Georgia 30309-3002  
(404) 853-6000  
www.atlanticenvelope.com

**Independent Public Accountants**

Arthur Andersen LLP  
133 Peachtree Street, N.E., Suite 2500  
Atlanta, Georgia 30303-1846  
(404) 658-1776

**Annual Meeting**

10:00 a.m., Thursday, January 3, 2002  
Renaissance Waverly Hotel  
Chambers Auditorium  
2450 Galleria Parkway  
Atlanta, Georgia 30339-3177

**Reports Available to Shareholders**

Copies of the following company reports may be obtained, without charge:  
2001 Annual Report to the Securities and Exchange Commission, filed on Form 10-K; and Quarterly Reports to the Securities and Exchange Commission, filed on Form 10-Q.

**Requests Should be Directed to:**

National Service Industries, Inc.  
NSI Center  
Attention: Investor Relations  
1420 Peachtree Street, N.E.  
Atlanta, Georgia 30309-3002  
(404) 853-1228

**Stock Listing**

New York Stock Exchange  
Ticker symbol: NSI

**Transfer Agent and Registrar**

Questions about shareholder accounts, dividend checks, lost stock certificates, registration changes, and address changes should be directed to:

EquiServe Trust Company, N.A.  
NSI Shareholder Services  
P.O. Box 2500  
Jersey City, New Jersey 07303-2500  
1-877-DIAL-NSI (1-877-342-5674)  
www.equiserve.com

**DirectSERVICE Investment Program**

NSI's transfer agent, EquiServe, offers a direct investment program for investors wishing to purchase NSI common stock. Dividends can be automatically reinvested. This plan is available to both present shareholders of record as well as to individual investors wishing to make an initial purchase of NSI common stock. This program is not sponsored or administered by NSI.

DirectSERVICE Investment Program — NSI  
c/o EquiServe  
P.O. Box 2598  
Jersey City, New Jersey 07303-2598

Shareholder customer service:  
1-877-DIAL-NSI (1-877-342-5674)

Non-shareholders requesting program material:  
1-888-836-5069

**Account Access**

Shareholders can access their account information on the Internet through the Web site of NSI's transfer agent, EquiServe, at www.equiserve.com. Shareholders can securely view their account information and check their holdings 24 hours a day.

**Cash Dividends**

NSI offers direct deposit of dividends to bank, savings, or money market accounts. For more information, contact the transfer agent at 1-877-342-5674.

**Shareholders of Record**

The number of shareholders of record holding NSI common stock was 5,581 as of November 7, 2001.

**Forward-Looking Statements**

This annual report includes forward-looking statements regarding: (a) future revenues and earnings and (b) plans for fiscal year 2002 in each of the company's business segments. A variety of factors could cause actual results and experiences to differ materially from the anticipated results or other expectations expressed in the company's forward-looking statements, including without limitation: (a) the uncertainty of general business and economic conditions; (b) the level of success of strategic initiatives; and (c) the successful completion of changes to manufacturing operations.

*National Linen Service wishes to thank the following clients who graciously allowed photography of their facilities for our annual report: Buckhead Life Restaurant Group, The Georgian Terrace, Healthsouth Lakeshore Rehabilitation Center, and the United States Postal Service. Atlantic Envelope Company extends its thanks to Total System Services. Tyvek® is the registered trademark of E.I. du Pont de Nemours and Company. Velcro® is the registered trademark of Velcro Industries, B.V., Limited Liability Company.*

*Design: Burney Design, Raleigh, North Carolina. Photography: Phillip Spears, Atlanta, Georgia. Printing: Cadmus Communications, Charlotte, North Carolina.*