

NATIONAL SERVICE INDUSTRIES INC
Form DEFM14A
May 14, 2003

SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
|--|--|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission
(as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material under Rule 14a-12 | |

National Service Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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\$9,116

[] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

(NSI LOGO)

May 14, 2003

Dear Stockholder:

You are cordially invited to attend a special meeting of stockholders of National Service Industries, Inc., or NSI, to be held at 10:00 a.m. on Tuesday, June 3, 2003, at the offices of King & Spalding LLP, 191 Peachtree St., 50th Floor, Atlanta, Georgia. At the special meeting, you will be asked to consider and vote upon a proposal to adopt and approve the Agreement and Plan of Merger, dated as of April 1, 2003, which provides for the merger of NS Acquisition Corp., an affiliate of California Investment Fund, LLC, with and into NSI. NSI will be the surviving corporation following the merger. If the merger is completed, each outstanding share of NSI common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost) will be converted into the right to receive \$10.00 in cash, without interest. You should carefully read the merger agreement, a copy of which is attached as Annex A to

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the accompanying proxy statement. The affirmative vote of holders of a majority of the shares of NSI common stock outstanding as of April 17, 2003, the record date for the special meeting, is necessary to approve the merger agreement and the merger.

Our board of directors unanimously recommends to our stockholders that the merger agreement be adopted and approved. Among the factors considered by our board of directors in evaluating the merger agreement was the opinion dated April 1, 2003, of SunTrust Robinson Humphrey, NSI's financial advisor, which provides that, as of that date, the consideration to be received by holders of NSI common stock in the merger was fair from a financial point of view to our stockholders. The written opinion of SunTrust Robinson Humphrey is attached as Annex B to the accompanying proxy statement and should be read carefully and in its entirety.

You have the right under Delaware law to demand an appraisal of your shares and to have a judicial determination of the fair value of your shares. We have described these appraisal rights in detail in the accompanying proxy statement. You should carefully read the relevant sections of the proxy statement and the statutory provisions, attached to the accompanying proxy statement as Annex C.

OUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND THE MERGER AND DETERMINED THAT THE MERGER AGREEMENT AND MERGER ARE ADVISABLE AND FAIR TO AND IN THE BEST INTERESTS OF OUR STOCKHOLDERS, AND ACCORDINGLY UNANIMOUSLY RECOMMENDS THAT OUR STOCKHOLDERS VOTE TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE MERGER.

The accompanying proxy statement provides you with a summary of the merger agreement and the merger and additional information about the parties involved and their interests. If the merger agreement and the merger are approved by the requisite holders of NSI common stock, the closing of the merger will occur as soon as practicable after the special meeting and all of the other conditions to the closing of the merger are satisfied or waived.

PLEASE GIVE ALL OF THIS INFORMATION YOUR CAREFUL ATTENTION. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, YOU ARE REQUESTED TO PROMPTLY COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENVELOPE PROVIDED, OR VOTE BY INTERNET OR PHONE, AS EXPLAINED IN THE ACCOMPANYING PROXY STATEMENT. THIS WILL NOT PREVENT YOU FROM VOTING YOUR SHARES IN PERSON IF YOU SUBSEQUENTLY CHOOSE TO ATTEND THE SPECIAL MEETING.

We thank you for your continued interest and support of our company.

Sincerely,

/s/ Brock A. Hattox

Brock A. Hattox
Chairman, Chief Executive Officer
and President

(NSI LOGO)

NATIONAL SERVICE INDUSTRIES, INC.
SUITE 200
1420 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30309-3002

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

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TO BE HELD ON JUNE 3, 2003

We will hold a special meeting of stockholders of NATIONAL SERVICE INDUSTRIES, INC. ("we", "us", or "NSI") on June 3, 2003, at 10:00 a.m. at the offices of King & Spalding LLP, 191 Peachtree Street, 50th Floor, Atlanta, Georgia for the following purposes:

(1) to adopt and approve the Agreement and Plan of Merger, dated as of April 1, 2003, by and between NS Acquisition Corp., an affiliate of California Investment Fund, LLC, and NSI, and the merger of NS Acquisition Corp. with and into NSI, with NSI continuing as the surviving corporation. Upon completion of the merger, each outstanding share of NSI common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost) will be cancelled and converted into the right to receive a cash payment of \$10.00 per share, without interest; and

(2) to transact such other business as may properly come before the meeting or any postponement or adjournment thereof, including, if submitted to a vote of our stockholders, a motion to adjourn or postpone the meeting to another time and/or place for the purpose of soliciting additional proxies or satisfying the conditions to closing the merger.

Please do not send your NSI common stock certificates at this time. If the merger is completed, you will receive written instructions for exchanging your NSI stock certificates for cash.

Holders of NSI common stock have the right under Delaware law to demand an appraisal of their shares and to have a judicial determination of the fair value of their shares. These rights, generally known as appraisal rights, are described in detail in the proxy statement accompanying this notice. In addition, a copy of Section 262 of the Delaware General Corporation Law, which governs appraisal rights, is attached as Annex C to this proxy statement. We urge you to read both the applicable section of the proxy statement and the statutory provisions carefully. If you wish to demand an appraisal of your shares, you must strictly comply with the statutory requirements.

The board of directors of NSI has fixed the close of business on April 17, 2003 as the record date for the determination of the stockholders who will be entitled to notice of and to vote at this meeting or any postponement or adjournment thereof.

May 14, 2003

By Order of the Board of Directors,

/s/ CAROL ELLIS MORGAN
CAROL ELLIS MORGAN
Senior Vice President,
General Counsel, and Secretary

YOUR VOTE IS IMPORTANT

IF YOU ARE A STOCKHOLDER OF RECORD, YOU CAN VOTE YOUR SHARES BY THE INTERNET OR BY TELEPHONE BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY CARD.

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IF YOU WISH TO VOTE BY MAIL, PLEASE DATE, SIGN, AND MAIL THE ENCLOSED PROXY PROMPTLY.

NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES IN THE ACCOMPANYING ENVELOPE.

NATIONAL SERVICE INDUSTRIES, INC.
SUITE 200
1420 PEACHTREE STREET, N.E.
ATLANTA, GEORGIA 30309-3002

PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 3, 2003

FIRST MAILED TO STOCKHOLDERS ON OR ABOUT MAY 14, 2003

QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

Q: WHAT AM I BEING ASKED TO VOTE UPON AT THE SPECIAL MEETING?

A: You are being asked to vote to adopt and approve the Agreement and Plan of Merger, dated as of April 1, 2003, by and between NS Acquisition Corp., an affiliate of California Investment Fund, LLC, and NSI, and the merger of NS Acquisition Corp. with and into NSI, with NSI continuing as the surviving corporation.

Q: WHAT VOTE IS REQUIRED TO APPROVE THE MERGER?

A: Adoption and approval of the merger agreement and the merger requires the vote of the holders of at least a majority of the outstanding shares of NSI common stock on April 17, 2003, the record date for the special meeting.

Q: WHAT WILL I RECEIVE IN THE MERGER?

A: Upon completion of the merger, each outstanding share of NSI common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost) will be cancelled and converted into the right to receive a cash payment of \$10.00 per share, without interest.

Q: IS THE MERGER EXPECTED TO BE TAXABLE TO ME?

A: Your receipt of the merger consideration will be a taxable transaction for federal income tax purposes. To review the tax consequences to you in greater detail, see page 36 of this proxy statement. Your tax consequences will depend on your personal situation. You should consult your personal tax advisors for a full understanding of the tax consequences of the merger to you.

Q: WHAT IF I OWN NSI STOCK OPTIONS?

A: We have agreed to use commercially reasonable efforts to provide that each

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option granted under our stock option or compensation plans which is outstanding immediately prior to the effective time of the merger will be cancelled in exchange for a single lump sum cash payment (except for our executive officers, each of whom will surrender their outstanding options without cash payment as described in "The Merger -- Interests of NSI's Directors and Officers in the Merger"). In connection with such obligation, on April 25, 2003, we commenced a tender offer for any and all outstanding options to purchase NSI common stock. Pursuant to the terms of the offer, upon the consummation of the offer, (1) each tendered option will be cancelled and (2) for each of these options, we will pay to the holder, reduced in each case by any applicable tax withholding, the greater of:

- the amount by which \$10.00 exceeds the exercise price of the option, if any; or

- \$0.10.

The offer is subject to a number of conditions, including the consummation of the merger.

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Q: WHAT IF I OWN SHARES OF NSI RESTRICTED STOCK?

A: We have agreed to take all actions necessary and appropriate to provide that each share of NSI restricted stock granted under any compensation plan which is outstanding immediately prior to the effective time of the merger will become fully vested and will be cancelled and converted into the right to receive \$10.00 per share, subject to any required tax withholding. Each share of unissued NSI restricted stock underlying a performance-based award granted under any stock option or compensation plan which is outstanding immediately prior to the effective time of the merger will be issued in amounts reflecting full satisfaction of any performance criteria and will be deemed fully vested, effective as of the time of the approval of the merger by NSI's stockholders, and will be cancelled and converted into the right to receive \$10.00 per share, subject to any required tax withholding.

Q: HOW MANY VOTES DO I HAVE?

A: You have one vote for each share of NSI common stock that you owned at the close of business on April 17, 2003, the record date for the special meeting.

Q: HOW DOES NSI'S BOARD OF DIRECTORS RECOMMEND THAT I VOTE?

A: Our board of directors believes that the terms of the merger agreement and the merger are fair to, and in the best interests of, the holders of NSI common stock. Our board of directors has unanimously approved the merger agreement and the merger and recommends that you vote "FOR" the adoption and approval of the merger agreement and the merger. You should read "The Merger -- NSI's Purpose and Reasons for the Merger" beginning on page 12

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for a discussion of the factors that our board of directors considered in deciding to recommend the adoption and approval of the merger agreement.

Q: HOW DO I VOTE?

A: Stockholders may deliver their proxy using one of the following methods:

- In Person. If you plan to attend the special meeting and wish to vote in person, we will give you a ballot when you arrive. If your shares are held in "street name," you must bring an account statement or letter from the brokerage firm or bank showing that you were the beneficial owner of the shares on April 17, 2003, the record date for the special meeting, in order to be admitted to the special meeting. If you want to vote shares that are not in your name at the special meeting, you must obtain a "legal proxy" from the holder of record and present it at the special meeting.
- By the Internet. Stockholders of record may give their voting instructions by the internet as described on the proxy card. Internet voting is also available to stockholders who hold shares in our DirectService Plan, in our Employee Stock Purchase Plan, or in a 401(k) plan sponsored by us.
- By Telephone. Stockholders of record may give their voting instructions using the toll-free number listed on the proxy card. Telephone voting is also available to stockholders who hold shares in our DirectService Plan, in our Employee Stock Purchase Plan, or in a 401(k) plan sponsored by us.
- By Mail. Stockholders may sign, date, and mail their proxies in the postage-paid envelope provided. If you sign, date, and mail your proxy card without providing voting instructions on specific items, your proxy will be voted as recommended by our board of directors.

Q: HOW DO I VOTE SHARES OF NSI COMMON STOCK HELD UNDER AN NSI 401(K) PLAN?

A: After you deliver your proxy in one of the methods described immediately above, the trustee will then vote your 401(k) plan shares in accordance with your instructions and the terms of the plan.

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Q: MAY I CHANGE MY VOTE?

A: Yes. A proxy that is properly submitted to us may be revoked at any time before it is exercised. For a stockholder "of record," meaning one whose shares are registered in his or her own name, to revoke a proxy, the stockholder may either:

- send another signed proxy card with a later date to the address indicated on the proxy card;
- send a letter revoking the stockholder's proxy to our Corporate Secretary at our principal address; or
- attend the special meeting and vote in person.

A "beneficial holder" whose shares are registered in another name, for example in "street name," must follow the procedures required by the holder

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of record, which is usually a brokerage firm or bank, to revoke a proxy. You should contact the holder of record directly for more information on these procedures.

Q: WHAT HAPPENS IF I DO NOT SUBMIT A PROXY OR VOTE IN PERSON AT THE SPECIAL MEETING?

A: Because the required vote of NSI stockholders is based upon the number of outstanding shares of NSI common stock, rather than upon the shares actually voted, the failure by the holder of any such shares to submit a proxy or to vote in person at the special meeting, including abstentions and broker non-votes, will have the same effect as a vote against the adoption and approval of the merger agreement.

Q: ARE NSI STOCKHOLDERS ENTITLED TO APPRAISAL RIGHTS?

A: Yes. Under the Delaware General Corporation Law, holders of NSI common stock who do not vote in favor of adopting and approving the merger agreement and the merger will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement and they comply with the Delaware law procedures explained in this proxy statement under the heading "Appraisal Rights."

Q: WHAT WAS THE OPINION OF NSI'S FINANCIAL ADVISOR?

A: Our board of directors received an opinion from our financial advisor, SunTrust Robinson Humphrey, that the merger consideration of \$10.00 per share is fair, from a financial point of view, to the holders of NSI common stock. Please read the "The Merger -- Opinion of Financial Advisor" beginning on page 13 of this proxy statement for information about the opinion of SunTrust Robinson Humphrey. A copy of SunTrust Robinson Humphrey's opinion is attached to this proxy statement as Annex B.

Q: IS THERE A DEADLINE FOR CLOSING THE MERGER?

A: There is no deadline, although the merger agreement may be terminated, in general, by either party if the merger does not close on or before September 30, 2003.

Q: HOW DO I EXCHANGE MY STOCK CERTIFICATES FOR CASH?

A: If the merger is completed, within 10 days after the effective time of the merger, NSI will mail you written instructions and a letter of transmittal and other necessary instructions for exchanging your NSI stock certificates for cash. Please do not send your NSI stock certificates at this time.

Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: We are working to complete the merger as quickly as possible. We currently expect to complete the merger in the second calendar quarter of 2003. However, we cannot predict the exact timing of the merger because the merger is subject to specified closing conditions.

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Q: WHOM SHOULD I CALL IF I HAVE ANY QUESTIONS?

A: If you have any questions about the special meeting or concerning the merger, please contact:

Chester J. Popkowski
National Service Industries, Inc.
Suite 200
1420 Peachtree Street, N.E.
Atlanta, Georgia 30309-3002
Telephone: (404) 853-1000

You may also consult our website at www.nationalservice.com for information concerning the merger. Information included on our website is expressly not incorporated by reference into this proxy statement.

If you have any questions about your ownership of NSI common stock, please contact:

NSI Shareholder Services
c/o EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, Rhode Island 02940-3069
Telephone: 1-877-DIAL-NSI
1-877-342-5674
www.equiserve.com

Information included on EquiServe's website is expressly not incorporated by reference into this proxy statement.

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NATIONAL SERVICE INDUSTRIES, INC. PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS

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SUMMARY

This summary highlights selected information from the proxy statement. This summary may not contain all of the information that is important to you. To understand the merger fully and to obtain a more complete description of the legal terms of the merger agreement and the merger, you should carefully read this entire proxy statement, including the Annexes and the documents to which we refer you. See "Where You Can Find More Information" beginning on page 42 of this proxy statement for more details.

PURPOSE OF THE SPECIAL MEETING

At the special meeting, the stockholders of NSI are being asked to vote to adopt and approve the merger agreement and the merger of NS Acquisition Corp. with and into NSI, with NSI continuing as the surviving corporation.

THE PARTIES

National Service Industries, Inc.

Principal Executive Offices:

Suite 200
1420 Peachtree Street, N.E.
Atlanta, Georgia 30309-3002

NSI is a publicly held corporation, incorporated under the laws of the State of Delaware. NSI operates in two business segments -- textile rental and envelope manufacturing. NSI is headquartered in Atlanta, Georgia, and provides products and services throughout the United States.

California Investment Fund, LLC

Principal Executive Offices:

550 West C Street, Suite 1000
San Diego, California 92101

California Investment Fund, LLC, or CIF, is a California-based private investment firm that specializes in the acquisition of under-valued assets. During the past 10 years, affiliates of CIF have completed over \$2 billion in transactions, primarily in the commercial real estate sector. CIF is led by Michael R. Kelly. Affiliates of CIF operate three businesses with approximately 250 employees.

NS Acquisition Corp.

Principal Executive Offices:

c/o California Investment Fund, LLC

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550 West C Street, Suite 1000
San Diego, California 92101

NS Acquisition Corp., a privately held corporation incorporated under the laws of the State of Delaware, is a newly-formed corporation affiliated with CIF, which has not engaged in any business activities unrelated to the merger.

THE MERGER AGREEMENT (SEE PAGE 27)

Under the merger agreement, NS Acquisition Corp. will merge with and into NSI, with NSI to remain as the surviving corporation. We have attached a copy of the merger agreement as Annex A to this proxy statement. We encourage you to read the merger agreement carefully because it is the legal document that governs the merger.

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EFFECT OF THE MERGER (SEE PAGE 27)

If the merger is completed, holders of shares of NSI common stock will not have an opportunity to continue their equity interest in NSI and, therefore, will not have the opportunity to share in its future earnings, dividends or growth, if any. In addition, after the merger, NSI common stock will no longer be listed on The New York Stock Exchange or registered with the Securities and Exchange Commission, or SEC.

NSI'S BOARD OF DIRECTORS RECOMMENDATION TO STOCKHOLDERS (SEE PAGE 13)

Our board of directors believes that the terms of the merger agreement and the merger are fair to, and in the best interests of, the holders of NSI common stock. OUR BOARD OF DIRECTORS HAS ADOPTED AND APPROVED THE MERGER AGREEMENT AND THE MERGER AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE ADOPTION AND APPROVAL OF THE MERGER AGREEMENT AND THE MERGER.

OPINION OF FINANCIAL ADVISOR (SEE PAGE 13)

In connection with the merger agreement and the merger, our board of directors considered the opinion of our financial advisor, SunTrust Robinson Humphrey, that the merger consideration is fair, from a financial point of view, to the holders of NSI common stock. The full text of SunTrust Robinson Humphrey's written opinion is attached to this proxy statement as Annex B. SunTrust Robinson Humphrey's opinion does not constitute a recommendation to any stockholder with respect to any matter relating to the merger. We encourage you to read the opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken by SunTrust Robinson Humphrey.

WHAT NSI STOCKHOLDERS WILL RECEIVE IN THE MERGER (SEE PAGE 27)

Upon completion of the merger, each outstanding share of NSI common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost), will be cancelled and converted into the right to receive a cash payment of \$10.00 per share, without interest.

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HOW OPTIONS WILL BE TREATED (SEE PAGE 27)

We have agreed to use commercially reasonable efforts to provide that each option granted under our stock option or compensation plans which is outstanding immediately prior to the effective time of the merger will be cancelled in exchange for a single lump sum cash payment (except for our executive officers, each of whom will surrender their outstanding options without cash payment as described in "The Merger -- Interests of NSI's Directors and Officers in the Merger"). In connection with such obligation, on April 25, 2003, we commenced a tender offer for any and all outstanding options to purchase NSI common stock. Pursuant to the terms of the offer, upon the consummation of the offer, (1) each tendered option will be cancelled and (2) for each of these options, we will pay to the holder, reduced in each case by any applicable tax withholding, the greater of:

- the amount by which \$10.00 exceeds the exercise price of the option, if any; or

- \$0.10.

The offer is subject to a number of conditions, including the consummation of the merger.

HOW RESTRICTED STOCK WILL BE TREATED (SEE PAGE 28)

We have agreed to take all actions necessary and appropriate to provide that each share of NSI restricted stock granted under any compensation plan which is outstanding immediately prior to the effective time of the merger will become fully vested and will be cancelled and converted into the right to receive \$10.00 per share, subject to any required tax withholding. Each share of unissued NSI restricted stock underlying a performance-based award granted under any stock option or compensation plan which is

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outstanding immediately prior to the effective time of the merger will be issued in amounts reflecting full satisfaction of any performance criteria and will be deemed fully vested, effective as of the time of the approval of the merger by NSI's stockholders, and will be cancelled and converted into the right to receive \$10.00 per share, subject to any required tax withholding.

FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER (SEE PAGE 36)

Generally, for United States federal income tax purposes, NSI stockholders will be treated as if they sold their NSI common stock for the cash received in the merger. Each stockholder will recognize taxable gain or loss equal to the difference between the amount of cash received and the stockholder's adjusted tax basis in the NSI common stock exchanged. You should consult your personal

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tax advisors for a full understanding of the tax consequences of the merger to you.

STOCKHOLDER VOTE REQUIRED TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE MERGER (SEE PAGE 8)

Adoption and approval of the merger agreement and the merger requires the vote of the holders of at least a majority of the outstanding shares of NSI common stock on April 17, 2003, the record date for the special meeting.

FINANCING ARRANGEMENTS (SEE PAGE 20)

In connection with the merger agreement, CIF has obtained commitment letters from Congress Financial Corporation (Southern) and Fremont Investment & Loan to provide an aggregate of \$115 million in loans to finance the merger consideration on the terms and conditions set forth in the commitment letters. PNC Bank, National Association, has agreed, subject to specified conditions, to serve as co-agent with respect to the loan contemplated by the Congress Financial commitment letter. As of the date of this proxy statement, these commitment letters are in full force and effect and have not been terminated.

Congress Financial's obligation to provide a \$70 million credit facility is subject to a number of conditions, including those set forth below. The satisfaction of the conditions set forth below is determined by Congress Financial, in its discretion. References to NSI in the following conditions mean NSI, following the completion of the merger.

- Congress Financial shall have received all consents and waivers from third parties in order to permit and perfect Congress Financial's security interests in NSI's present and future personal property assets, which are to serve as collateral for Congress Financial's loan;
- there shall be no event of default under any of the financing agreements;
- Congress Financial shall have received an opinion with respect to the solvency of NSI following the transactions contemplated by the commitment letter;
- the satisfactory completion of customary legal due diligence;
- Congress Financial shall have received evidence that NSI has received not less than \$20 million in immediately available funds in equity capital contributions;
- Congress Financial shall have received evidence that NSI has received not less than \$45 million in immediately available funds from another term loan;
- the syndication of the credit facility so that Congress Financial holds \$30 million or less of the aggregate commitments under the credit facility; and
- no material adverse change in the business, operations or prospects of CIF or NSI shall have occurred.

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Fremont's obligation to provide a \$45 million term loan is subject to a number of conditions, including those set forth below. The satisfaction of the conditions set forth below is determined by Fremont, in its discretion. References to NSI in the following conditions mean NSI, following the completion of the merger.

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- NSI shall be the sole owner of the real property listed in the commitment letter, which is to serve as collateral for Fremont's loan, with good and marketable title and rights thereto;
- Fremont shall have approved the business, properties, financial condition, capability and such other factors as Fremont deems material with regard to NSI;
- the real property shall have been appraised at a specified amount;
- Fremont shall have received one or more environmental reports relating to the real property, which reports shall disclose no environmental conditions or hazardous waste on or under the real property which are unacceptable to Fremont;
- the first priority security interest of Fremont with respect to the real property shall be insured by a title insurance policy, issued by a title company acceptable to Fremont;
- Fremont shall have approved all contracts and other agreements affecting the real property;
- Fremont shall have received evidence that the equity investment by Michael R. Kelly, Managing Member of CIF, in NSI following the merger is no less than \$20 million and on the closing date of the merger NSI has no less than \$9 million in available working capital;
- no event of default shall exist under any of the loan documents; and
- Fremont shall have obtained an opinion from its counsel that the asbestos liability of NSI is adequately covered by insurance policies/existing reserves for the next ten years.

In addition, NS Acquisition Corp. has delivered to NSI an equity commitment letter which generally provides that:

- Michael R. Kelly will use commercially reasonable efforts to cause the contribution to NS Acquisition Corp. of \$20 million in cash, which amount consists of the proceeds of a loan to be secured on a first priority basis by the equity interests in specified entities controlled by affiliates of CIF;
- from and after the effective time of the merger, Mr. Kelly will use commercially reasonable efforts to provide for the pledge for the benefit of NSI of CIF's affiliates' right, title and interest in and to such equity interests in such entities, when and as necessary, in NSI's determination, to satisfy the obligations of NSI following the merger;

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and

- if, upon liquidation of such equity interests prior to the date (not less than one year after the closing) on which NSI receives a solvency opinion from a nationally recognized financial advisor, the aggregate net proceeds are less than \$25 million, Mr. Kelly will personally fund the shortfall up to \$25 million to the extent NSI determines to be necessary.

NS Acquisition Corp. has agreed in the merger agreement to use commercially reasonable efforts to obtain the financing for the merger and to satisfy the conditions set forth in the commitment letters. NS Acquisition Corp. has represented in the merger agreement that, as of the date of the merger agreement, the funds to be made available under the commitment letters will be sufficient to enable NS Acquisition Corp. to pay the aggregate merger consideration and all of its fees and expenses related to the transactions contemplated by the merger agreement. NS Acquisition Corp. has also agreed to use commercially reasonable efforts to find substitute financing as promptly as possible in the event that any lender refuses to provide the financing described in the commitment letters; provided, that any such substitute financing shall be on terms and conditions no less favorable to NS Acquisition Corp. than the terms and conditions of the financing so substituted.

NS Acquisition Corp.'s receipt of the proceeds of the financing pursuant to the commitment letters is a condition to the consummation of the merger. As of the date of this proxy statement, NS Acquisition Corp. has not yet completed its financing, and no assurance can be given that its financing will be completed. NS Acquisition Corp. currently does not have any alternative financing commitments in the event that the financing with Congress Financial or Fremont is not obtained.

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INTERESTS OF NSI'S DIRECTORS AND OFFICERS IN THE MERGER (SEE PAGE 23)

When considering the recommendation of our board of directors, you should be aware that several of our directors and officers have interests in the merger that are different from, or in addition to, yours. As a result, these directors and officers may be more likely to vote to adopt and approve the merger agreement and the merger than our stockholders generally.

These interests include the following:

- amended severance arrangements for some of our executive officers;
- new employment agreements for some of our executive officers; and
- indemnification by the surviving corporation of the merger for our directors and officers.

CONDITIONS TO CLOSING THE MERGER (SEE PAGE 30)

Each of NS Acquisition Corp. and NSI is required to complete the merger only if specific conditions are satisfied or waived, including, but not limited to, the following:

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- the merger agreement and merger have been approved and adopted by the requisite vote of NSI's stockholders;
- no temporary restraining order, preliminary or permanent injunction or other court order or other legal restraint or prohibition preventing the consummation of the merger shall be in effect; and
- all actions and filings with any governmental entity required to permit the consummation of the merger have been obtained or made (including the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or HSR Act). On April 29, 2003, we received notice from the Federal Trade Commission that we received early termination of the applicable waiting periods under the HSR Act.

In addition, NS Acquisition Corp. is obligated to complete the merger only if certain additional conditions to its obligations are satisfied or waived, including, but not limited to:

- NS Acquisition Corp. having received the proceeds of the financing pursuant to the commitment letters described above;
- the total number of shares of NSI common stock dissenting from the merger (under applicable Delaware law) not exceeding 10% of the outstanding shares of NSI common stock at the effective time of the merger;
- since the date for the merger agreement, no material adverse effect having occurred with respect to NSI;
- NSI's representations and warranties that are qualified by materiality being true and correct in all respects as of April 1, 2003 and as of the closing date of the merger, except to the extent any such representation or warranty is expressly made as of a specific date, in which case such representation or warranty shall have been true and correct in all respects as of such date;
- NSI's representations and warranties that are not qualified by materiality being true and correct in all material respects as of April 1, 2003 and as of the closing date of the merger, except to the extent any such representation or warranty is expressly made as of a specific date, in which case such representation or warranty shall have been true and correct in all respects as of such date;
- NSI having obtained the surrender or cancellation of each outstanding stock option by the holders thereof for treatment or payment in accordance with the terms of the merger agreement; and
- NSI having performed in all material respects all obligations required to be performed under the merger agreement.

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NSI is obligated to complete the merger only if certain additional conditions to its obligations are satisfied or waived, including, but not limited to:

- NS Acquisition Corp. having performed in all material respects all obligations required to be performed under the merger agreement;

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- NSI's board of directors having received a solvency opinion from a nationally-recognized financial advisor, in form and substance reasonably satisfactory to the board of directors, which opinion shall be as of the effective time of the merger;
- NS Acquisition Corp.'s representations and warranties that are qualified by materiality being true and correct in all respects as of April 1, 2003 and as of the closing date for the merger; and
- NS Acquisition Corp.'s representations and warranties that are not qualified by materiality being true and correct in all material respects as of April 1, 2003 and as of the closing date for the merger.

Although neither NSI nor NS Acquisition Corp. expects to waive any conditions to the merger, NSI reserves the right to do so if it believes a waiver is in the best interests of our stockholders; however, we will not waive a material term or condition of the merger agreement without resoliciting the approval of our stockholders.

TERMINATION (SEE PAGE 33)

The merger agreement may be terminated and the merger may be abandoned at any time prior to the closing of the merger, whether before or after approval of matters presented in connection with the merger by NSI's stockholders, either by mutual written consent of NS Acquisition Corp. and NSI, or by either NSI or NS Acquisition Corp. under specified circumstances. The grounds for termination of the merger agreement include, but are not limited to, the failure of NSI stockholders to approve the merger at the special meeting, the NSI board of directors altering its recommendation to the stockholders to vote "for" the merger at the special meeting, and the breach of certain representations and warranties or covenants contained in the merger agreement. Each of the parties has the right to terminate the merger agreement if the merger is not completed on or before September 30, 2003, unless the party seeking to terminate the merger agreement has failed to fulfill any obligation under the merger agreement and its failure has been the primary cause of, or resulted in, the merger not being completed by September 30, 2003.

TERMINATION FEE (SEE PAGE 33)

In certain instances, a termination fee will be payable by NSI to NS Acquisition Corp. in the event that the merger agreement is terminated by NSI, NS Acquisition Corp., or either of them. Depending on the grounds for termination of the merger agreement, this payment may consist of NS Acquisition Corp.'s reasonable expenses incurred in connection with the merger, up to a maximum amount of \$3 million, along with a fee of \$4 million.

CLOSING (SEE PAGE 27)

The merger will be effective as promptly as practicable (and in any event within five business days) following stockholder adoption and approval of the merger agreement and the merger at the special meeting and satisfaction or waiver of the terms and conditions set forth in the merger agreement, and upon the filing of a certificate of merger with the Secretary of State of the State of Delaware.

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APPRAISAL RIGHTS (SEE PAGE 37)

Holders of NSI common stock who do not wish to accept the cash consideration payable pursuant to the merger may seek, under Section 262 of the Delaware General Corporation Law, judicial appraisal of the fair value of their shares by the Delaware Court of Chancery. This value could be more or less than or the same as the \$10.00 per share merger consideration for the NSI common stock. This right to appraisal

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is subject to a number of restrictions and technical requirements. Generally, in order to properly demand appraisal rights, among other things:

- you must not vote in favor of the proposal to adopt and approve the merger agreement and the merger;
- you must make a written demand on NSI for appraisal in compliance with the Delaware General Corporation Law before the vote on the proposal to adopt and approve the merger agreement and the merger at the special meeting; and
- you must hold your shares of record continuously from the time of making a written demand for appraisal through the effective time of the merger.

Merely voting against the merger agreement and the merger will not preserve your right to appraisal under Delaware law. Also, because a submitted proxy not marked "against" or "abstain" will be voted "for" the proposal to adopt the merger agreement, the submission of a proxy not marked "against" or "abstain" will result in the waiver of appraisal rights. If you hold shares in the name of a broker or other nominee, you must instruct your nominee to take the steps necessary to enable you to demand appraisal for your shares. If you or your nominee fails to follow all of the steps required by Section 262 of the Delaware General Corporation Law, you will lose your right of appraisal.

Annex C to this proxy statement contains the full text of Section 262 of the Delaware General Corporation Law, which relates to your right of appraisal. We encourage you to read these provisions carefully and in their entirety.

REGULATORY APPROVALS (SEE PAGE 26)

Under the HSR Act and the rules and regulations promulgated under it by the Federal Trade Commission, the merger cannot be consummated until certain notifications have been given and certain information has been furnished to the Federal Trade Commission and the Antitrust Division of the United States Department of Justice, and the required waiting periods have ended. Expiration of the required waiting periods under the HSR Act is a condition to the

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consummation of the merger. On April 29, 2003, we received notice from the Federal Trade Commission that we received early termination of the applicable waiting periods under the HSR Act.

FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about management's and NSI's beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "plans," "estimates" or similar expressions. These statements include, among others, statements regarding the consummation of the merger and the transactions contemplated by the merger agreement, actions of governmental authorities, including the ability of NS Acquisition Corp. to consummate the financings contemplated by the commitment letters and costs related to the merger.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, the timely satisfaction of the conditions set forth in the merger agreement, including the receipt of all necessary financing to complete the merger. These assumptions could prove inaccurate. Forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond NSI's ability to control or predict. Such factors include, but are not limited to, delays in the receipt of necessary financing and third party and governmental consents to complete the merger. NSI does not undertake any obligation to publicly update or revise any forward-looking statements because of new information, future events or otherwise. You should consult, among other things, NSI's filings from time to time with the SEC, including NSI's Annual Report on Form 10-K for the fiscal year ended August 31, 2002, and NSI's Quarterly Reports on Form 10-Q, as filed with the SEC.

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THE SPECIAL MEETING

DATE, TIME AND PLACE OF THE SPECIAL MEETING

The special meeting will be held on Tuesday, June 3, 2003, at 10:00 a.m. at the offices of King & Spalding LLP, 191 Peachtree Street, 50th Floor, Atlanta, Georgia.

PURPOSE OF THE SPECIAL MEETING

At the special meeting, you will be asked to consider and vote upon the following proposals:

(1) to adopt and approve the Agreement and Plan of Merger, dated as of April 1, 2003, by and between NS Acquisition Corp., an affiliate of California Investment Fund, LLC, and NSI, and the merger of NS Acquisition Corp. with and into NSI, with NSI continuing as the surviving corporation. Upon completion of the merger, each outstanding share of NSI common stock

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(other than shares as to which appraisal rights have been demanded and not withdrawn or lost) will be cancelled and converted into the right to receive a cash payment of \$10.00 per share, without interest; and

(2) to transact such other business as may properly come before the meeting or any postponement or adjournment thereof, including, if submitted to a vote of our stockholders, a motion to adjourn or postpone the meeting to another time and/or place for the purpose of soliciting additional proxies or satisfying the conditions to closing the merger.

HOLDERS OF RECORD ENTITLED TO VOTE AT THE SPECIAL MEETING

Our board of directors has set April 17, 2003 as the record date for the determination of stockholders who are entitled to notice of, and to vote at, the special meeting or at any postponement or adjournment of the special meeting. On the record date, there were 11,194,041 shares of NSI common stock issued and outstanding.

QUORUM; DISCRETIONARY VOTING

The adoption and approval of the merger agreement and the merger requires the presence of, either in person or represented by proxy, a majority of the outstanding shares of NSI common stock. Abstentions will be treated as shares that are present and entitled to vote but as unvoted for purposes of determining a quorum and the adoption and approval of the merger agreement and the merger or any matter submitted to the stockholders.

If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter (i.e., "broker non-votes"), those shares will be considered as present for purposes of determining a quorum but will not be entitled to vote at the special meeting with respect to that matter. In effect, abstentions and broker non-votes will have the effect of a vote against the adoption and approval of merger agreement and the merger at the special meeting.

VOTE REQUIRED TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE MERGER

For the merger to occur, the merger agreement and the merger must be adopted and approved by the holders of at least a majority of the outstanding shares of NSI common stock. As of the record date, there were 11,194,041 shares of NSI common stock issued and outstanding. NSI common stock entitles its holder of record to one vote for each share owned. Thus, at least 5,597,021 shares must be voted in favor of the merger agreement and the merger at the special meeting.

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VOTING BY PROXY

Stockholders are requested to provide their voting instructions on the enclosed proxy by mail using the accompanying envelope, by the internet, or by telephone. Stockholders who hold their shares through a bank or broker can vote by the internet or by telephone if these options are offered by the bank or broker. At any time before the proxy is voted, it may be revoked by written notice to the Corporate Secretary of NSI. Proxies that are properly delivered,

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and not revoked, will be voted in accordance with stockholders' directions. IF THE PROXY CARD IS SIGNED AND RETURNED WITHOUT INDICATING ANY VOTING INSTRUCTIONS, THE SHARES REPRESENTED BY THAT PROXY WILL BE VOTED "FOR" THE ADOPTION AND APPROVAL OF THE MERGER AGREEMENT AND THE MERGER AND IN THE DISCRETION OF THE PERSONS NAMED AS PROXIES AS TO ANY OTHER MATTER THAT MAY COME BEFORE THE SPECIAL MEETING, INCLUDING, IF SUBMITTED TO A VOTE OF OUR STOCKHOLDERS, A MOTION TO ADJOURN OR POSTPONE THE MEETING TO ANOTHER TIME AND/OR PLACE FOR THE PURPOSE OF SOLICITING ADDITIONAL PROXIES OR SATISFYING THE CONDITIONS TO CLOSING THE MERGER. No proxy which is voted against the proposal will be voted in favor of any adjournment or postponement of the meeting.

Stockholders may deliver their proxy using one of the following methods:

By the Internet. Stockholders of record may give their voting instructions by the internet as described on the proxy card. Internet voting is also available to stockholders who hold shares in our DirectService Plan, in our Employee Stock Purchase Plan, or in a 401(k) plan sponsored by us. The internet voting procedure is designed to verify the voting authority of stockholders. You will be able to vote your shares by the internet and confirm that your vote has been properly recorded. Please see your proxy card for specific instructions.

By Telephone. Stockholders of record may give their voting instructions using the toll-free number listed on the proxy card. Telephone voting is also available to stockholders who hold shares in our DirectService Plan, in our Employee Stock Purchase Plan, or in a 401(k) plan sponsored by us. The telephone voting procedure is designed to verify the voting authority of stockholders. The procedure allows you to vote your shares and to confirm that your instructions have been properly recorded. Please see your proxy card for specific instructions.

By Mail. Stockholders may sign, date, and mail their proxies in the postage-paid envelope provided. If you sign, date, and mail your proxy card without providing voting instructions on specific items, your proxy will be voted as recommended by the board of directors.

401(k) Plans. After you deliver your proxy in one of the methods described immediately above, the trustee will then vote your 401(k) shares in accordance with your instructions and the terms of the plan.

REVOCATION OF PROXY

A proxy that is properly submitted to us may be revoked at any time before it is exercised. For a stockholder "of record," meaning one whose shares are registered in his or her own name, to revoke a proxy, the stockholder may either:

- send another signed proxy card with a later date to the address indicated on the proxy card;
- send a letter revoking the stockholder's proxy to our Corporate Secretary at our principal address; or
- attend the special meeting and vote in person.

A "beneficial holder" whose shares are registered in another name, for example in "street name," must follow the procedures required by the holder of record, which is usually a brokerage firm or bank, to revoke a proxy. You should contact the holder of record directly for more information on these procedures.

OTHER MATTERS; ADJOURNMENT

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We do not anticipate that any proposal other than the proposal presented in this proxy statement will be brought before the special meeting. However, if any matters are properly presented at the special

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meeting or any adjournment or postponement of the special meeting, including, if submitted to a vote of our stockholders, a motion to adjourn or postpone the meeting to another time and/or place for the purpose of soliciting additional proxies or satisfying the conditions to closing the merger, the persons named as proxies will be granted discretionary authority with respect to any such matter.

Adjournments may be made for the purpose of, among other things, soliciting additional proxies. An adjournment may be made from time to time by approval of the holders of shares representing the majority of votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting. If the adjournment is for more than 30 days, a notice of the adjourned meeting will be given to each stockholder entitled to vote at the special meeting. NSI does not currently intend to seek an adjournment of the special meeting.

COSTS OF SOLICITATION OF PROXIES

We will pay all of the costs of soliciting proxies from our stockholders, consisting mostly of printing and mailing costs. Although we are mailing these proxy materials, our directors and employees may also solicit proxies in person or by telephone, facsimile or other electronic means of communication. We have retained Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies for a fee of approximately \$10,000 and reimbursement of specified expenses. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of stock held in their names and, as required by law, we will, at their request, reimburse them for their out-of-pocket expenses in this regard.

EXCHANGING STOCK CERTIFICATES

Within 10 days after the effective time of the merger, EquiServe Trust Company, N.A., whom we have designated as the exchange agent in the merger, will mail to each of our stockholders a letter of transmittal and instructions specifying the procedures to be followed in surrendering your shares of NSI common stock in exchange for the merger consideration. YOU SHOULD NOT SUBMIT YOUR STOCK CERTIFICATES FOR EXCHANGE UNTIL YOU RECEIVE THE LETTER OF TRANSMITTAL AND INSTRUCTIONS FROM THE EXCHANGE AGENT. When you surrender your stock certificates along with the properly executed letter of transmittal, you will receive the merger consideration.

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THE MERGER

While we believe that the following description covers the material terms of the merger, this summary may not contain all of the information that is important to you. You should carefully read this entire document, including the

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annexes, and the other documents we refer to for a more complete understanding of the merger.

BACKGROUND OF THE MERGER

On December 13, 2002, CIF delivered an unsolicited letter to Brock A. Hattox, NSI's Chairman, Chief Executive Officer and President, which included a preliminary proposal to acquire 100% of the outstanding shares of NSI common stock for consideration equal to \$10.00 per share in cash to each NSI stockholder. The offer was subject to satisfactory completion of due diligence by CIF and its financing sources and negotiation of definitive agreements regarding the terms of the transaction. The parties entered into a confidentiality agreement on December 20, 2002, and the parties agreed to meet to discuss the possibility of a transaction.

On January 7, 2003, representatives of CIF met in Atlanta with senior executives of NSI. As a result of the meeting, NSI agreed to provide CIF with information regarding NSI's business and assets in order to facilitate the making of a more definitive offer by CIF. On January 15, 2003, representatives of CIF met in Atlanta with senior executives and counsel for NSI to discuss NSI's spin-off of Acuity Brands, Inc. in November 2001 and to conduct further due diligence on NSI's assets and liabilities. After the January 15 meeting, CIF commenced the process of engaging third-party advisors to assist in its due diligence effort and to explore potential sources of financing for the transaction.

Principals of CIF met in Atlanta with senior management and counsel for NSI on February 13 and 14, 2003. At these meetings, CIF further refined the terms and structure of the potential acquisition proposal. On February 17, 2003, the NSI board of directors met and discussed with management the status of the discussions with CIF. After consideration, the board of directors authorized management to continue negotiations and expressed a desire to meet with the principals of CIF.

On February 24, 2003, the board of directors of NSI met to consider the offer from CIF. After a presentation to the board of directors by Michael R. Kelly, Managing Member of CIF, regarding the background of CIF and the terms of the proposed transaction, the board of directors discussed at length the proposal by CIF, the risks inherent in the transaction and the potential benefits to NSI stockholders as compared to other potential alternatives, including the continued execution of NSI's business strategy. The board of directors was advised at this meeting by counsel from King & Spalding LLP. The board of directors determined that it would be advisable to continue negotiations with CIF and to conduct further mutual due diligence. After this meeting, the board of directors engaged SunTrust Robinson Humphrey to serve as financial advisor to the board of directors.

Between February 17 and March 14, 2003, management of NSI, together with its legal and financial advisors, conducted additional financial due diligence to determine the feasibility of the acquisition proposal by CIF. During this time, representatives of CIF and potential lenders conducted extensive due diligence on the business, assets and liabilities of NSI, including the preparation of appraisals of the assets of NSI and assessment of NSI's expected future liabilities arising out of asbestos litigation, as well as the related insurance coverage available to pay these liabilities.

On March 14, 2003, Mr. Kelly delivered a memorandum to NSI in which he updated NSI on the status of CIF's discussions with potential lenders regarding financing for the transaction and the status of CIF's due diligence investigation of NSI and its assets and liabilities. In the memorandum, Mr. Kelly indicated that CIF was prepared, subject to completion of due diligence

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and receipt of commitment letters for financing the transaction, to offer \$10.75 per share for the NSI common stock. Mr. Kelly also indicated that he expected to have financing commitments from lenders no later than March 28, 2003 and that he expected due diligence and negotiations of the definitive agreement to be completed by that time.

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On March 17, 2003, the NSI board of directors met. At this meeting, the directors received a report from management on the results for the second fiscal quarter and the financial outlook for NSI's operating businesses. The board of directors also received reports on the analyses prepared by outside experts regarding NSI's projected future asbestos liability and related insurance coverage. In addition, SunTrust Robinson Humphrey provided a summary of their method of analysis in assessing the fairness, from a financial point of view, to the NSI stockholders of the proposal from CIF. Counsel for NSI from King & Spalding LLP also reviewed for the directors a draft of the merger agreement and the possible timetable for a transaction with CIF.

During the weeks of March 17 and March 24, 2003, counsel for NSI and CIF negotiated the terms and conditions of a definitive merger agreement between NSI Acquisition Corp. and NSI. On March 27, 2003, Mr. Kelly telephoned Mr. Hattox and informed him that, on the basis of the final financing proposals that had been obtained from lenders, CIF was prepared to sign a definitive agreement providing for a \$10.00 per share purchase price. Mr. Hattox indicated in this conversation that he would need to discuss the change in the pricing of the transaction with the NSI board of directors. Pending the board of directors' consideration of the terms of the revised proposal, the parties negotiated the final terms of the merger agreement on March 28 and 29, 2003.

On March 29, 2003, the NSI board of directors met at NSI headquarters to consider the revised proposal and the terms of the definitive merger agreement that had been prepared. Prior to the meeting, the directors had been provided with a near final version of the merger agreement, and during the course of the meeting, counsel for NSI from King & Spalding LLP identified the changes in the agreement from the draft previously distributed to the directors. At the meeting, the NSI board of directors received an oral report from SunTrust Robinson Humphrey, including its opinion that, on the basis of a \$10.00 per share purchase price, the consideration to be received by NSI stockholders in the merger was fair, from a financial point of view, to the NSI stockholders. After discussion, the NSI board of directors concluded that the proposed transaction was in the best interest of NSI and its stockholders and that NSI should proceed with finalizing the merger agreement.

After the March 29, 2003 board of directors meeting, counsel for the parties completed preparation of the final merger agreement and ancillary documents. On the afternoon of April 1, 2003, the NSI board of directors met by telephone conference and received an update of the terms of the final merger agreement and other documentation to be executed in connection with the merger and an oral report, subsequently confirmed in writing, from SunTrust Robinson Humphrey confirming as of that date its previous opinion that the consideration to be received by stockholders of NSI in the merger was fair, from a financial point of view, to the NSI stockholders. The NSI board of directors also received a report on the financing structure of the transaction and on the expected capital structure of NSI after completion of the transaction. The NSI board of directors adopted and approved the merger agreement, the merger and the amendment to the rights agreement (as described in "The Merger Agreement -- Rights Agreement" below) by unanimous vote. The parties executed the merger agreement after the meeting. NSI announced the merger in a press release prior to the opening of the stock market on the morning of April 2,

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2003.

NSI'S PURPOSE AND REASONS FOR THE MERGER

In reaching its recommendation described in this proxy statement, our board of directors considered a number of factors including, without limitation, the following:

- NSI's current financial condition, results of operations and business and strategic objectives, as well as the risks involved in achieving those objectives, including the ability of NSI to grow its businesses successfully;
- current conditions and trends in the industries in which NSI operates, and the effect of those conditions and trends on NSI;
- the current prospects for appreciation of NSI's valuation, given NSI's relatively small market capitalization and relatively thin trading volume in its common stock, including the fact that the

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proposed cash merger consideration of \$10.00 per share represented, as of the date of execution of the merger agreement, a significant premium over the recent average trading prices of NSI common stock on The New York Stock Exchange;

- the significant competition in the industries in which NSI operates, the relative size of other participants and the available capital and other resources available to such participants;
- the financial and valuation analysis undertaken by SunTrust Robinson Humphrey, including share prices and other relevant financial data relating to other companies engaged in businesses considered comparable to that of NSI and the prices and premiums paid in recent selected acquisitions involving transactions similar in size and structure to that of the merger;
- the opinion of SunTrust Robinson Humphrey to the effect that, as of the date of the opinion, the offer price of \$10.00 per share, payable in cash in a lump sum to each NSI stockholder, pursuant to the terms and conditions set forth in the merger agreement, was fair, from a financial point of view, to the stockholders of NSI. YOU ARE URGED TO READ CAREFULLY AND IN ITS ENTIRETY THE COMPLETE OPINION OF SUNTRUST ROBINSON HUMPHREY, ATTACHED HERETO AS ANNEX B;
- the terms and conditions of the merger agreement, including, without limitation, that the terms of the merger agreement will not prevent other third parties from making unsolicited proposals to NSI after execution of the merger agreement, and the limited circumstances under which NSI would be required to pay to NS Acquisition Corp. a termination fee of \$4 million plus reimbursement of expenses of up to \$3 million if the transaction does not close;
- the likelihood that the merger will be consummated; and
- the availability to NSI's stockholders of appraisal rights in the merger under the applicable provisions of the Delaware General Corporation Law.

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In view of the variety of factors considered in connection with its evaluation of the merger, the board of directors did not find it practicable to place relative weights or to otherwise quantify the specific factors considered in reaching its determination. AFTER WEIGHING THESE CONSIDERATIONS, THE BOARD OF DIRECTORS, BY UNANIMOUS VOTE, DETERMINED THAT THE MERGER AGREEMENT AND THE MERGER ARE, IN THE BELIEF OF THE BOARD OF DIRECTORS, FAIR TO AND IN THE BEST INTERESTS OF NSI AND ITS STOCKHOLDERS AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE ADOPTION AND APPROVAL OF THE MERGER AGREEMENT AND THE MERGER AT THE SPECIAL MEETING.

OPINION OF FINANCIAL ADVISOR

NSI has engaged SunTrust Robinson Humphrey, a division of SunTrust Capital Markets, Inc., to act as its financial advisor in connection with the merger. At the March 29, 2003 meeting of the NSI board of directors, SunTrust Robinson Humphrey reviewed with the board of directors its financial analysis of the merger and, on April 1, 2003, SunTrust Robinson Humphrey delivered its written opinion to the effect that, as of that date and based upon and subject to the matters described in the opinion, the consideration to be paid in the merger was fair, from a financial point of view, to the stockholders of NSI. No limitations were imposed by the NSI board of directors upon SunTrust Robinson Humphrey with respect to the investigation made or the procedures followed by SunTrust Robinson Humphrey in rendering its opinion.

THE FULL TEXT OF SUNTRUST ROBINSON HUMPHREY'S WRITTEN OPINION DATED APRIL 1, 2003, WHICH DESCRIBES THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, MATTERS CONSIDERED AND LIMITATIONS ON THE REVIEW UNDERTAKEN IN CONNECTION WITH THE OPINION, IS ATTACHED AS ANNEX B AND IS INCORPORATED HEREIN BY REFERENCE. YOU ARE URGED TO READ THIS OPINION IN ITS ENTIRETY.

SUNTRUST ROBINSON HUMPHREY'S OPINION IS ADDRESSED TO THE BOARD OF DIRECTORS OF NSI AND RELATES ONLY TO THE FAIRNESS, FROM A FINANCIAL POINT OF VIEW, OF THE CONSIDERATION TO BE PAID IN THE MERGER TO THE STOCKHOLDERS OF NSI, AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY STOCKHOLDER AS TO HOW TO VOTE WITH RESPECT TO MATTERS RELATING TO THE MERGER. THE SUMMARY OF SUNTRUST ROBINSON HUMPHREY'S OPINION

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DESCRIBED BELOW IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF ITS OPINION WHICH IS ATTACHED AS ANNEX B.

Material and Information Considered with Respect to the Merger

In arriving at its opinion, SunTrust Robinson Humphrey:

- reviewed the merger agreement and exhibits thereto;
- reviewed and analyzed certain publicly available information concerning NSI which SunTrust Robinson Humphrey believed to be relevant to its inquiry;
- reviewed and analyzed financial and operating information with respect to the business, operations and prospects of NSI furnished to SunTrust Robinson Humphrey by NSI;
- reviewed and analyzed a trading history of NSI common stock from December 3, 2001 (the first trading day after the spin-off of Acuity Brands, Inc.) to the present and compared that trading history with those of other publicly traded companies which SunTrust Robinson Humphrey deemed relevant;

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- reviewed and analyzed a comparison of the historical financial results and present financial condition of NSI with those of publicly traded companies which SunTrust Robinson Humphrey deemed relevant;
- reviewed and analyzed a comparison of the financial terms of the merger with the publicly available financial terms of certain other recent transactions which SunTrust Robinson Humphrey deemed relevant;
- reviewed and analyzed historical data relating to percentage premiums paid in acquisitions of publicly traded companies;
- reviewed and analyzed a comparison of certain publicly available information for companies with asbestos litigation and liabilities with NSI's internal asbestos litigation and liability data;
- conducted discussions with the management of NSI concerning its businesses, operations, assets, present condition and future prospects; and
- undertook such other studies, analyses and investigations as SunTrust Robinson Humphrey deemed appropriate.

In rendering its opinion, SunTrust Robinson Humphrey assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information discussed with or reviewed by SunTrust Robinson Humphrey in arriving at its opinion. With respect to the financial forecasts provided to or discussed with SunTrust Robinson Humphrey, SunTrust Robinson Humphrey assumed, at the direction of the management of NSI and without independent verification or investigation, that such forecasts had been reasonably prepared on bases reflecting the best currently available information, estimates and judgments of the NSI management as to the future financial performance of NSI. In arriving at its opinion, SunTrust Robinson Humphrey did not conduct a physical inspection of the properties and facilities of NSI and did not make or obtain any evaluations or appraisals of the assets or liabilities (including, without limitation, any potential environmental liabilities), contingent or otherwise, of NSI. NSI did not authorize SunTrust Robinson Humphrey to solicit, and SunTrust Robinson Humphrey did not solicit, any indications of interest from any third party with respect to the purchase of all or a part of NSI's business. SunTrust Robinson Humphrey also assumed the following:

- that the merger would be consummated in accordance with the terms of the merger agreement; and
- that all material governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on NSI, or on the expected benefits of the merger.

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SunTrust Robinson Humphrey's opinion is necessarily based upon market, economic and other conditions as they may have existed and could be evaluated as of April 1, 2003. SunTrust Robinson Humphrey expressed no opinion as to the underlying valuation, future performance or long-term viability of NSI.

In connection with the preparation of its fairness opinion, SunTrust Robinson Humphrey performed financial and comparative analyses, the material portions of which are summarized below. The summary set forth below includes the financial analyses used by SunTrust Robinson Humphrey and deemed to be material, but does not purport to be a complete description of the analyses performed by

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SunTrust Robinson Humphrey in arriving at its opinion. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. In addition, SunTrust Robinson Humphrey believes that its analyses must be considered as an integrated whole, and that selecting portions of such analyses and the factors considered by it, without considering all of such analyses and factors, could create a misleading or incomplete view of the process underlying its analyses set forth in the opinion.

In performing its analyses, SunTrust Robinson Humphrey made numerous assumptions with respect to industry and economic conditions, many of which are beyond the control of NSI. Any estimates contained in such analyses are not necessarily indicative of actual past or future results or values, which may be significantly more or less favorable than as set forth therein. Estimates of values of companies do not purport to be appraisals or necessarily to reflect the price at which such companies may actually be sold, and such estimates are inherently subject to substantial uncertainty. No company, business or transaction used in such analyses as a comparison is identical to NSI, CIF, their respective businesses or the merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, businesses or transactions analyzed.

SunTrust Robinson Humphrey's opinion and financial analyses were only one of many factors considered by NSI's board of directors in its evaluation of the merger and should not be viewed as determinative of the views of NSI's board of directors or management with respect to the merger or the consideration to be paid in the merger. The amount and type of consideration to be paid in the merger was determined through direct negotiation between NSI and CIF. The decision to enter into the merger was solely that of the NSI board of directors.

The following is a summary of the material financial analyses presented by SunTrust Robinson Humphrey to the NSI board of directors in connection with its opinion.

Analysis of Selected Publicly Traded Reference Companies

Reference company analysis analyzes a company's operating performance and valuation relative to a reference group of publicly traded companies. SunTrust Robinson Humphrey analyzed the financial and stock market information for the following selected publicly traded companies for the Atlantic Envelope Company ("AECO") business unit of NSI (the "AECO Reference Companies"):

- Avery Dennison Corp.;
- Mail-Well, Inc.;
- Moore Corporation Limited;
- New England Business Services, Inc.;
- Standard Register Company;
- Wallace Computer Services, Inc.; and
- Workflow Management, Inc.

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SunTrust Robinson Humphrey also analyzed the financial and stock market information for the following selected publicly traded companies for the National Linen Service ("National Linen") business unit of NSI (the "National Linen Reference Companies"):

- Angelica Corporation;
- ARAMARK Corporation;
- Cintas Corporation;
- G&K Services, Inc.; and
- UniFirst Corporation.

SunTrust Robinson Humphrey reviewed and analyzed equity market values as multiples of:

- book value;
- latest twelve months net income, adjusted for non-recurring charges ("LTM Adjusted Net Income"); and
- projected 2003 net income, provided by management and adjusted for non-recurring charges ("2003E Adjusted Net Income").

SunTrust Robinson Humphrey also reviewed and analyzed, among other things, firm values, calculated as equity market value plus net debt, as multiples of:

- latest twelve months revenue ("LTM Revenue");
- latest twelve months earnings before interest, taxes, depreciation and amortization, adjusted for non-recurring charges ("LTM Adjusted EBITDA");
- projected 2003 earnings before interest, taxes, depreciation and amortization, provided by management and adjusted for non-recurring charges ("2003E Adjusted EBITDA"); and
- latest twelve months earnings before interest and taxes, adjusted for non-recurring charges ("LTM Adjusted EBIT").

All multiples were based on closing stock prices as of March 27, 2003. SunTrust Robinson Humphrey then applied a relative weight to the average multiples for the AECO Reference Companies and the National Linen Reference Companies based upon the historical and projected revenue and operating income contributions of AECO and National Linen, respectively, to arrive at multiples for the combined business.

The following table sets forth the multiples indicated by this analysis as of March 27, 2003:

	AVERAGE -----
WEIGHTED MULTIPLE OF EQUITY MARKET VALUE TO:	
Book Value.....	2.4x
LTM Adjusted Net Income.....	18.0x
2003E Adjusted Net Income.....	14.3x
WEIGHTED MULTIPLE OF FIRM VALUE TO:	
LTM Revenue.....	0.74x

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LTM Adjusted EBITDA.....	7.2x
2003E Adjusted EBITDA.....	6.6x
LTM Adjusted EBIT.....	11.0x

SunTrust Robinson Humphrey then applied the average multiples resulting from the analysis above to the actual and projected values for NSI for the latest twelve months ended February 28, 2003 and for the fiscal year ending August 31, 2003. SunTrust Robinson Humphrey then applied a discount to the implied equity values to reflect the valuation discount created by the asbestos liability for NSI. SunTrust Robinson

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Humphrey assessed the discounts for publicly traded companies with asbestos liabilities and not presently subject to bankruptcy protection to arrive at average discounts to comparable peer groups unaffected by asbestos liabilities of 35% to 36% and median discounts of 38% to 44%. Based on this analysis, SunTrust Robinson Humphrey applied an asbestos liability discount of 40% to the implied equity values per share. Prior to a discount, this analysis yielded implied equity values per share for NSI of \$46.57, \$0.00, \$0.00, \$32.67, \$9.85, \$7.41 and \$0.00, respectively. Following a 40% asbestos discount, this analysis yielded implied equity values per share for NSI of approximately \$27.94, \$0.00, \$0.00, \$19.60, \$5.91, \$4.45 and \$0.00, respectively. These implied equity values per share were compared to the merger consideration of \$10.00 per share.

In addition to the groups of reference companies listed above, SunTrust Robinson Humphrey repeated this analysis for one selected comparable reference company, considered to be the primary comparable company among the group of publicly traded comparable companies, for each of the AECO and the National Linen businesses. SunTrust Robinson Humphrey selected Mail-Well, Inc. for the AECO multiples and Angelica Corporation for the National Linen multiples.

All multiples were based on closing stock prices as of March 27, 2003. SunTrust Robinson Humphrey applied a relative weight to the average multiples for Mail-Well, Inc. and Angelica Corporation based upon the historical and projected revenue and operating income contributions of AECO and National Linen, respectively, to arrive at multiples for the combined business.

The following table sets forth the multiples indicated by this analysis as of March 27, 2003:

	AVERAGE
WEIGHTED MULTIPLE OF EQUITY MARKET VALUE TO:	
Book Value.....	1.5x
LTM Adjusted Net Income.....	23.6x
2003E Adjusted Net Income.....	10.2x
WEIGHTED MULTIPLE OF FIRM VALUE TO:	
LTM Revenue.....	0.47x
LTM Adjusted EBITDA.....	6.2x
2003E Adjusted EBITDA.....	NA
LTM Adjusted EBIT.....	11.3x

SunTrust Robinson Humphrey then applied the average multiples resulting from the analysis above to the actual and projected values for NSI for the latest twelve months ended February 28, 2003 and for the fiscal year ending

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August 31, 2003. SunTrust Robinson Humphrey then applied a discount to the implied equity values to reflect the valuation discount created by the asbestos liability for NSI. SunTrust Robinson Humphrey assessed the discounts for publicly traded companies with asbestos liabilities and not presently subject to bankruptcy protection to arrive at average discounts to comparable peer groups unaffected by asbestos liabilities of 35% to 36% and median discounts of 38% to 44%. Based on this analysis, SunTrust Robinson Humphrey applied an asbestos liability discount of 40% to the implied equity values per share. Prior to a discount, this analysis yielded implied equity values per share for NSI of \$27.64, \$0.00, \$0.00, \$20.18, \$8.32, \$0.00 and \$0.00, respectively. Following a 40% asbestos discount, this analysis yielded implied equity values per share for NSI of approximately \$16.58, \$0.00, \$0.00, \$12.11, \$4.99, \$0.00 and \$0.00, respectively. These implied equity values per share were compared to the merger consideration of \$10.00 per share.

Analysis of Selected Merger & Acquisition Transactions

Reference merger and acquisition transaction analysis provides a valuation range based upon consideration and multiples paid for selected reference companies in recent transactions. SunTrust Robinson Humphrey reviewed the financial terms, to the extent publicly available, of 22 proposed, pending or completed merger and acquisition transactions from January 1, 1997 to March 27, 2003, involving selected envelope and office products companies (the "AECO Reference Transactions"). SunTrust

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Robinson Humphrey also reviewed the financial terms, to the extent publicly available, of 23 proposed, pending or completed merger and acquisition transactions from January 1, 1997 to March 27, 2003, involving selected linen rental companies (the "National Linen Reference Transactions"). For each of the AECO Reference Transactions and the National Linen Reference Transactions, SunTrust Robinson Humphrey calculated various financial multiples based on publicly available information for each of the selected acquisition transactions and compared them to corresponding financial multiples for the merger, based on the merger consideration of \$10.00 per share.

SunTrust Robinson Humphrey reviewed and analyzed, among other things, equity market values as multiples of:

- book value; and
- latest twelve months net income ("LTM Net Income").

SunTrust Robinson Humphrey also reviewed and analyzed, among other things, firm values as multiples of:

- LTM Revenue;
- latest twelve months earnings before interest, taxes, depreciation and amortization ("LTM EBITDA"); and
- latest twelve months earnings before interest and taxes ("LTM EBIT").

All multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. None of the transactions involved entities with significant publicly disclosed asbestos liabilities. SunTrust Robinson Humphrey applied a relative weight to the average multiples for AECO Reference Transactions and National Linen Reference Transactions based upon the historical and projected revenue and operating income contributions of AECO and National Linen, respectively, to

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arrive at multiples for the combined business.

The following table sets forth the average multiples indicated by these analyses:

	AVERAGE -----
WEIGHTED MULTIPLE OF EQUITY MARKET VALUE TO:	
Book Value.....	2.1x
LTM Net Income.....	20.8x
WEIGHTED MULTIPLE OF FIRM VALUE TO:	
LTM Revenue.....	1.11x
LTM EBITDA.....	7.5x
LTM EBIT.....	13.7x

SunTrust Robinson Humphrey then applied the average multiples resulting from the analysis above to the latest twelve months financials for NSI as of February 28, 2003. This analysis yielded implied equity values per share for NSI of approximately \$39.98, \$0.00, \$49.41, \$10.31 and \$0.00, respectively. These implied equity values per share were compared to the proposed merger consideration of \$10.00 per share.

Discounted Cash Flow Analysis

SunTrust Robinson Humphrey performed a discounted cash flow analysis using projections for 2003 through 2007 provided by NSI to estimate the net present equity value per share of NSI. SunTrust Robinson Humphrey derived ranges of net present equity values per share for NSI on a stand-alone basis that were based upon the discounted cash flows of NSI from 2003 through 2007 plus a terminal value calculated using a range of multiples of its projected year 2007 EBITDA. SunTrust Robinson Humphrey applied discount rates ranging from 10.0% to 15.0% and multiples of 2007 EBITDA ranging from 3.0x to 5.0x. This analysis resulted in a range of net present equity values per share of \$4.29 to \$9.12. SunTrust

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Robinson Humphrey then performed a sensitivity analysis to evaluate the sensitivity of these discounted cash flow results to percentage changes in annual revenue growth rates and annual EBITDA margins.

SunTrust Robinson Humphrey also derived ranges of net present equity values per share for NSI on a stand-alone basis that were based upon the discounted cash flows of NSI from 2003 through 2007 plus a terminal value calculated using a projected perpetual growth rate. SunTrust Robinson Humphrey applied discount rates ranging from 10.0% to 15.0% and perpetual growth rates of 2.0% to 4.0%. This analysis resulted in a range of net present equity values per share of \$2.29 to \$6.59. SunTrust Robinson Humphrey then performed a sensitivity analysis to evaluate the sensitivity of these discounted cash flow results to percentage changes in annual revenue growth rates and annual EBITDA margins.

In addition, SunTrust Robinson Humphrey applied the current NSI multiple of firm value to LTM EBITDA of 2.8x to the projected 2007 EBITDA provided by management. SunTrust Robinson Humphrey then discounted the implied 2007 stock price at a discount rate of 15.0% to the present value. This analysis resulted in an implied equity value per share of \$4.21. SunTrust Robinson Humphrey also performed this analysis for firm value to EBITDA multiples ranging from 4.0x to 5.0x and discount rates ranging from 11.0% to 14.0% and arrived at implied

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equity values per share ranging from \$6.21 to \$8.76.

Finally, SunTrust Robinson Humphrey applied a 10.0x multiple of equity value to Net Income to the projected 2007 Net Income provided by management. SunTrust Robinson Humphrey then discounted the implied 2007 stock price at a discount rate of 15.0% to the present value. This analysis resulted in an implied equity value per share of \$2.73. SunTrust Robinson Humphrey also performed this analysis for equity value to Net Income multiples ranging from 9.0x to 11.0x and discount rates ranging from 11.0% to 14.0% and arrived at implied equity values per share of \$2.56 to \$3.53.

Premiums Paid Analysis

SunTrust Robinson Humphrey reviewed and analyzed the transaction premiums paid in 120 merger transactions with transaction values between \$50 million and \$250 million, effected since January 1, 2002, based on the target company's stock price one day, one week and four weeks prior to the public announcement of the transaction. This analysis indicated the following mean and median premiums paid in the selected transactions:

	MEAN	MEDIAN
	----	-----
PREMIUM PRIOR TO ANNOUNCEMENT		
1 Day.....	41.7%	27.6%
1 Week.....	48.8%	32.6%
4 Weeks.....	56.3%	37.2%

This analysis resulted in a range of implied equity values per share of \$6.72 to \$9.27 and implied equity values per share of \$8.27 and \$7.35 for the average of mean and median premiums, respectively.

SunTrust Robinson Humphrey also reviewed and analyzed the transaction premiums paid in all publicly reported merger transactions effected from January 1, 1998 through December 31, 2002, based on the target company's stock price one day prior to the public announcement of the transaction. This analysis indicated the following mean and median premiums paid in the selected transactions:

	MEAN	MEDIAN
	----	-----
PREMIUM PRIOR TO ANNOUNCEMENT		
1 Day.....	50.0%	36.1%

This analysis resulted in net equity values per share of \$7.91 and \$7.17 for the mean and median premiums, respectively.

Information Concerning NSI's Financial Advisor

SunTrust Robinson Humphrey is a nationally recognized investment banking firm and, as a customary part of its investment banking activities, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, private placements, and valuations

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for corporate and other purposes. NSI retained SunTrust Robinson Humphrey because of its experience, expertise, reputation and familiarity with NSI and transactions similar to the merger. In the ordinary course of business, SunTrust Robinson Humphrey and its affiliates may actively trade or hold the securities and other instruments and obligations of NSI for their own account and for the accounts of customers and, accordingly, may at any time hold long or short positions in such securities, instruments or obligations.

SunTrust Robinson Humphrey is acting as financial advisor to NSI in connection with the merger. Pursuant to the terms of its engagement, NSI has agreed to pay SunTrust Robinson Humphrey a fee that is customary for transactions of this nature, a significant portion of which is contingent on the merger. SunTrust Robinson Humphrey also received a fee for rendering its opinion. NSI also has agreed to reimburse SunTrust Robinson Humphrey for its out-of-pocket expenses, including fees and expenses of legal counsel and any other advisor retained by SunTrust Robinson Humphrey, and to indemnify SunTrust Robinson Humphrey and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

FINANCING ARRANGEMENTS

In connection with the merger agreement, CIF has obtained commitment letters from Congress Financial Corporation (Southern) and Fremont Investment & Loan to provide an aggregate of \$115 million in loans to finance the merger consideration on the terms and conditions set forth in the commitment letters. PNC Bank, National Association, has agreed, subject to specified conditions, to serve as co-agent with respect to the loan contemplated by the Congress Financial commitment letter. As of the date of this proxy statement, these commitment letters are in full force and effect and have not been terminated.

Congress Financial's obligation to provide a \$70 million credit facility is subject to a number of conditions, including those set forth below. The satisfaction of the conditions set forth below is determined by Congress Financial, in its discretion. References to NSI in the following conditions mean NSI, following the completion of the merger.

- the execution of definitive documentation for the credit facility;
- Congress Financial shall have perfected first priority security interests in and liens to NSI's present and future personal property assets, which are to serve as collateral for Congress Financial's loan;
- NSI shall have a specified amount of cash available after the payment of all fees and expenses of the merger;
- NSI shall have satisfied its outstanding obligations to Wachovia Bank, N.A.;
- NSI shall have obtained all necessary consents and approvals to enter into the credit facility and the merger;
- Congress Financial shall have received all consents and waivers from third parties in order to permit and perfect Congress Financial's security interests in the collateral;
- Congress Financial shall have received evidence of insurance coverage and lender's loss payee endorsements in favor of Congress Financial as to casualty and business interruption insurance;
- there shall be no event of default under any of the financing agreements;

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- Congress Financial shall have received an opinion with respect to the solvency of NSI following the transactions contemplated by the commitment letter;
- the satisfactory completion of customary legal due diligence;

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- Congress Financial shall have received evidence that NSI has received not less than \$20 million in immediately available funds in equity capital contributions;
- Congress Financial shall have received evidence that NSI has received not less than \$45 million in immediately available funds from another term loan;
- the syndication of the credit facility so that Congress Financial holds \$30 million or less of the aggregate commitments under the credit facility; and
- no material adverse change in the business, operations or prospects of CIF or NSI shall have occurred.

Fremont's obligation to provide a \$45 million term loan is subject to a number of conditions, including those set forth below. The satisfaction of the conditions set forth below is determined by Fremont, in its discretion. References to NSI in the following conditions mean NSI, following the completion of the merger.

- the execution of definitive documentation for the term loan;
- NSI shall be the sole owner of the real property listed in the commitment letter, which is to serve as collateral for Fremont's loan, with good and marketable title and rights thereto;
- Fremont shall have approved the businesses, properties, financial condition, capability and such other factors as Fremont deems material with regard to NSI;
- Fremont shall have approved the value, location, condition and other characteristics of NSI's real property;
- the real property shall have been appraised at a specified amount;
- Fremont shall have received one or more environmental reports relating to the real property, which reports shall disclose no environmental conditions or hazardous waste on or under the real property which are unacceptable to Fremont;
- Fremont shall have received evidence that all permits, licenses and other approvals required to construct, lease, use, manage and operate the real property have been obtained and are in full force and effect;
- Fremont shall have received evidence that the real property complies with all laws, rules and regulations of all governmental authorities having jurisdiction over the real property;

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- Fremont shall have received a preliminary title report covering the real property and all recorded documents referenced therein;
- the first priority security interest of Fremont with respect to the real property shall be insured by a title insurance policy, issued by a title company acceptable to Fremont;
- Fremont shall have received evidence of the various types of insurance required by the loan documentation;
- Fremont shall have approved all contracts and other agreements affecting the real property;
- Fremont shall have received evidence that the equity investment by Michael R. Kelly in NSI following the merger is no less than \$20 million and on the closing date of the merger NSI has no less than \$9 million in available working capital;
- no event of default shall exist under any of the loan documents; and
- Fremont shall have received an opinion from its counsel that the asbestos liability of NSI is adequately covered by insurance policies/existing reserves for the next ten years.

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In addition, NS Acquisition Corp. has delivered to NSI an equity commitment letter which generally provides that:

- Michael R. Kelly will use commercially reasonable efforts to cause the contribution to NS Acquisition Corp. of \$20 million in cash, which amount consists of the proceeds of a loan to be secured on a first priority basis by the equity interests in specified entities controlled by affiliates of CIF;
- from and after the effective time of the merger, Mr. Kelly will use commercially reasonable efforts to provide for the pledge for the benefit of NSI of CIF's affiliates' right, title and interest in and to such equity interests in such entities, when and as necessary, in NSI's determination, to satisfy the obligations of NSI following the merger; and
- if, upon liquidation of such equity interests prior to the date (not less than one year after the closing) on which NSI receives a solvency opinion from a nationally recognized financial advisor, the aggregate net proceeds are less than \$25 million, Mr. Kelly will personally fund the shortfall up to \$25 million to the extent NSI determines to be necessary.

NS Acquisition Corp. has agreed in the merger agreement to use commercially reasonable efforts to obtain the financing for the merger and to satisfy the conditions set forth in the commitment letters. NS Acquisition Corp. has represented in the merger agreement that, as of the date of the merger

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agreement, the funds to be made available under the commitment letters will be sufficient to enable NS Acquisition Corp. to pay the aggregate merger consideration and all of its fees and expenses related to the transactions contemplated by the merger agreement. NS Acquisition Corp. has also agreed to use commercially reasonable efforts to find substitute financing as promptly as possible in the event that any lender refuses to provide the financing described in the commitment letters; provided, that any such substitute financing shall be on terms and conditions no less favorable to NS Acquisition Corp. than the terms and conditions of the financing so substituted.

NS Acquisition Corp.'s receipt of the proceeds of the financing pursuant to the commitment letters is a condition to the consummation of the merger. As of the date of this proxy statement, NS Acquisition Corp. has not yet completed its financing, and no assurance can be given that its financing will be completed. NS Acquisition Corp. currently does not have any alternative financing commitments in the event that the financing with Congress Financial or Fremont is not obtained.

CERTAIN EFFECTS OF THE MERGER

As a result of the merger, the separate corporate existence of NS Acquisition Corp. will cease and NSI will continue as the surviving corporation. At the closing of the merger, all outstanding NSI common stock, other than shares for which appraisal rights have been properly exercised, will be converted into the right to receive a cash payment of \$10.00 per share. The merger agreement and the merger will also have the following effects:

- Effect on Holders of NSI Common Stock. If the merger is completed, holders of NSI common stock (except for dissenting stockholders who are entitled to and who have exercised appraisal rights) will receive a cash payment of \$10.00 per share and will not have the opportunity to participate in any future earnings, profits and growth of NSI.
- Effect on Holders of Options to Purchase NSI Common Stock. We have agreed to use commercially reasonable efforts to provide that each option granted under our stock option or compensation plans which is outstanding immediately prior to the effective time of the merger will be cancelled in exchange for a lump sum cash payment (except for NSI's executive officers, each of whom will surrender their outstanding options without cash payment as described in "The Merger -- Interests of NSI's Directors and Officers in the Merger"). In connection with such obligation, on April 25, 2003, we commenced a tender offer for any and all outstanding options to purchase NSI common stock. Pursuant to the terms of the offer, upon the consummation of the

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offer, (1) each tendered option will be cancelled and (2) for each of these options, we will pay to the holder, reduced in each case by any applicable tax withholding, the greater of:

- the amount by which \$10.00 exceeds the exercise price of the option, if any; or

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- \$0.10.

The offer is subject to a number of conditions, including the consummation of the merger.

- Effect on Holders of Restricted Stock. We have agreed to take all actions necessary and appropriate to provide that each share of NSI restricted stock granted under any compensation plan which is outstanding immediately prior to the effective time of the merger will become fully vested and will be cancelled and converted into the right to receive \$10.00 per share, subject to any required tax withholding. Each share of unissued NSI restricted stock underlying a performance-based award granted under any stock option or compensation plan which is outstanding immediately prior to the effective time of the merger will be issued in amounts reflecting full satisfaction of any performance criteria and will be deemed fully vested, effective as of the time of the approval of the merger by NSI's stockholders, and will be cancelled and converted into the right to receive \$10.00 per share, subject to any required tax withholding.
- NYSE Listing and SEC Registration. After the merger, NSI common stock will no longer be listed on The New York Stock Exchange or registered with the SEC.
- Effect on NSI and NS Acquisition Corp. Upon completion of the merger, NSI will continue to operate as a textile rental and envelope manufacturing business. As a result of the merger, and after cash payments to NSI stockholders and optionholders under the merger agreement, NS Acquisition Corp. will merge into NSI, with NSI continuing as the surviving corporation, incorporated under the laws of the State of Delaware.
- Effect on Current NSI Management. NSI has agreed to offer to enter into employment agreements with the following executive officers of NSI: Richard W. LeBer, J. Randolph Zook, Carol Ellis Morgan and K. Gene Laminack. These agreements will govern services to be performed after the closing of the merger. Additionally, NSI has agreed to enter into amended severance arrangements with two of NSI's current executive officers: Brock A. Hattox and Chester J. Popkowski. See "The Merger -- Interests of NSI's Directors and Officers in the Merger" below for a description of the terms of the employment agreements and the amended severance agreements.

For federal income tax purposes, the receipt of the merger consideration by holders of NSI common stock pursuant to the merger will generally be a taxable sale of the holders' common stock. See "Certain Federal Income Tax Consequences."

CONDUCT OF THE BUSINESS OF NSI IF THE MERGER IS NOT COMPLETED

If the merger is not completed, we will continue our ongoing operations for the foreseeable future and may continue to explore possibilities for the potential sale or merger of NSI. However, there can be no assurance that any such opportunities will be made available to us, or if made available, will be on terms acceptable or fair to NSI and our stockholders. We currently expect to complete the merger in the second calendar quarter of 2003. However, we cannot predict the exact timing of the merger because the merger is subject to specified closing conditions. Moreover, both NSI and NS Acquisition Corp. generally have the option to terminate the merger agreement if the merger is not

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completed by September 30, 2003.

INTERESTS OF NSI'S DIRECTORS AND OFFICERS IN THE MERGER

When considering the recommendation of NSI's board of directors, you should be aware that several of NSI's directors and officers have interests in the merger that are different from, or in addition to, yours. As a result, these directors and officers may be more likely to vote to adopt and approve the merger agreement and the merger than NSI's stockholders generally.

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Employment Agreements with NSI Executive Officers

In connection with the merger, NSI will enter into employment agreements with Richard W. LeBer, J. Randolph Zook, Carol Ellis Morgan and K. Gene Laminack, each of whom will serve as executive officers of NSI. The material terms of the employment agreements are similar for each executive officer and are summarized below.

The employment agreements will provide for an initial term of two years, with one-year extensions unless either party provides notice not to extend the agreement. Each executive will receive a base salary (equal to approximately \$300,000, \$300,000, \$350,000 and \$225,000 for Mr. LeBer, Mr. Zook, Ms. Morgan and Mr. Laminack, respectively), and be eligible to receive an annual bonus based on achieving performance targets in accordance with a bonus plan to be established by NSI. Each executive will waive all right to any bonus accrued through the effective date of the merger under NSI's Management Compensation and Incentive Plan and any outstanding Aspiration Achievement Incentive Awards under NSI's Long-Term Achievement Incentive Plan and to future participation in such plans. The executives will also be eligible to participate in such other annual bonus and incentive compensation programs and benefit plans, programs and policies as the board of directors shall make available to executive officers from time to time. NSI also agrees to take all reasonable steps to ensure that each executive will be provided coverage under directors' and officers' liability insurance, on substantially similar terms as contained in the insurance in place for NSI's directors and executive officers prior to the merger. In Mr. Zook's agreement, NSI has also agreed to deposit in a rabbi trust or similar arrangement \$752,598, which equals the present value of the benefits he has earned under his Supplemental Executive Retirement Plan, or SERP, as of the effective date of the merger. In the agreements, each employee will agree to specified nonsolicitation, noncompetition and confidentiality arrangements.

During the term of the agreements, if NSI terminates the executive's employment other than for Cause (as defined in the agreements), death or disability, or if the executive resigns for Good Reason (as defined in the agreements), NSI will pay or provide to such executive, among other things, all amounts earned or accrued through but not paid as of the termination date, including base salary, expense reimbursements and a pro rata bonus. Also, NSI will pay the executive as severance pay a lump sum cash payment equal to two times the sum of the executive's base salary then in effect and an annual bonus amount (equal to the greater of: (1) the amount of annual bonus paid or payable to the executive for the most recent fiscal year ending prior to the termination date, or (2) the amount of annual bonus that the executive would otherwise be entitled to receive for the fiscal year during which the termination date occurs based on the percentage of the quarterly performance targets for such fiscal year attained as of the end of the most recent fiscal quarter ending prior to the termination date, and treating such percentage as being attained for the full fiscal year). Additionally, the executive will be entitled to a lump sum

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supplemental retirement benefit and will be entitled to receive life insurance and disability and medical coverage for 24 months following termination. In the event that the payments to the executive upon termination of employment result in the excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), being imposed upon executive, NSI has agreed to pay such excise tax and to gross-up the executive for any taxes on such excise tax.

Each executive has also agreed to waive the executive's rights under the current Severance Protection Agreement and to agree to cancellation of all of the executive's outstanding stock options without the payment of any further consideration.

Severance Agreements

In connection with the merger, NSI has agreed to enter into amendments to the Severance Protection Agreements between NSI and each of Brock A. Hattox, currently NSI's Chairman, Chief Executive Officer and President, and Chester J. Popkowski, currently NSI's Senior Vice President, Chief Financial Officer and Treasurer. The definitive agreements will be executed prior to the merger, and will be effective the day after the effective date of the merger, but NSI and NS Acquisition Corp. intend such agreements to contain substantially the terms set forth below. These amendments provide the executive with

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compensation and benefits comparable to the amounts they were expected to receive under the Severance Protection Agreements in the event of their termination of employment and provide, in partial consideration for the amended agreement, that the executive will be subject to specified confidentiality, noncompetition and nonsolicitation restrictions. It is anticipated that immediately following the merger, Messrs. Hattox's and Popkowski's employment with NSI will terminate and each will receive benefits under the amended Severance Protection Agreement as described below.

NSI and Mr. Hattox will enter into an amendment to Mr. Hattox's current Severance Protection Agreement to provide for a lump sum base salary and bonus payment of \$1.92 million and a pro rata bonus payment equal to \$269,260. Additionally, all of Mr. Hattox's NSI restricted stock awards will immediately vest, regardless of whether certain performance conditions contained therein have been met. Mr. Hattox will receive a lump sum supplemental retirement benefit equal to approximately \$1 million and a supplemental 401(k) plan payment of \$7,876. Mr. Hattox will also be entitled to receive disability, medical, dental and hospitalization coverages for 24 months following the effective date of the agreement as if he had remained actively employed as an executive of NSI. The agreement provides that all rights to outstanding NSI stock options will be cancelled. In partial consideration for the amended agreement, Mr. Hattox has agreed that for a period of two years, he will be subject to specified confidentiality, noncompetition and nonsolicitation restrictions. Mr. Hattox has also agreed to waive any rights to his annual bonus for the current fiscal year and to his outstanding Aspiration Achievement Incentive Award. Finally, Mr. Hattox will not be entitled to indemnification from NSI for any excise tax under Section 4999 of the Code, and NSI agrees that Mr. Hattox will have no indemnification obligation to NSI for any loss of NSI tax deduction under Section 280G of the Code. NSI will pay Mr. Hattox's expenses related to any audit and claim for excise taxes under Section 4999 of the Code and may assume the defense of such claim, but shall not be responsible for any excise tax determined to be due from Mr. Hattox.

NSI and Mr. Popkowski will enter into an amendment to Mr. Popkowski's

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current Severance Protection Agreement to provide for a lump sum base salary and bonus payment of \$430,000 and a pro rata bonus payment equal to \$67,315. Additionally, all of Mr. Popkowski's NSI restricted stock awards will immediately vest, regardless of whether certain performance conditions contained therein have been met. Mr. Popkowski will receive a lump sum supplemental retirement benefit equal to \$27,411 and a supplemental 401(k) plan payment of \$7,876. Under his agreement, Mr. Popkowski will be entitled to receive life insurance, disability, medical, dental and hospitalization coverages for 24 months following the effective date of the agreement as if he had remained actively employed as an executive of NSI. The agreement provides that all rights to outstanding NSI stock options will be cancelled. In partial consideration for the amended agreement, Mr. Popkowski has agreed that for a period of one year, he will be subject to specified confidentiality, noncompetition and nonsolicitation restrictions. Mr. Popkowski has agreed to waive any rights to his annual bonus for the current fiscal year and to his outstanding Aspiration Achievement Incentive Award. Finally, Mr. Popkowski will not be entitled to indemnification from NSI for any excise tax under Section 4999 of the Code, and NSI agrees that Mr. Popkowski has no indemnification obligation to NSI for any loss of NSI tax deduction under Section 280G of the Code. NSI will pay Mr. Popkowski's expenses related to any audit and claim for excise taxes under Section 4999 of the Code and may assume the defense of such claim, but shall not be responsible for any excise tax determined to be due from Mr. Popkowski.

Pursuant to a consulting agreement which NSI and Mr. Popkowski will enter into, at or prior to the effective time of the merger, Mr. Popkowski will also be paid \$20,200 per month by NSI for 12 months in consideration for providing advice to NSI on certain financial matters.

Indemnification Pursuant to the Merger Agreement

Pursuant to the terms of the merger agreement, all rights to indemnification and exculpation by NSI existing in favor of each present and former director and officer of NSI as provided in NSI's Certificate of Incorporation or By-Laws, in each case as in effect as of April 1, 2003, or pursuant to any other agreements in effect on such date, will survive the merger, and the surviving corporation of the merger will (1) continue such rights in full force and effect for a period of at least six years from the effective time of the merger and (2) perform, in a timely manner, all of its obligations with respect to such rights.

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Additionally, prior to the effective time of the merger, NSI has agreed to purchase and pre-pay in full "tail" directors' and officers' liability insurance providing for coverage with respect to matters occurring prior to the effective time for six years from the effective time, which coverage is reasonably equivalent in scope and amount to the directors' and officers' liability insurance policies in place as of April 1, 2003; provided, however, that NSI will not, without NS Acquisition Corp.'s prior written consent, pay or agree to pay an aggregate premium for such insurance in excess of \$1.7 million.

REGULATORY MATTERS

Under the HSR Act and the rules and regulations promulgated under it by the Federal Trade Commission, the merger cannot be consummated until certain notifications have been given and certain information has been furnished to the Federal Trade Commission and the Antitrust Division of the United States Department of Justice, and the required waiting periods have ended. Expiration of the required waiting periods under the HSR Act is a condition to the consummation of the merger. On April 29, 2003, we received notice from the Federal Trade Commission that we received early termination of the applicable

waiting periods under the HSR Act.

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THE MERGER AGREEMENT

The following summarizes the material provisions of the merger agreement and is qualified in its entirety by reference to the complete text of the merger agreement. The merger agreement included in this proxy statement as Annex A contains the complete terms of that agreement and stockholders should read it carefully and in its entirety.

MERGER CONSIDERATION; EFFECT OF MERGER

At the effective time of the merger, NS Acquisition Corp. will be merged with and into NSI. As a result of the merger, NS Acquisition Corp.'s separate corporate existence will cease and NSI will continue as the surviving corporation governed by the laws of the State of Delaware.

Upon completion of the merger, each outstanding share of NSI common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost) will be cancelled and converted into the right to receive a cash payment of \$10.00 per share, without interest.

EFFECTIVE TIME

The merger will be effective as promptly as practicable, and in any event within five business days, following stockholder adoption and approval of the merger agreement and the merger at the special meeting and satisfaction or waiver of