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CH ENERGY GROUP INC
Form DEF 14A
March 02, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. ____)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []
Check the appropriate box:

- [] Preliminary Proxy Statement
- [] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
- [X] Definitive Proxy Statement
- [] Definitive Additional Materials
- [] Soliciting Material Pursuant to ss. 240.14a-12

CH ENERGY GROUP, 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):

- [X] No fee required.
- [] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[] Fee paid previously with preliminary materials.
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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

CH ENERGY GROUP, INC.
284 SOUTH AVENUE

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POUGHKEEPSIE, NEW YORK 12601-4879

March 3, 2004

To the Holders of Common Stock:

I am pleased to invite you to the Annual Meeting of Shareholders of CH Energy Group, Inc. (the "Corporation").

The Annual Meeting of Shareholders will be held at the Corporation's office in Poughkeepsie, New York on Tuesday, April 27, 2004, at 10:30 AM. A Notice of the Annual Meeting of Shareholders and Proxy Statement are attached.

We request that you mark, sign, date, and mail the enclosed proxy promptly. Prompt return of your voted proxy will reduce the cost of further mailings. As an alternative to returning your proxy by mail, you can also vote your shares by proxy by calling the toll-free number on your proxy or by using the Internet at <http://www.eproxyvote.com/chg>. Both methods of voting are available twenty-four hours a day, seven days a week, and will be accessible until 12:01 AM on April 20, 2004. You may revoke your voted proxy at any time prior to the meeting or vote in person if you attend the meeting.

The response from our shareholders in the past to annual proxy statements has been outstanding, and this year we are once again looking forward to receiving your proxy.

You are cordially invited to attend the Annual Meeting of Shareholders in person. It is always a pleasure for me and the other members of the Board of Directors to meet with our shareholders. We look forward to greeting as many of you as possible at the meeting.

Paul J. Ganci
EXECUTIVE CHAIRMAN OF THE BOARD

CH ENERGY GROUP, INC.

284 SOUTH AVENUE
POUGHKEEPSIE, NEW YORK 12601-4879

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Holders of Common Stock:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders

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of CH Energy Group, Inc. (the "Corporation") will be held:

TIME 10:30 a.m. on Tuesday, April 27, 2004

PLACE Office of the Corporation
284 South Avenue
Poughkeepsie, New York 12601-4879

ITEMS OF BUSINESS . (1) To elect three Directors whose terms expire in April 2007; and
(2) To act upon any other matters that may properly come before the meeting.

RECORD DATE Holders of Record of Common Shares on the close of business on March 1, 2004, are entitled to vote at the meeting.

ANNUAL REPORT The Annual Report to Shareholders, as combined with the Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission, is enclosed.

PROXY VOTING It is important that your shares be represented and voted at the Annual Meeting of Shareholders. Please MARK, SIGN, DATE, AND RETURN PROMPTLY the enclosed proxy in the postage-paid envelope furnished for that purpose. As an alternative to returning your proxy by mail, you can also vote your shares by proxy by calling the toll-free number on your proxy or by using the Internet at <http://www.eproxyvote.com/chg>. Both Internet and telephone voting are available twenty-four hours a day, seven days a week, and will be accessible until 12:01 AM on April 20, 2004. You may revoke your voted proxy at any time prior to the meeting or vote in person if you attend the meeting. Any proxy may be revoked in the manner described in the accompanying proxy statement at any time prior to its exercise at the meeting.

By Order of the Board of Directors,

Lincoln E. Blevens
CORPORATE SECRETARY

March 3, 2004

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PROXY STATEMENT

The enclosed proxy is being solicited by the Board of Directors of CH Energy Group, Inc. (the "Corporation") for use in connection with its Annual Meeting of Shareholders to be held on April 27, 2004 (the "Annual Meeting"). This proxy statement and enclosed proxy are being sent to the Corporation's shareholders on or about March 3, 2004. The mailing address of the principal executive office of the Corporation is 284 South Avenue, Poughkeepsie, New York 12601-4879.

The Corporation is the holding company parent of Central Hudson Gas & Electric Corporation ("Central Hudson") and Central Hudson Enterprises Corporation ("CHEC"), and their respective subsidiaries.

SHAREHOLDERS ENTITLED TO VOTE

The record of shareholders entitled to notice of, and to vote at, the Annual Meeting was taken at the close of business on March 1, 2004. At that date, there were 15,762,000 shares of common stock (\$0.10 par value) of the Corporation ("Common Stock") outstanding. Each share of Common Stock is entitled to one vote. No other class of securities is entitled to vote at the Annual Meeting.

PROXIES

HOW YOU CAN VOTE

Shareholders of record can give a proxy to be voted at the Annual Meeting (i) by telephone, (ii) electronically, using the Internet, at <http://www.eproxyvote.com/chg>, or (iii) by mail. Shareholders who hold their shares in "street name" must vote their shares in the manner prescribed by their brokers.

The telephone and Internet voting procedures have been set up for shareholder convenience and have been designed to authenticate shareholder identity, to allow shareholders to give voting instructions, and to confirm that those instructions have been recorded properly. If shareholders of record wish to vote by proxy by telephone or by using the Internet, please refer to the specific instructions set forth on the enclosed proxy. If shareholders wish to vote using a paper format and return their signed proxy before the Annual Meeting, their shares will be voted as directed.

Whether shareholders choose to vote by telephone, electronically using the Internet, or by mail, they can specify whether their shares should be voted for the Board of Directors' nominees for Director, as shown on the proxy.

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IF SHAREHOLDERS DO NOT SPECIFY ON THEIR PROXY (OR WHEN GIVING THEIR PROXY BY TELEPHONE OR BY USING THE INTERNET) HOW THEY WANT TO VOTE THEIR SHARES, IT IS THE INTENTION OF THE PERSONS NAMED ON THE PROXY TO VOTE "FOR" THE ELECTION OF THE NOMINEES FOR DIRECTOR AS SET FORTH UNDER "PROPOSAL NO. 1--ELECTION OF DIRECTORS" HEREIN. ABSTENTIONS AND BROKER NON-VOTES ARE VOTED NEITHER "FOR" NOR "AGAINST" AND HAVE NO EFFECT ON THE VOTE BUT ARE COUNTED IN THE DETERMINATION OF A QUORUM.

REVOCAION OF PROXIES

A shareholder may revoke his or her proxy at any time before it is exercised in any of three ways:

- (a) by submitting written notice of revocation to the Corporate Secretary;
- (b) by submitting another proxy by telephone, electronically, using the Internet, at <http://www.eproxyvote.com/chg>, or by mail that is later dated and (if by mail) that is properly signed; or
- (c) by voting in person at the Annual Meeting.

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COST OF PROXY SOLICITATION

The cost of preparing, printing, and mailing the notice of meeting, proxy statement, proxy, and annual report will be borne by the Corporation. Proxy solicitation other than by use of the mail may be made by regular employees of the Corporation by telephone and personal solicitation. Banks, brokerage houses, custodians, nominees, and fiduciaries are requested to forward soliciting material to their principal(s) and to obtain authorization for the execution of proxies, and may be reimbursed for their out-of-pocket expenses incurred in that connection. In addition, the Corporation has retained D.F. King & Co., Inc. of New York, New York, a proxy solicitation organization, to assist in the solicitation of proxies. The fee of such organization in connection therewith is estimated to be \$7,000, plus reasonable out-of-pocket expenses.

SHAREHOLDER COMMUNICATIONS

Highlights of the 2004 Annual Meeting of Shareholders will be published on the Corporation's Internet site at www.chenergygroup.com and in the Corporation's May 2004 Report to Shareholders. The text of the remarks of the Executive Chairman of the Board and of the President and Chief Executive Officer at the Annual Meeting will also be published on the same Internet site.

Shareholders may obtain information relating to financial and statistical reports of the Corporation and information relating to their own share ownership by contacting the Corporation's Director of Shareholder Relations at 845-486-5383 or by writing to the Director of Shareholder Relations at 284 South Avenue, Poughkeepsie, New York 12601-4879.

Shareholder communications related to any aspect of the Corporation's business are also welcome. Space for comments is provided on the proxy given to shareholders of record.

Shareholders may also submit written communications to the Corporation in care of the Corporate Secretary at 284 South Avenue, Poughkeepsie, New York

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12601-4879. Although all communications may not be answered on an individual basis, they do assist the Directors and management in addressing the needs of shareholders.

Each such communication received by the Corporate Secretary from a shareholder is reviewed by him to determine how it should be handled. Not all communications from shareholders are communicated directly to the Board of Directors.

If the subject matter of a communication from a shareholder is a concern or complaint regarding the accuracy or integrity of the Corporation's accounting, auditing, or financial reporting, the Corporate Secretary follows the procedures established by the Board of Directors for "Receiving and Handling Concerns or Complaints Regarding Accounting, Auditing or Financial Reporting." These procedures are set forth in Section IV of the Corporation's Code of Business Conduct and Ethics, which is available on the Corporation's Internet site at www.chenergygroup.com.

A shareholder may send a written communication to the Board of Directors or to specific individual Directors by addressing the communication to the Board of Directors or to an individual Director and submitting the communication to the Corporation in care of the Corporate Secretary at 284 South Avenue, Poughkeepsie, New York 12601-4879.

The Vice Chairman of the Board of Directors, Heinz K. Fridrich, is an independent Director and has been designated by the Board to preside at the executive sessions of the non-management Directors.

If interested parties wish to make a concern known to the non-management Directors, they may do so in a writing submitted in accordance with the procedures established by the Board of Directors for "Receiving and Handling Concerns or Complaints Regarding Accounting, Auditing or Financial Reporting." These procedures are set forth in Section IV of the Corporation's Code of Business Conduct and Ethics, which is available on the Corporation's Internet site at www.chenergygroup.com. Each such writing submitted in accordance with these procedures will be communicated directly to Mr. Fridrich.

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SHAREHOLDER PROPOSALS

A shareholder who would like to have a proposal included in the Corporation's 2005 Proxy Statement must submit the proposal so that the Corporate Secretary receives it no later than November 2, 2004. The Rules of the Securities and Exchange Commission contain procedures governing shareholder proposals that may be included in a proxy statement. In addition, the Corporation's By-laws must be followed.

The By-laws require any shareholder wishing to make a nomination for Director or to introduce a proposal or other business at the Corporation's 2005 Annual Meeting of Shareholders to give the Corporation advance written notice thereof no earlier than January 28, 2005, and no later than February 27, 2005.

A copy of the Corporation's By-laws may be obtained by writing to the Corporate Secretary, CH Energy Group, Inc., 284 South Avenue, Poughkeepsie, New York 12601-4879.

CURRENT DIRECTORS, CLASSES, AND TERMS OF OFFICE

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The Corporation's Restated Certificate of Incorporation and By-laws require that the Board of Directors be divided into three classes as nearly equal in number as possible with staggered terms so that, at each Annual Meeting of Shareholders, one class of Directors will stand for election to a three-year term. The Directors currently in classes are listed below; their respective terms of office expire as of the Annual Meeting of Shareholders in the years listed below:

CLASS I - 2004
Edward F. X. Gallagher
Steven V. Lant

CLASS II - 2005
Steven M. Fetter
Stanley J. Grubel

CLASS III - 2006
Heinz K. Fridrich
Paul J. Ganci
E. Michel Kruse

On February 20, 2004, the Board of Directors increased the number of Directors by one to a total of eight, and elected Jeffrey D. Tranen as a Director. Mr. Tranen, as a Director elected by the Board, serves without a class designation until the Annual Meeting. If elected at the Annual Meeting, Mr. Tranen will be a Class I Director with a term expiring at the Annual Meeting of Shareholders in 2007.

Three Class I Directors are to be elected by a plurality of the votes cast at the Annual Meeting by the holders of shares entitled to vote.

The nominees for these Directorship positions are set forth in Proposal No. 1 below. Although the Board of Directors does not contemplate that the nominees will be unable to serve, should such a situation arise prior to the Annual Meeting, the proxies will be voted in accordance with the best judgment of the persons acting thereunder.

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PROPOSAL NO. 1 - ELECTION OF DIRECTORS

The Board of Directors proposes the following nominees to be elected to the Board of Directors at the Annual Meeting, their terms to expire at the Annual Meeting of Shareholders in the year noted below or until a successor is elected and qualified. The Board of Directors recommends a vote in favor of each such nominee:

CLASS I - 2007
Edward F. X. Gallagher
Steven V. Lant
Jeffrey D. Tranen

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL NO. 1.

NOMINEES AND OTHER DIRECTORS

The following table sets forth (i) the name and age of each nominee and of

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each Director of the Corporation whose term of office continues after the Annual Meeting, (ii) the principal occupation and employment of each person during the past five years, (iii) positions and offices with the Corporation held by each person, and (iv) the period during which each has served as a Director of the Corporation. Each nominee is currently serving as a Director of the Corporation.

NAME AND AGE	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS(1)	POSITIONS OR OFFICES THE CORPORATION
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NOMINEES FOR ELECTION AS CLASS I DIRECTORS SERVING FOR A TERM EXPIRING

Edward F. X. Gallagher 70 [PHOTO OMITTED]	Chairman of a group of transportation companies, including Gallagher Truck Center, Leprechaun Lines, and TLC Tours Newburgh, NY	Director
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Steven V. Lant 47 [PHOTO OMITTED]	Present positions; except Chief Operating Officer and Chief Financial Officer of the Corporation, 2002-2003; Chief Financial Officer of the Corporation, of Central Hudson, and of Central Hudson Energy Services, Inc. ("CH Services"), 2001-2002; Chief Financial Officer and Treasurer of the Corporation, of Central Hudson, and of CH Services, 1999-2001; Chief Financial Officer, Treasurer, and Corporate Secretary of Central Hudson, 1998-1999 Poughkeepsie, NY	President and Chief Executive Officer of the Corporation(3); Executive Officer of Central Hudson; and Chief Executive Officer of CHEC; Director of the Corporation, of Central Hudson, and of
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NAME AND AGE	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS(1)	POSITIONS OR OFFICES THE CORPORATION
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Jeffrey D. Tranen 57 [PHOTO OMITTED]	Senior Vice President, Lexecon Inc.; Director, Doble Engineering Company, MA; Director, Oglethorpe Power Corporation, GA; Director, Earthfirst Technologies Incorporated, FL, 2001-2002; President and Chief Operating Officer, Sithe Northeast Inc., 1999-2000; President and Chief Executive Officer, California Independent System Operator, 1997-1999 New York, NY	Director
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INCUMBENT CLASS II DIRECTORS SERVING FOR A TERM EXPIRING IN 2005

Steven M. Fetter President, Regulation UnFettered; Board member, Director; Chairma
 51 National Regulatory Research Institute (at Audit Committee
 [PHOTO OMITTED] Ohio State University), Keystone Center Board of Direct
 Energy Program, Regulatory Information
 Technology Consortium; Group Head and Managing
 Director, Global Power Group, FitchRatings,
 1998-2002; Chairman and Commissioner of the
 Michigan Public Service Commission, 1987-1993;
 Acting Associate Deputy Under Secretary of
 Labor, U.S. Department of Labor, 1987
 Fair Haven, NJ

Stanley J. Grubel Consultant; Director, Asyst Technologies, Inc., Director; Chairma
 60 CA; Vice President and General Manager, Compensation Co
 [PHOTO OMITTED] Philips Semiconductor Manufacturing, Inc., of the Board of
 2000-2001; Chief Executive Officer, MiCRUS,
 1995-2000
 White Plains, NY

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PRINCIPAL OCCUPATION AND BUSINESS
 EXPERIENCE DURING THE PAST
 FIVE YEARS (1)

NAME AND AGE POSITIONS OR OFFI
 THE CORPORATIO

INCUMBENT CLASS III DIRECTORS SERVING FOR A TERM EXPIRING IN 2006

Heinz K. Fridrich Industry Professor Emeritus, University of Director; Vice Ch
 70 Florida at Gainesville; Director, of the Board of
 [PHOTO OMITTED] Veeco Instruments, NY; Director, Solectron and Chairman of
 Corp., CA and Nominating
 Fernandina Beach, FL of the Board of

Paul J. Ganci Present positions since July 2003; Chairman, Executive Chairma
 66 President and Chief Executive Officer of the of the Corporat
 [PHOTO OMITTED] Corporation, 2002-2003; Chairman of the Executive Chair
 Board and Chief Executive Officer of the Board of Centra
 Corporation, 1998-2002 Executive Chair
 Poughkeepsie, NY of CHEC

E. Michel Kruse Retired; Chairman and Senior Advisor - Director; Chairma
 60 Financial Institutions Group of UBS Warburg, and Finance Co
 [PHOTO OMITTED] 2000-2002; Chief Executive of BHF- Bank AG, Board of Direct
 Frankfurt, Germany, 1997-1999; Chief
 Financial Officer and Vice Chairman of the
 Board of The Chase Manhattan Corporation,
 1992-1996
 Greenwich, CT

-
- (1) Based on information furnished to the Corporation as of December 31, 2003. With respect to Jeffrey D. Tranen, based on information furnished by that specific individual as of February 19, 2004.
 - (2) Resigned as a Director of Central Hudson, effective December 15, 1999.
 - (3) On January 30, 2004, the Corporation announced the appointment of Mr. Lant as Chairman of the Board of Directors of the Corporation, effective April 27, 2004, following the Annual Meeting of Shareholders. Mr. Ganci will step down from his position as Executive Chairman of the Board at the conclusion of the Annual Meeting. Mr. Lant will continue to serve as President and Chief Executive Officer of the Corporation.

GOVERNANCE OF THE CORPORATION

The Board of Directors has eight members, six of whom are independent under the definition of independence contained in the Listed Company Manual of the New York Stock Exchange. Only independent Directors serve on the Corporation's Audit Committee, Governance and Nominating Committee, and Compensation Committee.

During 2003, the Board of Directors held nine meetings and the Committees held a total of twenty-six meetings. All Directors then serving on the Board attended all of the Board meetings and all of the meetings of the Committees on which they served.

The Board of Directors has adopted statements of governance principles set forth in a document entitled "Corporate Governance." Section I of this document sets forth the Corporation's statement of "Our Principles and Culture." Section II of this document sets forth the Corporation's statement of "Our Governance Guidelines." The entire document is available on the Corporation's Internet site at www.chenergygroup.com.

COMMITTEES OF THE BOARD OF DIRECTORS

In 2003, the Board of Directors restructured its standing Committees to better reflect the Board's current focus and recent legislative and rule changes promulgated by the U.S. Congress, the Securities and Exchange Commission, and the New York Stock Exchange. The functions of the former Compensation and Succession Committee, which consisted only of independent Directors, are now handled by the Governance and Nominating Committee and by the Compensation Committee. The former Business Development Committee and the former Finance Committee were reconstituted as the Strategy and Finance Committee. The Corporation's standing Committees are the Audit Committee, the Compensation Committee, the Executive Committee, the Governance and Nominating Committee, and the Strategy and Finance Committee. The Audit Committee, the Compensation Committee, the Governance and Nominating Committee, and the Strategy and Finance Committee are described below.

AUDIT COMMITTEE

The members of the Audit Committee are Steven M. Fetter, Heinz K. Fridrich, Edward F. X. Gallagher, and E. Michel Kruse. Mr. Fetter is the Chairman of the Audit Committee. The Audit Committee met seven times in 2003.

The Board of Directors has determined that these Committee members have no financial or personal ties to the Corporation (other than director compensation

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and equity ownership as described in this proxy statement) and meet the New York Stock Exchange standard for independence.

The Board of Directors has also determined that E. Michel Kruse meets the Securities and Exchange Commission criteria for an "audit committee financial expert" and the New York Stock Exchange standard of having accounting or related financial management expertise. Mr. Kruse's extensive background and experience includes serving as the Chief Financial Officer and Vice Chairman of the Board of The Chase Manhattan Corporation.

The function of the Audit Committee is to assist the Board of Directors in its oversight of (a) the accounting and financial reporting processes of the Corporation, and (b) the auditing of the financial statements of the Corporation, and is discussed in the Report of the Audit Committee, which is set forth beginning on page 13 of this proxy statement.

The Audit Committee operates under a written Charter which sets out the functions and responsibilities of this Committee. A copy of the Charter is attached to this proxy statement as Appendix A. A copy of the Charter is also available on the Corporation's Internet site at www.chenergygroup.com.

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COMPENSATION COMMITTEE

The members of the Compensation Committee are Steven M. Fetter and Stanley J. Grubel. Mr. Grubel is the Chairman of the Compensation Committee. The Compensation Committee (and its predecessor committee, the Compensation and Succession Committee) met seven times in 2003.

The Board of Directors has determined that these Committee members have no financial or personal ties to the Corporation (other than director compensation and equity ownership as described in this proxy statement) and meet the New York Stock Exchange standard for independence.

The function of the Compensation Committee is (a) to assist the Board of Directors in its oversight of the executive compensation and benefits programs of the Corporation and (b) to produce, in accordance with the rules of the Securities and Exchange Commission, an annual report on executive compensation for inclusion in the Corporation's annual proxy statement.

The Compensation Committee operates under a written Charter which sets out the functions and responsibilities of this Committee. A copy of the Charter is available on the Corporation's Internet site at www.chenergygroup.com.

GOVERNANCE AND NOMINATING COMMITTEE

The members of the Governance and Nominating Committee are Steven M. Fetter, Heinz K. Fridrich, and E. Michel Kruse. Mr. Fridrich is the Chairman of the Governance and Nominating Committee. The Governance and Nominating Committee (and its predecessor committee, the Special Committee on Corporate Governance) met five times in 2003.

The Board of Directors has determined that these Committee members have no financial or personal ties to the Corporation (other than director compensation and equity ownership as described in this proxy statement) and meet the New York Stock Exchange standard for independence.

The function of the Governance and Nominating Committee is to assist the

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Board of Directors in (a) organizing itself to effectively carry out its responsibilities and (b) nominating for election to the Board persons who have experience, backgrounds and skills appropriate for the current needs of the Corporation.

The Governance and Nominating Committee operates under a written Charter which sets out the functions and responsibilities of this Committee. A copy of the Charter is available on the Corporation's Internet site at www.chenergygroup.com.

STRATEGY AND FINANCE COMMITTEE

The members of the Strategy and Finance Committee are Edward F. X. Gallagher, Paul J. Ganci, Stanley J. Grubel, E. Michel Kruse, and Steven V. Lant. Mr. Kruse is the Chairman of the Strategy and Finance Committee.

The function of the Strategy and Finance Committee is to assist the Board of Directors in its oversight of the Corporation's strategic direction, business and financial planning, evaluation of contingencies, financing policies, and consistent implementation of action plans.

The Strategy and Finance Committee operates under a written Charter which sets out the functions and responsibilities of this Committee. A copy of the Charter is available on the Corporation's Internet site at www.chenergygroup.com.

DIRECTOR NOMINATION PROCESS

The Governance and Nominating Committee of the Board of Directors is responsible for identifying, evaluating, and recommending to the Board nominees for election as Directors of the Corporation.

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The Governance and Nominating Committee seeks to nominate persons for election to the Board of Directors who have experience, backgrounds, and skills appropriate for the current needs of the Corporation. In carrying out the nomination process, the Committee works to identify potential candidates and welcomes recommendations from other members of the Board, members of management, shareholders, and other interested persons. From time to time, the Committee also may retain a professional search firm to assist in identifying and evaluating candidates. In this connection, Jeffrey D. Tranen, who was recently elected as a Director of the Corporation and who is standing for election as a Class I Director at this Annual Meeting, was recommended to the Governance and Nominating Committee by the professional search firm of Russell Reynolds Associates, Inc. as a potential candidate for election to the Board.

On an annual basis, the Governance and Nominating Committee reviews the current size, composition, and organization of the Board and of its Committees, determines future needs and makes recommendations to the Board as appropriate. The Committee evaluates Director candidates, including incumbent Directors, and seeks to recommend nominees who would strengthen the Board and fill needs for particular skills or attributes among the Directors. This evaluation is performed in the context of Board-approved "Criteria for Selecting New Directors" and of Sections 2, 3, 4, and 5 of the Corporation's Governance Guidelines. These Sections of the Governance Guidelines relate to the functions of the Board, the responsibilities and duties of Directors, the desired qualifications of Directors, and the requirement that a majority of Directors be

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independent in accordance with the Listed Company Manual of the New York Stock Exchange. The Corporation's "Criteria for Selecting New Directors" and its Governance Guidelines are available on the Corporation's Internet site at www.chenergygroup.com. All potential candidates, including persons recommended by security holders, are evaluated in the same manner and according to the same standards.

When the Governance and Nominating Committee identifies a candidate that merits in-depth consideration, the Committee invites the Executive Chairman of the Board and the President and Chief Executive Officer to assess the person's qualifications and to discuss their views about the person with the Committee; this assessment may involve the Executive Chairman of the Board and/or the President and Chief Executive Officer meeting with the person.

When a candidate is identified by the Governance and Nominating Committee as a potential nominee for election as a new Director of the Corporation, at least two members of the Governance and Nominating Committee meet with the person in face-to-face interviews. Subsequently, the Committee meets to discuss and consider candidates' qualifications and then chooses, by majority vote of the Committee members, the persons it wishes to recommend to the Board as nominees for election as Directors of the Corporation.

A shareholder wishing to recommend a person for consideration as a potential candidate for election to the Board of Directors may do so by sending a written communication to the Governance and Nominating Committee in care of the Corporate Secretary at 284 South Avenue, Poughkeepsie, New York 12601-4879. The submission to the Governance and Nominating Committee must include (a) a written statement signed by the potential candidate confirming that he or she wishes to be considered as a candidate and would be willing and able to serve as a Director if elected, and (b) a writing signed by the shareholder that includes sufficient information and specificity to (i) enable the Committee to confirm the writer's status as a shareholder of the Corporation and (ii) allow the Committee to evaluate the potential candidate in the context of the Corporation's "Criteria for Selecting New Directors" and its Governance Guidelines.

BOARD MEMBER ATTENDANCE AT ANNUAL MEETING OF SHAREHOLDERS

Directors are expected to attend the Annual Meeting of Shareholders, and it is the practice of the Corporation to introduce each Director at the Annual Meeting of Shareholders.

Each of the current members of the Corporation's Board of Directors, except for Mr. Tranen, attended the 2003 Annual Meeting of Shareholders. Mr. Tranen became a member of the Board of Directors in February 2004.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Only independent Directors served on the Compensation Committee in 2003. Mr. Fetter served as the Compensation Committee's Chairman for the first three quarters of 2003. Mr. Grubel became the Chairman for the fourth quarter of 2003 and continues to serve in that capacity. Mr. Fetter continues to be a member of the Compensation Committee. No inside Directors serve on this Committee. No Compensation Committee interlock relationships existed in 2003 for the Corporation or its subsidiary companies.

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CODE OF BUSINESS CONDUCT AND ETHICS

The Corporation has a Code of Business Conduct and Ethics, which sets forth the commitment of the Corporation to conduct its business in accordance with the highest ethical standards and all applicable laws, rules, and regulations. The Code of Business Conduct and Ethics, adopted by the Board of Directors, states the guiding principles by which the Corporation operates and conducts its daily business with its shareholders, customers, suppliers, government authorities, and employees. These principles apply to all Directors, officers, and employees.

Employees are encouraged to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Business Conduct and Ethics.

Section II of the Code of Business Conduct and Ethics, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002, constitutes the Corporation's Code of Ethics for Senior Financial Officers. This section, in conjunction with the remainder of the Code of Business Conduct and Ethics, is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws as well as other matters. A copy of the Code of Business Conduct and Ethics is available on the Corporation's Internet site at www.chenergygroup.com. The Corporation has also filed a copy of the Code of Business Conduct and Ethics with the Securities and Exchange Commission as an exhibit to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003.

If the Corporation's Board of Directors amends Section II of the Code of Business Conduct and Ethics or grants any waiver to Section II of the Code of Business Conduct and Ethics, which waiver relates to issues concerning actual or apparent conflicts of interest, disclosures in the Corporation's Securities and Exchange Commission filings or public communications, compliance with laws, rules, or regulations, or internal compliance with the Code of Business Conduct and Ethics within the Corporation, the Corporation will post such information on its Internet site at www.chenergygroup.com.

COMPENSATION OF DIRECTORS OF THE BOARD

Director compensation is tied to the median practice of comparable companies. Each non-employee member of the Corporation's Board of Directors ("Outside Director") (Messrs. Ganci and Lant are employee-Directors) receives an annual retainer of \$22,000 and \$1,250 for attendance at each meeting of the Board and each meeting of any Committee of the Board of which the Director is a member or an invitee. Mr. Fridrich also receives an annual retainer in the amount of \$7,500 for his role as Vice Chairman of the Board and \$7,500 for his role as Chairman of the Governance and Nominating Committee. Mr. Grubel receives an annual retainer of \$7,500 for his role as Chairman of the Compensation Committee. Mr. Fetter receives an annual retainer of \$10,000 for his role as Chairman of the Audit Committee. Mr. Kruse receives an annual retainer of \$7,500 for his role as Chairman of the Strategy and Finance Committee. In addition, 600 phantom shares of the Corporation's Common Stock are credited each year to each Outside Director's account under the Directors and Executives Deferred Compensation Plan. For additional information, see the subcaption "Directors and Executives Deferred Compensation Plan" at page 20 of this proxy statement.

STOCK PLAN FOR OUTSIDE DIRECTORS

In 2003, the Corporation amended the Stock Plan for Outside Directors ("Stock Plan") to provide that no further benefits would be earned thereunder for service as an Outside Director following July 1, 2003. In addition, the Stock Plan was amended to provide each current Outside Director with a one-time opportunity to elect to receive,

in lieu of receiving any benefits under the Stock Plan, a credit of phantom shares of Common Stock to his or her account under the Directors and Executives Deferred Compensation Plan, which credit was in an amount equal to the actuarial equivalent of the benefits he or she had earned under the Stock Plan. The Stock Plan was further amended to provide that all benefits distributed under the plan in the future would be distributed in cash rather than in shares of Common Stock. All of the then-current Outside Directors elected to receive the phantom shares of Common Stock. Prior to its amendment, the Stock Plan provided that each Outside Director received 50 shares of Common Stock for each full quarter of each year of service as an Outside Director. The shares were awarded on a quarterly basis. When an Outside Director ceased to be a Director for any reason (other than for cause), that Director continued to receive shares of Common Stock on a quarterly basis for each full quarter of past service (25 shares for each completed service quarter prior to April 26, 2002, and 50 shares for each completed service quarter thereafter). Service as a Director of Central Hudson was included for calculation purposes in the Stock Plan. No distribution would have been made to a Director's estate under the Stock Plan if a Director had died.

LONG-TERM PERFORMANCE-BASED INCENTIVE PLAN

The Corporation's Long-Term Performance-Based Incentive Plan, approved by shareholders at the 2000 Annual Meeting of Shareholders and subsequently amended, became effective January 1, 2000 (as amended, the "Incentive Plan"). The purposes of the Incentive Plan are to provide key executives with long-term compensation incentives that are tied to performance and to create increased shareholder value, and for Outside Directors, to provide additional equity compensation. With respect to Outside Directors, the Incentive Plan permits, upon authorization of the Compensation Committee, an annual grant of a non-qualified stock option for the purchase of 1,000 shares of Common Stock to each Outside Director. If such grant were made, the option would have an exercise price equal to the fair market value of Common Stock on the date of grant, would have a term of ten years, and would have been exercisable on and after the date of grant. In 2003, a stock option for the purchase of 1,000 shares of Common Stock was granted to each Outside Director under the Incentive Plan. The Compensation Committee has determined that, consistent with the Corporation's goals and objectives, it will likely be more appropriate in the future for Outside Directors to receive phantom shares of Common Stock under the Directors and Executives Deferred Compensation Plan than stock options pursuant to the Incentive Plan. For additional information, see the subcaption "Directors and Executives Deferred Compensation Plan" at page 20 of this proxy statement.

SECURITY OWNERSHIP OF DIRECTORS AND OFFICERS

The following table lists the number of shares of equity securities of the Corporation beneficially owned by each of the Directors, each executive officer listed in the table under the caption "Executive Compensation," by beneficial owners of more than 5% of the Corporation's Common Stock, and by all Directors and executive officers of the Corporation and of its subsidiary companies as a group:

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NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP OF THE CORPORATION'S COMMON STOCK (1)	% OF THE CORPORATION'S COMMON STOCK (2)
Steven M. Fetter	262	Less than 1%
Heinz K. Fridrich	4,450	Less than 1%
Edward F. X. Gallagher	3,923	Less than 1%
Paul J. Ganci (3)	22,685	Less than 1%
Stanley J. Grubel	5,596	Less than 1%
E. Michel Kruse	1,100	Less than 1%
Steven V. Lant	6,094	Less than 1%
Jeffrey D. Tranen	0	--
Carl E. Meyer	3,655	Less than 1%
Joseph J. DeVirgilio, Jr.	3,729	Less than 1%
Arthur R. Upright	3,488	Less than 1%
Donna S. Doyle	1,907	Less than 1%
Gabelli Asset Management Inc. (4)	1,495,150	9%
All Directors and Executive Officers as a Group (19 persons)	61,388	Less than 1%

- (1) Based on information furnished to the Corporation by the Directors and executive officers of the Corporation as of December 31, 2003. With respect to Jeffrey D. Tranen, based on information furnished by that specific individual as of February 19, 2004.
- (2) The percentage ownership calculation for each beneficial owner has been made on the basis of the amount of outstanding shares of the Corporation's Common Stock as of the record date.
- (3) Includes 3,603 shares owned by the spouse of Mr. Ganci and 7,118 shares owned by a trust for which Mr. and Mrs. Ganci are co-trustees. The shares owned by Mrs. Ganci and the trust are considered to be beneficially owned by Mr. Ganci only for the purpose of this proxy statement and Mr. Ganci disclaims any beneficial interest in these shares for all other purposes.
- (4) Based upon a Schedule 13 D/A filed with the Securities and Exchange Commission on December 5, 2002, by Gabelli Asset Management Inc. on behalf of: Gabelli Funds, LLC, GAMCO Investors, Inc., MJG Associates, Inc., Gabelli & Co. Inc. Profit Sharing Plan, Gabelli Foundation, Inc., and Gabelli Group Capital Partners, Inc. As reported on said Schedule 13 D/A, as of September 30, 2002, the Corporation's Common Stock is beneficially owned as follows: Gabelli Funds--369,400 (2.28%), GAMCO--1,116,250 (6.90%), Gabelli Foundation, Inc.--6,000 (0.04%), Gabelli & Co. Inc. Profit Sharing Plan--2,000 (0.01%), MJG Associates--1,500 (0.01%). GAMCO does not have the authority to vote 51,800 of the reported shares. The principal business address for each of the foregoing, other than MJG Associates and Gabelli Foundation is One Corporate Center, Rye, New York 10580. The principal business address for MJG Associates is 8 Sound Shore Drive, Greenwich, Connecticut 06830. The principal business address for Gabelli Foundation is 165 West Liberty Street, Reno, Nevada 89501.

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STOCK EQUIVALENTS OWNERSHIP OF DIRECTORS

The following table sets forth the number of phantom shares of Common Stock, as of December 31, 2003, credited to the accounts of the Corporation's participating Outside Directors under the Directors and Executives Deferred Compensation Plan, including reinvested dividends (rounded to the nearest whole number). Under the Directors and Executives Deferred Compensation Plan, payments are made in cash and are generally made following termination of service as a

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Director based on the market value of the Common Stock at the time of termination. For additional information, see the subcaption "Directors and Executives Deferred Compensation Plan" at page 20 of this proxy statement.

NAME	NUMBER OF PHANTOM SHARES
-----	-----
Steven M. Fetter	493
Heinz K. Fridrich	1,335
Edward F. X. Gallagher	1,326
Stanley J. Grubel	952
E. Michel Kruse	372
Total(a)	4,478

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- (a) The total for each individual is less than 1% of the outstanding shares of Common Stock, and the total for the group of all participating Outside Directors (5 persons) is less than 1% of the outstanding shares of Common Stock, both percentages calculated as of the record date. Mr. Tranen, elected to the Board of Directors on February 20, 2004, had no phantom shares of Common Stock credited to his account as of the date of this proxy statement.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is comprised of Directors who meet the New York Stock Exchange standards for independence. The Audit Committee operates under a written Charter adopted by the Board of Directors, which is attached to this proxy statement as Appendix A.

The members of the Audit Committee are Steven M. Fetter, Heinz K. Fridrich, Edward F. X. Gallagher, and E. Michel Kruse. Mr. Fetter is the Chairman of the Audit Committee. The Audit Committee had seven meetings during 2003.

In performing its duties, the Audit Committee (i) reviews the scope of the audit by the Corporation's independent accountants, PricewaterhouseCoopers LLP, and related matters pertaining to the examination of the financial statements; (ii) reviews and evaluates, at least once a year, the qualifications, independence and performance of the independent accountants (which includes an evaluation of the lead partner of the independent accountants); (iii) examines the adequacy of the Corporation's internal control over financial reporting and the Corporation's and its subsidiary companies' internal audit activities, (iv) reviews the nature and extent of audit and non-audit services and pre-approves such services provided by the Corporation's independent accountants, (v) consults at least three times a year with the independent accountants regarding financial issues, (vi) makes recommendations to the Board of Directors on the foregoing matters as well as on the appointment of the Corporation's independent accountants, (vii) meets regularly with the Corporation's Internal Auditing Manager and Controller, and (viii) reviews quarterly and annual financial statements filed with the Securities and Exchange Commission.

In 2003, the Audit Committee met with management periodically during the year to consider the adequacy of the Corporation's internal controls and the objectivity of its financial reporting. The Audit Committee discussed these matters with the Corporation's independent accountants and with appropriate Corporation financial personnel and internal auditors. The Audit Committee also discussed with the Corporation's senior management and independent accountants the process used for certifications by the Corporation's principal executive officers and the Chief Financial Officer, which certifications are required for certain of the Corporation's filings with the Securities and Exchange Commission.

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The Audit Committee also met privately at its regular meetings with both the independent accountants and the Internal Auditing Manager, as well as with the Controller.

For 2003, the Audit Committee has:

1. reviewed and discussed the audited financial statements with management;
2. discussed with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards), as may be modified or supplemented;
3. received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as may be modified or supplemented, and has discussed with and affirmed the independence of PricewaterhouseCoopers LLP from the management of the Corporation and its subsidiary companies; and
4. received the reports of the principal executive officers and the Chief Financial Officer relating to their evaluation of the Corporation's internal control over financial reporting.

Based on the review and discussions referred to above and additional matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the Corporation's Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, for filing with the Securities and Exchange Commission.

The Audit Committee has also considered whether the provision of services for which fees were paid under the captions "Audit-Related Fees," "Tax Fees," and "All Other Fees" is compatible with maintaining the independence of PricewaterhouseCoopers LLP.

In April 2000, the appointment of PricewaterhouseCoopers LLP to examine the Corporation's financial statements for the five-year period beginning in 2000 was ratified by the shareholders of the Corporation. Representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting. The PricewaterhouseCoopers representatives will be given the opportunity to make a statement if desired and will be available to respond to appropriate questions from shareholders.

Information on fees billed by PricewaterhouseCoopers LLP during 2003 and 2002 is provided below:

PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers LLP	2003	2002
Audit Fees	\$329,250	\$285,000
Audit-Related Fees	\$ 10,000	\$ 1,000
Includes Sarbanes-Oxley compliance and Audit Committee Charter consultation		
Tax Fees	\$ 30,130	\$ 51,560
Includes review of consolidated federal and state income tax returns and consultation regarding IRS audit issues		

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All Other Fees	\$ 1,400	\$ 9,415
	-----	-----
Includes software licensing fee for accounting research tool and consultation regarding impacts of reorganization of competitive business subsidiaries		
TOTAL	\$370,780	\$346,975

The Audit Committee has adopted guidelines regarding pre-approval of the services to be provided by the Corporation's independent accountants. These guidelines require that the Audit Committee review and approve, prior to the start of the fiscal year, (i) an engagement letter for audit services from the independent accountants, outlining

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the scope of the audit services to be provided during the next fiscal year and including a fee proposal for such services, and (ii) a list of and a budget for non-audit services that management recommends be provided by the independent accountants during the next fiscal year.

Management and the independent accountants will confirm that the recommended non-audit services are permissible under all applicable requirements. The Corporation has adopted a list of specific audit and non-audit services that may be provided by the independent accountants.

If the scope or cost of the audit or non-audit services requires changes during the fiscal year, the Audit Committee's procedures enable the Chairman of the Audit Committee to approve such changes, up to certain dollar limits, and to report on any such changes at the next Audit Committee meeting. The Corporation's Vice President of Accounting and Controller is responsible for tracking all independent accountant fees against the budgets for audit and non-audit services and reporting on such budget issues at least annually to the Audit Committee.

In 2003, the Audit Committee approved all of the fees set forth in the table above under the captions "Audit-Related Fees," "Tax Fees," and "All Other Fees."

Steven M. Fetter, Chairman
Heinz K. Fridrich
Edward F. X. Gallagher
E. Michel Kruse

REPORT OF THE COMPENSATION COMMITTEE ON
EXECUTIVE COMPENSATION

The following disclosure is made over the name of each member of the Compensation Committee, on the date hereof, and shall be considered a report of the Compensation Committee:

It is the objective of the Compensation Committee to develop a compensation program that will attract, retain, and motivate directors and executive officers to create long-term shareholder value. For executives, the design of the executive compensation program incorporates base salary, annual short-term incentives, long-term incentives, and retirement benefits which, in aggregate, result in total remuneration that is approximately the median for comparably-sized electric and natural gas utilities and energy services companies in the United States, as shown by the Hay Group National Utility

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Database.

Specific annual short-term incentives are developed which reward achievement of that year's business plan goals, such goals being consistent with the strategy of the Corporation to create shareholder value. These incentive goals are established by the Compensation Committee and are primarily quantitative and financial in nature. Individuals' short-term incentives are based on overall achievement of business plan goals, but may be adjusted upwards or downwards based upon an assessment of the individual's performance.

Long-term incentives may include two components:

- (1) Stock options, the value of which is directly tied to the long-term increase in the market value of the Corporation's Common Stock. The exercise price of all stock options is equal to the fair market value of the Corporation's Common Stock on the date of grant. The total number of option shares awarded to each executive generally is based on a target dollar amount divided by the option's exercise price. The target amount is the product of the executive's base salary multiplied by a percentage. The percentage is determined by the Committee based upon a competitive analysis of peer group comparators, Corporation objectives, and the objective of providing long-term, at-risk compensation as a substantial portion of total compensation; and
- (2) Performance shares, the number and value of which are directly tied to the total return of the Corporation's Common Stock relative to the performance of the Edison Electric Institute Index of combination natural gas and electric investor-owned utilities (the "EEI Index"), measured over a three-year performance

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cycle. Performance share awards are made each year, resulting in overlapping three-year performance cycles. The total number of performance shares awarded to each executive generally is based on the executive's salary multiplied by a target percentage. The percentage is determined by the Committee based on a competitive analysis of peer group comparators, Corporation objectives, and the objective of providing long-term, at-risk compensation as a substantial portion of total compensation.

The compensation of individual executives is determined by evaluating the contribution of each executive to achievement of the Corporation's business plan and the responsibility level of the executive's position. The Compensation Committee also reviews executive succession plans in the determination of executive compensation. The Compensation Committee annually evaluates the performance of the Executive Chairman of the Board in light of the approved corporate goals and objectives relevant to his or her compensation. Based on this evaluation, the Compensation Committee recommends, for approval by a majority of the independent Directors of the Board, the compensation level for the Executive Chairman of the Board (Mr. Ganci). On an annual basis, the Executive Chairman of the Board evaluates the performance of the President and Chief Executive Officer (Mr. Lant). The Executive Chairman of the Board provides such evaluation to the Compensation Committee. After reviewing the Executive Chairman's evaluation, and after making its own assessment of the performance of the President and Chief Executive Officer, the Compensation Committee recommends, for approval by a majority of the independent directors of the Board, the compensation level for the President and Chief Executive Officer.

Commencing with 2004, annual salary determinations recommended by the

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Compensation Committee and approved by a majority of the independent Directors of the Board become effective as of January 1 of each year. Before 2004, annual salary determinations were effective as of the Annual Meeting of Shareholders each year.

COMPENSATION OF THE EXECUTIVE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

BASE SALARY

The Committee recommended to the Board of Directors and a majority of the independent Directors of the Board approved the base salaries shown in the Summary Compensation Table. The Committee's analysis, consistent with the Committee's compensation policy outlined above, was based on consideration of the total compensation provided to principal executive officers in a peer group consisting of comparably-sized electric and natural gas utilities and energy services companies in the United States, and also consideration of the Corporation's accomplishments in the prior year and the Committee's assessment of the individual performance of the Executive Chairman of the Board and of the President and Chief Executive Officer during that year.

ANNUAL INCENTIVE COMPENSATION

The awards to the Executive Chairman of the Board and to the President and Chief Executive Officer, as shown in the Summary Compensation Table, were based on the Corporation's achieving a specified earnings per share target and the Committee's assessment of the executive's responsiveness to problems and opportunities.

LONG-TERM INCENTIVE COMPENSATION

The long-term incentive compensation shown in the Summary Compensation Table for the Executive Chairman of the Board and for President and Chief Executive Officer was based on the Corporation's total shareholder return achievement relative to the EEI Index for the applicable three-year performance cycle of the long-term incentive program.

SECTION 162(m) OF THE INTERNAL REVENUE CODE ("TAX CODE")

The Compensation Committee and the Board of Directors have considered the federal income tax deduction limitations established under Section 162(m) of the Tax Code, which provide that, unless an appropriate exemption applies, a tax deduction for the Corporation for remuneration of any officer named in the caption "Executive

Compensation" will not be allowed to the extent this remuneration in any taxable year exceeds \$1 million. To the extent Tax Code Section 162(m) would limit the Corporation's federal income tax deductions, the Compensation Committee intends to qualify the performance-based compensation of the executive officers for full deductibility whenever possible and consistent with the goals of the Compensation Committee's policies.

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Steven M. Fetter

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EXECUTIVE COMPENSATION

The Summary Compensation Table set forth below includes compensation information on the Executive Chairman of the Board, the President and Chief Executive Officer, and each of the Corporation's other four most highly compensated executive officers, whose salary and any bonus in 2003 exceeded \$100,000, for services rendered to the Corporation and its subsidiary or affiliated companies.

SUMMARY COMPENSATION TABLE

(A) NAME AND PRINCIPAL POSITION(S)	(B) YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION		COM
		(C) SALARY (1)	(D) BONUS (2)	(G) SECURITIES UNDERLYING OPTIONS (3)	(H) PAYOUTS PAYOUTS (\$) (4)	
PAUL J. GANCI, Executive Chairman of the Board of the Corporation, Executive Chairman of the Board of Central Hudson and of CHEC (6)	2003	\$476,500	\$320,000	10,200	129,913	
	2002	\$440,667	\$515,554	0	--	
	2001	\$415,000	\$ 60,000	8,900	--	
STEVEN V. LANT, President and Chief Executive Officer (7) of the Corporation, Chief Executive Officer of Central Hudson, and President and Chief Executive Officer of CHEC	2003	\$315,500	\$205,000	4,400	51,262	
	2002	\$283,583	\$225,385	0	--	
	2001	\$203,500	\$ 35,547	3,600	--	
CARL E. MEYER, Executive Vice President of the Corporation and President and Chief Operating Officer of Central Hudson	2003	\$260,888	\$105,786	3,600	51,262	
	2002	\$266,889	\$200,268	0	--	
	2001	\$257,500	\$ 35,156	3,600	--	
JOSEPH J. DEVIRGILIO, JR., Senior Vice President of the Corporation and of Central Hudson, Executive Vice President of CHEC	2003	\$193,997	\$ 68,846	2,000	31,470	
	2002	\$195,733	\$118,538	0	--	
	2001	\$186,163	\$ 38,700	2,200	--	
ARTHUR R. UPRIGHT, Senior Vice President of the Corporation and of Central Hudson	2003	\$189,000	\$ 66,625	2,000	31,470	
	2002	\$190,644	\$111,127	0	--	
	2001	\$176,516	\$ 26,488	2,200	--	

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DONNA S. DOYLE, Vice President	2003	\$164,250	\$ 59,341	900	11,631
of Accounting and Controller	2002	\$159,494	\$ 64,800	0	--
of the Corporation and of	2001	\$144,000	\$ 10,884	800	--
Central Hudson					

(1) This base salary amount includes amounts deferred under (i) Central Hudson's Flexible Benefits Plan, which Plan is established pursuant to Section 125 of the Tax Code, which permits those electing to participate to defer salary, within specified limits, to be applied to qualified medical and/or child care benefit payments, (ii) Central Hudson's Savings Incentive Plan ("SIP"), a "defined contribution" plan which meets the requirements of the Tax Code, including Tax Code Section 401(k), which, among other things, permits, within limits, participants to tax-defer base salary, and, within limits, provides for Central Hudson contributions to participants, and (iii)

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the Corporation's Directors and Executives Deferred Compensation Plan (more fully described herein under the sub-caption "Directors and Executives Deferred Compensation Plan").

- (2) The Compensation Committee determined that bonus amounts earned in 2002 would be equal to twice the annual incentive opportunity in light of the fact that the Corporation did not make long-term incentive plan grants in 2002.
- (3) Indicates number of shares of Common Stock underlying stock options granted during the year. (4) Indicates performance shares awarded, based on achievement versus a defined index, multiplied by the closing price of Common Stock on December 31, 2003.
- (5) These are amounts contributed by Central Hudson under the SIP for the benefit of the named individual.
- (6) Mr. Ganci served as the Corporation's Chairman of the Board and its President and Chief Executive Officer through June 30, 2003, when Mr. Lant was appointed President and Chief Executive Officer. Mr. Ganci has continued to serve as the Corporation's Executive Chairman of the Board since July 2003.
- (7) Mr. Lant served as Chief Financial Officer and Chief Operating Officer of the Corporation through June 30, 2003. On July 1, 2003, Mr. Lant became the President and Chief Executive Officer of the Corporation. Mr. Lant was the Chief Financial Officer of Central Hudson and the President, Chief Financial Officer, and Chief Operating Officer of CHEC through June 30, 2003. On July 1, 2003, he became the Chief Executive Officer of Central Hudson and President and Chief Executive Officer of CHEC.

OPTION GRANTS IN LAST FISCAL YEAR

INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE	PR
-----	-----	-----	-----	-----	-----

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Paul J. Ganci	10,200	34.5	\$48.62	1/1/13
Steven V. Lant	4,400	14.9	\$48.62	1/1/13
Carl E. Meyer	3,600	12.2	\$48.62	1/1/13
Arthur R. Upright	2,000	6.8	\$48.62	1/1/13
Joseph J. DeVirgilio, Jr.	2,000	6.8	\$48.62	1/1/13
Donna S. Doyle	900	3.0	\$48.62	1/1/13

-
- (1) Under the Corporation's Long-Term Performance-Based Incentive Plan, non-qualified stock options were granted to the named executives in this table. These options were granted for a term of ten years from the date of grant. All options were granted on January 1, 2003, and are exercisable as follows: 40% can be exercised on or after January 1, 2005, and an additional 20% can be exercised on or after each following January 1 for three years. None of these options were exercisable in 2003.
- (2) The fair market value per share of stock options granted in 2003 is \$6.51. The fair market values were estimated using the Black-Scholes option pricing model, with the following weighted average assumptions: a risk-free interest rate of 4.40%; expected lives of ten years; expected stock volatility of 17.50%; and a dividend yield of 4.40%. The values shown in this column reflect assumptions and are not intended to represent either historical appreciation or anticipated future appreciation of the Corporation's Common Stock.

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AGGREGATED STOCK OPTION EXERCISES IN FISCAL YEAR 2003

The following table sets forth information concerning the exercise of stock options by the Corporation's named executive officers during the last fiscal year and the value of unexercised options on an aggregated basis.

(A) NAME ----	(B) NUMBER OF SHARES ACQUIRED ON EXERCISE (#) -----	(C) VALUE REALIZED (\$) -----	(D) NUMBER OF SHARES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END (#) EXERCISABLE/ UNEXERCISABLE -----	UNEXE MONE FISC EX UN
Paul J. Ganci	5,340	55,429	7,120/15,540	\$41
Steven V. Lant	2,160	24,062	2,880/6,560	\$16
Carl E. Meyer	2,160	22,421	2,880/5,760	\$16
Arthur R. Upright	1,320	17,571	1,760/3,320	\$1
Joseph J. DeVirgilio, Jr.	1,320	11,881	1,760/3,320	\$1
Donna S. Doyle	480	4,661	640/1,380	\$

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LONG-TERM INCENTIVE PLAN AWARDS(1) IN FISCAL YEAR 2003

The following table sets forth the number of Performance Shares granted to each of the named executives in 2003 under the Corporation's Long-Term Performance-Based Incentive Plan:

(A) NAME	(B) NUMBER OF PERFORMANCE SHARES	(C) PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT	(D) ESTIMATED FUTURE PAYOUTS THRESHOLD (#)	(E) UNDER NON-S TARGET (#)
----	-----	-----	-----	-----
Paul J. Ganci	5,100	January 1, 2006	2,550	5,100
Steven V. Lant	2,200	January 1, 2006	1,100	2,200
Carl E. Meyer	1,800	January 1, 2006	900	1,800
Joseph J. DeVirgilio, Jr.	900	January 1, 2006	450	900
Arthur R. Upright	900	January 1, 2006	450	900
Donna S. Doyle	400	January 1, 2006	200	400

(1) Payment of these Performance Shares is based on achieving specified levels of designated performance objectives during a three-year performance cycle. Payout can range from 0% to 150% of Performance Shares granted, with 50% and 150% as the threshold and maximum payouts, respectively. In addition, cash dividends on Common Stock that is subject to Performance Shares are automatically deferred and reinvested in additional shares of Common Stock, which reinvested dividends are applied to the Performance Shares earned. Columns (d), (e), and (f) do not include values associated with reinvested dividends.

PENSIONS/DEFERRED COMPENSATION PLANS

DIRECTORS AND EXECUTIVES DEFERRED COMPENSATION PLAN

The Directors and Executives Deferred Compensation Plan ("Deferred Plan") applies to Directors, officers, and other executives of the Corporation and of its subsidiary companies. It permits the participants to elect to defer a percentage of their compensation for services rendered to the Corporation and/or its subsidiary companies. Under the Deferred Plan, compensation is defined to include (a) base salary, (b) certain bonuses and performance shares, (c) payments from (i) the Supplementary Retirement Plan described herein and (ii) Change of Control agreements described herein, and (d) Directors' fees for services rendered as a member of the Board of Directors and any Committee of the Board. The Corporation can make discretionary contributions to the Deferred Plan. Compensation deferred in accordance with the Deferred Plan is paid to Directors and officers (adjusted to reflect investment earn-

ings and losses) at the time the Director or officer ceases being a member of the Board of Directors or an officer of the Corporation or its subsidiary

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companies, or prior to such time under certain circumstances, either in a lump sum or over a period of time depending on the circumstances of cessation and/or distribution elections. Outside Directors of the Corporation and certain of its subsidiaries are entitled to an annual credit to their account under the Deferred Plan of 600 phantom shares of Common Stock. This credit is required to remain invested in phantom shares of Common Stock until the value is distributed, in cash, following the Outside Director's termination of service from the Board of Directors. For 2003, pro-rated credits of phantom shares of Common Stock were made to reflect the fact that stock options were awarded in 2003 and benefits were earned under the Stock Plan during the first six months of 2003.

CENTRAL HUDSON RETIREMENT INCOME PLAN

The Retirement Income Plan of Central Hudson Gas & Electric Corporation (the "Retirement Plan") is a "defined benefit" plan which is intended to meet the qualification requirements of the Tax Code and generally covers all employees of Central Hudson and those subsidiary companies that have adopted the Retirement Plan, including the named executive officers.

There are several components to the benefit provided under the Retirement Plan. First, the Retirement Plan provides retirement benefits generally related to a participant's annual base salary for each year of eligible employment. These benefits depend upon length of service, age at retirement, and eligible earnings during years of participation in the Retirement Plan and any predecessor plans. This portion of a participant's benefit is determined based on the accumulation over that participant's career of a percentage of each year's eligible earnings. For periods on and after October 1, 1989, the percentage is 2% of eligible earnings, except that for years in which the participant is over 50 years of age, the percentage is increased to 2.5%. Second, the Retirement Plan provides a benefit for service prior to October 1, 2003, based on a percentage of a participant's average earnings at October 1, 2003 (being 50% of each of the base salaries at October 1, 2000 and 2003 and 100% of each of the base salaries at October 1, 2001, and 2002), and the number of years of service while a member of the Retirement Plan prior to October 1, 2003, all subject to certain limitations. Finally, a cash balance account benefit is also available upon retirement under the Retirement Plan, and provides for a credit to those participants in the Retirement Plan on January 1, 1987, of 10% of their base salary on that date, a credit to those participants in the Retirement Plan on September 30, 1991, of 5% of their base salary as of that date, a credit to those participants in the Retirement Plan on September 30, 1997, of 5% of their base salary as of that date and a further credit to those participants in the Retirement Plan on September 30, 1999, of 5% of their base salary as of that date with, in all four cases, annual interest earned thereon. In 2003, the Corporation made a \$10 million contribution to the Retirement Plan.

While the amount of the accrual with respect to a specified person is not and cannot readily be separately or individually calculated by the actuaries for the Retirement Plan, estimated annual benefits under the Retirement Plan upon retirement at age 65 for the named executive officers, assuming continuation of current annual salary levels and giving effect to applicable benefit limitations in the Tax Code, are as follows: Mr. Ganci - \$156,514; Mr. Lant - \$165,000; Mr. Meyer - \$165,000; Mr. DeVirgilio - \$165,000; Mr. Upright - \$151,873; and Ms. Doyle - \$107,679.

CENTRAL HUDSON RETIREMENT BENEFIT RESTORATION PLAN

The Central Hudson Retirement Benefit Restoration Plan ("RBRP") is an unfunded, unsecured pension benefit plan for a select group of highly

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compensated employees. The RBRP provides an annual retirement benefit to those participants in the Retirement Plan who hold the following offices with the Corporation and Central Hudson: Chairman of the Board, Chief Executive Officer, President, Vice President (including all levels thereof), Corporate Secretary, Chief Financial Officer, Treasurer, Controller, and Assistant Treasurer. This benefit is equal to the difference between (i) that received under the Retirement Plan, giving effect to applicable salary and benefit limitations under the Tax Code, and (ii) that which would have been received under the Retirement Plan, without giving effect to the limitations under the Tax Code. Enhanced benefits are payable under certain circumstances following a Change of Control. The named executive officers have a current salary level which, if continued to retirement

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at age 65, would provide a benefit under the RBRP. The estimated annual benefits under the RBRP upon retirement at age 65 for those individuals, assuming the continuation of current annual salary levels, are as follows: Mr. Ganci - \$172,458; Mr. Lant - \$96,890; Mr. Meyer - \$56,831; Mr. DeVirgilio - \$13,072; Mr. Upright - \$409; and Ms. Doyle - \$0.

SUPPLEMENTARY RETIREMENT PLAN

The Corporation's Supplementary Retirement Plan ("SRP") covers a select group of highly compensated employees as an incentive for them to remain with the Corporation or its subsidiary companies. Under the SRP, an annual benefit is payable for 10 years, commencing on retirement, to eligible participants (generally those who retire at age 60 or older and with 10 or more years of service) of the following percentage of annual base compensation at retirement: 60 to 63 - 10%; 63 to 65 - 15%; 65 or over - 20%. Enhanced benefits are payable under certain circumstances following a Change of Control (as described below). No amounts were paid under the SRP for the named executive officers for the year 2003. Estimated annual benefits under the SRP upon retirement at age 65 for the named individuals, assuming continuation of current annual salary levels, are as follows: Mr. Ganci - \$98,000; Mr. Lant - \$70,000; Mr. DeVirgilio - \$42,000; Mr. Meyer - \$55,200; Mr. Upright - \$40,600; and Ms. Doyle - \$36,400.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL ARRANGEMENTS

The Corporation has an Employment Agreement ("Agreement") with each of the named executive officers. Until a Change of Control (as defined in the Agreement) occurs, each Agreement is automatically renewed for one year on each July 31, unless a notice not to extend is given.

If a Change of Control occurs during the term of an Agreement, then the Agreement becomes operative for a fixed three-year period. Upon a Change of Control, each Agreement provides generally that such officers' terms and conditions of employment then in effect (including position, location, base salary, bonus, and benefits) will not be adversely changed during the three-year period after a Change of Control. If such officer's employment is terminated (i) by the Corporation or a subsidiary for reasons other than death, cause, or disability (as those terms are defined in each Agreement), (ii) by such officer for good reason (as that term is defined in each Agreement), (iii) by such officer regardless of reason during the thirty day period beginning on the first

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anniversary of the Change of Control, (iv) upon certain terminations prior to a Change of Control, or (v) in connection with or in anticipation of a Change of Control, such officer, in addition to all amounts accrued to the date of termination, will receive a lump-sum payment equal to the sum of (a) the officer's base salary through the date of termination to the extent not previously paid, (b) a proportionate bonus based on the higher of the officer's most recent annual bonus and the officer's annual bonus for the last fiscal year ("Highest Annual Bonus"), (c) accrued vacation, (d) outplacement services, and (e) three times the sum of the officer's base salary and the officer's Highest Annual Bonus. In addition, such officer would be entitled to continued employee welfare benefits and to a credit for pension purposes for the three years from the date of the termination.

In the event any payments made to any such officers as a result of a Change of Control, whether under an Agreement or otherwise, would subject such officer to the excise tax on certain "excess parachute payments" payable under Tax Code Section 4999, or interest or penalties with respect to this tax, the officer generally will be entitled to be made whole for the payment of any taxes, interest, or penalties. Each such officer, while covered by an Agreement, is not entitled to participate in the Corporation's Change of Control Severance Policy. In the event of a Change of Control, the Agreements will supersede any individual employment and/or severance agreements entered into by the Corporation with such officers, except in certain instances.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation's officers and Directors, and any person who owns more than 10% of a registered class of the Corporation's equity securities (collectively "Reporting Persons"), to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. These Reporting Persons are required by Securities and Exchange Commission regulations to furnish the Corporation with copies of all Section 16(a) forms they file. Based solely on a review of the copies of these forms furnished to the Corporation and written representations from the Corporation's officers and Directors, Messrs. Fetter, Fridrich, Gallagher, Grubel, and Kruse, and Jack Effron, a Director whose term ended at the 2003 Annual Meeting of Shareholders, filed one late Form 4 (each reporting a grant of 50 shares of common stock and a grant of 1,000 stock options). Mr. DeVirgilio filed one late Form 4 (reporting a cash-out of a fractional share) and Mr. Upright filed one late Form 4 (reporting the exercise of 1,320 stock options). All of these Form 4 filings have since been made.

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PERFORMANCE GRAPH

The line graph set forth below provides a comparison of the Corporation's cumulative total shareholder return on its Common Stock with the Standard & Poor's 500 Index ("S&P 500") and as a Corporation-determined peer comparison with the EEI Index. Shareholder return is the sum of the dividends paid and the change in the market price of stock.

(THE DATA BELOW REPRESENTS A GRAPH IN THE PRINTED PIECE)

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	YEAR ENDING DECEMBER 31,					
	1998	1999	2000	2001	2002	2003
CHG	\$100	\$ 77.8	\$112.5	\$115.0	\$129.1	\$136.3
EEl Index	\$100	\$ 81.4	\$120.5	\$109.9	\$ 93.7	\$115.7
S&P 500	\$100	\$121.0	\$110.0	\$ 97.0	\$ 75.5	\$ 97.2

	YEAR ENDING DECEMBER 31,					
	1998	1999	2000	2001	2002	2003
CHG	\$100	\$ 77.8	\$112.5	\$115.0	\$129.1	\$136.3
EEl Index	\$100	\$ 81.4	\$120.5	\$109.9	\$ 93.7	\$115.7
S&P 500	\$100	\$121.0	\$110.0	\$ 97.0	\$ 75.5	\$ 97.2

ASSUMES \$100 INVESTED DECEMBER 31, 1998

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OTHER MATTERS

The Board of Directors does not know of any matters to be brought before the Annual Meeting other than those referred to in the notice hereof. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the form of proxy to vote the proxy in accordance with their judgment on such matters.

By Order of the Board of Directors,

Lincoln E. Blevens
CORPORATE SECRETARY

March 3, 2004

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APPENDIX A--AUDIT COMMITTEE CHARTER

CHARTER FOR THE
AUDIT COMMITTEE
CH ENERGY GROUP, INC.

PURPOSE:

The purpose of the Audit Committee is to assist the Board of Directors in its oversight of (a) the accounting and financial reporting processes of the Company, and (b) the auditing of the financial statements of the Company. Specifically, the Committee shall assist the Board in overseeing:

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- o the integrity of the Company's financial statements;
- o the Company's compliance with legal and regulatory requirements regarding accounting, auditing and financial reporting;
- o the independent auditor's qualifications and the independence of the Company's independent auditor;
- o the performance of the Company's independent auditor; and
- o the performance of the Company's internal audit function.

In addition, the Committee shall prepare the Audit Committee Report that is required by the rules of the Securities and Exchange Commission ("SEC") to be included in the annual proxy statement of the Company.

COMMITTEE MEMBERSHIP:

The Audit Committee shall be comprised of no fewer than three (3) members of the Board.

The members of the Audit Committee shall be appointed by the Board annually for terms of one year, after receipt by the Board from the Governance and Nominating Committee of recommendations regarding persons to be appointed to the Committee.

The Chair of the Audit Committee shall be appointed by the Board annually for a term of one year, after receipt by the Board from the Governance and Nominating Committee of a recommendation regarding the person to be appointed as Chair of the Committee.

Each member of the Audit Committee, including the Chair of the Committee, shall serve at the discretion of the Board.

Each member of the Audit Committee shall meet:

- (i) the independence requirements of the listing standards of the New York Stock Exchange;
- (ii) the non-employee director definition of Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended; and
- (iii) the qualifications for service as a Director of the Company as set forth in Section 3 of the Company's Governance Guidelines.

Each member of the Audit Committee shall be financially literate. At least one member of the Audit Committee shall be an "audit committee financial expert" within the meaning of applicable Securities and Exchange Commission and New York Stock Exchange rules in effect from time to time (the "SEC Rules" and the "NYSE Rules").

The Board of Directors shall determine whether any members of the Audit Committee, and any candidates for membership on the Audit Committee, are audit committee financial experts within the meaning of the term as

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The Board shall review these determinations on an annual basis.

The Board of Directors shall determine whether each member of the Audit Committee, and any candidate for membership on the Audit Committee, is financially literate. The Board shall review these determinations with respect to members of the Audit Committee on an annual basis. The meaning of the qualification of financial literacy shall be determined by the Board in the exercise of its business judgment.

No member of the Audit Committee may serve simultaneously on the audit committee of more than two other public companies.

MEETINGS:

The Audit Committee shall meet at least quarterly, and at such other times as it deems necessary to fulfill its duties. The Audit Committee shall meet separately and periodically in executive sessions with management, with the internal auditor and with the independent auditor. Reports of Audit Committee meetings and of any actions taken by the Audit Committee shall be made by the Committee Chairman or his or her designee to the Board at its next regularly scheduled meeting following the Audit Committee's meeting or action. As a matter of general practice, and subject to the discretion of the Audit Committee, the Chair of the Audit Committee normally informs the Executive Chairman of the Board and the President and Chief Executive Officer on a reasonably prompt basis about the substance of discussions that took place in the periodic executive session meetings with management, with the internal auditor and with the independent auditor.

AUTHORITY AND RESPONSIBILITY:

- (i) The Audit Committee shall directly appoint, retain, compensate, evaluate and, when appropriate, terminate the Company's independent auditor;
- (ii) The Audit Committee shall resolve any disagreement between management and the Company's independent auditor regarding financial reporting;
- (iii) The Company's independent auditor shall report directly to the Audit Committee;
- (iv) The Audit Committee shall pre-approve all auditing and permitted non-audit services performed by the Company's independent auditor;
- (v) The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints from employees and others of the Company on accounting, internal accounting controls or auditing matters, as well as for confidential, anonymous submissions by Company employees of concerns regarding questionable accounting or auditing matters;
- (vi) The Audit Committee shall obtain advice and assistance from outside legal, accounting or other advisors as it deems necessary to carry out its duties;
- (vii) The Audit Committee shall receive appropriate funding, as determined by the Audit Committee, from the Company for payment of compensation to the outside legal, accounting or other advisors employed by the Audit Committee;

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- (viii) The Audit Committee shall, at least annually, obtain and review a report by the Company's independent auditor describing: (a) the firm's internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (c) all relationships between the independent auditor and the company (to assist the Committee in assessing the independent auditor's independence);

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- (ix) The Audit Committee shall discuss the annual audited financial statements and quarterly financial statements with management and with the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations;"
- (x) The Audit Committee shall discuss earnings releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee's discussion of earnings releases as well as financial information and earnings guidance may be general in nature (i.e., discussion of the types of information to be disclosed and the types of presentation to be made). The Audit Committee need not discuss in advance each earnings release or each instance in which the Company provides financial information or earnings guidance to analysts, rating agencies or the public;
- (xi) The Audit Committee shall discuss policies with respect to risk assessment and risk management;
- (xii) The Audit Committee shall review with the independent auditor any audit problems or difficulties and management's response;
- (xiii) The Audit Committee shall set clear hiring policies for employees or former employees of the independent auditor; and
- (xiv) The Audit Committee shall evaluate the Committee's performance and the performance of individual Committee members at least annually.

PROCEDURES:

In accordance with Section 3.3 of the Company's By-Laws, the Audit Committee may operate according to such procedures as it deems expedient for carrying out its responsibilities. In this connection, the Audit Committee shall, at a minimum, follow the following procedures:

1. INDEPENDENT AUDITOR

- (a) AUDIT PLAN--The Committee shall review the independent auditor's annual audit plan (including the scope of the audit and the quarterly reviews) and shall discuss with the independent auditor any significant changes required in the annual audit plan.
- (b) REVIEW OF AUDIT ISSUES--The Committee shall review with the independent auditor and, as appropriate under the circumstances, with the internal

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auditor and/or with management:

- o all critical accounting policies and practices to be used;
 - o any alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative treatments and the treatment preferred by the independent auditor; and
 - o all other material written communications between the independent auditor and the management of the Company.
- (c) COMPETENCE OF INDEPENDENT AUDITOR--Once each year (and otherwise as the Chair may consider appropriate) the Committee shall review and evaluate the qualifications and performance of the independent auditor:
- o this review shall include an evaluation of the lead partner of the independent auditor.
- (d) INDEPENDENCE OF INDEPENDENT AUDITORS--Once each year (and otherwise as the Chair may consider appropriate), the Committee shall review and evaluate the independence of the independent auditor, including a review of the services provided by the independent auditor and related fees. As part of this process:
- o The Committee shall require the independent auditor to report periodically in writing on all its relationships with the Company and its management, as well as the firm's compliance with all independence requirements under applicable professional standards, SEC Rules and NYSE Rules. The

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Committee shall discuss any potential independence issues raised in the report with the Board and recommend actions that it deems appropriate to maintain adequate auditor independence.

- o The Committee shall require management to report at least annually in writing regarding compliance with the Company's policy prohibiting hiring of members of the independent auditor engagement team for positions with a financial reporting oversight role.

2. FINANCIAL STATEMENTS AND DISCLOSURES

- (a) FINANCIAL STATEMENTS--In connection with its review of the Company's annual audited financial statements and quarterly financial statements, the Audit Committee shall make a recommendation to the Board with respect to the appropriateness of the financial statements for inclusion in the Company's Annual Report and in the Company's Quarterly Reports.
- (b) ACCOUNTING DISCLOSURES AND RELATED MATTERS--At the completion of the annual audit and at such other times as the Committee may deem appropriate, the Committee shall review with the independent auditor, with management and/or with the internal auditor, as appropriate:
- o major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls

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and any special audit steps adopted in light of material control deficiencies;

- o analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
 - o the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of the Company; and
 - o the general types of information to be disclosed, and the general types of presentations to be made, in earnings press releases (paying particular attention to any use of "pro forma," or "adjusted" non-GAAP information), and in financial information and earnings guidance provided to analysts, rating agencies and the public.
- (c) INTERNAL CONTROL OVER FINANCIAL REPORTING--Periodically, as appropriate, the Committee shall review with management, the independent auditor, and/or with the internal auditor as appropriate:
- o any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting;
 - o any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting; and
 - o any significant changes in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting; and
 - o the Management's Annual Report on Internal Control Over Financial Reporting prepared by management pursuant to the requirements of SEC Regulation S-K, Item 308(a).

3. INTERNAL AUDITOR

- (a) INTERNAL AUDIT PLAN AND FINDINGS--The Audit Committee shall review and approve at least annually the internal audit plan of the internal auditor and shall discuss significant findings made by the internal auditor.
- (b) ORGANIZATION--The Audit Committee shall review and approve at least annually the responsibilities, budget and staffing of the internal audit function.

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4. OTHER

- (a) In addition to the responsibilities and duties described in this Charter, the Audit Committee shall undertake such other duties as the Board delegates to it.
- (b) In carrying out its responsibilities and duties, the Audit Committee

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may authorize or conduct investigations regarding any matter within the scope of its authority, responsibilities and duties.

- (c) Unless otherwise authorized by an amendment to this Charter, the Audit Committee may not delegate any of its authority to any subcommittee.
- (d) This Charter shall govern the operations and procedures of the Audit Committee.
- (e) The Audit Committee shall review and re-examine this Charter annually and make recommendations to the Board for any proposed changes.

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ROUTE TO CH ENERGY GROUP, INC.

[GRAPHIC OMITTED]

FROM NEW YORK CITY AREA:

- o Taconic State parkway North to Interstate 84 (I-84)
- o I-84 West to Exit 13 (Route 9)
- o Turn right off ramp onto Route 9 North
- o Route 9 approximately 12 miles to the Academy Street / South Avenue Exit
- o Bear left at end of ramp and go under overpass
- o Turn right into CH Energy Group, Inc. entrance

FROM CONNECTICUT:

- o I-84 West to Exit 13 (Route 9)
- o Continue as above

FROM PENNSYLVANIA:

- o I-84 East to Exit 13 (Route 9)
- o Turn left off ramp onto Route 9 North
- o Continue as above

FROM NEW JERSEY AND UPSTATE

NEW YORK:

- o New York State Thruway (I-87) to Exit 18 (New Paltz)
- o Turn right onto Route 299
- o Route 299 approximately 5 miles, turn right onto Route 9W South
- o Route 9W approximately 2 miles, bear right for FDR/Mid-Hudson Bridge
- o After crossing bridge take first right (Route 9 South)
- o Bear right off exit ramp into CH Energy Group, Inc. entrance

ADMISSION TICKET

Present to the CH Energy Group, Inc. representative at the entrance to the auditorium.

ANNUAL MEETING OF SHAREHOLDERS

April 27, 2004, 10:30 a.m.

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CH ENERGY GROUP, INC.
284 South Avenue, Poughkeepsie, NY

AGENDA

o Election of Directors

IT IS IMPORTANT THAT ALL SHARES BE REPRESENTED AT THIS MEETING,
WHETHER OR NOT YOU ATTEND THE MEETING IN PERSON.
TO MAKE SURE ALL SHARES ARE REPRESENTED,
WE URGE YOU TO COMPLETE AND MAIL THE PROXY CARD BELOW.

IF PLANNING TO ATTEND THE ANNUAL MEETING,
PLEASE MARK THE APPROPRIATE BOX ON THE REVERSE SIDE.
PRESENT THIS ADMISSION TICKET TO THE REPRESENTATIVE
AT THE ENTRANCE TO THE ANNUAL MEETING ROOM.

o FOLD AND DETACH HERE o

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Y

CH ENERGY GROUP, INC.
PROXY OF COMMON SHAREHOLDERS
SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints PAUL J. GANCI, HEINZ K. FRIDRICH, STANLEY J. GRUBEL, E. MICHEL KRUSE, and STEVEN M. FETTER or any one or more of them, as proxy, with full power of substitution, to vote, as designated on the reverse hereof, all shares of Common Stock owned of record by the undersigned on March 1, 2004, at the Annual Meeting of Shareholders of CH Energy Group, Inc. to be held at the office of the Corporation, 284 South Avenue, in the City of Poughkeepsie, Dutchess County, New York, on April 27, 2004, or any adjournment thereof, upon all such matters as may properly come before the meeting, including the following proposal described in the Proxy Statement, dated March 3, 2004, a copy of which has been received by the undersigned.

THIS PROXY, IF PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED WITH REGARD TO PROPOSAL NO. 1. IN THE ABSENCE OF DIRECTION, THIS PROXY WILL BE VOTED "FOR" PROPOSAL NO. 1.

1. Proposal No. 1: Election of Directors, Nominees:

CLASS I: 2007
01. Edward F.X. Gallagher
02. Steven V. Lant
03. Jeffrey D. Tranen

Comments (If Any) / Change of Address

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If you have written in the above space, please mark the
corresponding box on the reverse side of this card.

SEE REVERSE SIDE

CH ENERGY GROUP, INC. [LOGO]

C/O EQUISERVE TRUST COMPANY N.A.
P.O. BOX 8682
EDISON, NJ 08818-8682

You may vote the shares held in this account by telephone or electronically using the Internet. Voting by telephone or using the Internet will eliminate the need to mail voted proxy card(s) representing shares held in the account. To vote by telephone or using the Internet, please follow the steps below:

O HAVE THIS PROXY CARD AND YOUR SOCIAL SECURITY NUMBER AVAILABLE.

Every Vote is important to us. Thank you for voting.

VOTE-BY-INTERNET

[GRAPHIC]

-
1. LOG ON TO THE INTERNET AND GO TO [HTTP://WWW.EPROXYVOTE.COM/CHG](http://www.eproxyvote.com/chg) 24 HOURS A DAY, 7 DAYS A WEEK UNTIL 12:01 AM ON 04/20/04.
 2. FOLLOW THE DETAILED INSTRUCTIONS LOCATED ON THE WEB PAGE.
-

OR

VOTE-BY-TELEPHONE

[GRAPHIC]

-
1. USING A TOUCH-TONE TELEPHONE, DIAL TOLL-FREE 1-877-PRX-VOTE (1-877-779-8683) 24 HOURS A DAY, 7 DAYS A WEEK UNTIL 12:01 AM ON 04/20/04.
 2. FOLLOW THE DETAILED INSTRUCTIONS ON THE TELEPHONE MENU.
-

Both voting systems preserve the confidentiality of every vote and will confirm the voting instructions with you. You may also change selections on any or all

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of the proposals to be voted.

IF VOTING USING THE INTERNET OR BY TELEPHONE, PLEASE DO NOT MAIL YOUR CARD.

o DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL o

/X/ PLEASE MARK
VOTES AS IN THIS
EXAMPLE.

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The Directors recommend a vote "FOR" Proposal No. 1.

CH ENERGY GROUP, INC.

1. Election of Class I Directors-2007 (see reverse)

	FOR	WITHHOLD
01. Edward F. X. Gallagher		
02. Steven V. Lant	/ /	/ /
03. Jeffrey D. Tranen		

/ / -----
FOR, except vote withheld from the following nominee(s):

If you plan to attend the Annual Meeting, place an X in this box. / /

If you wish us to discontinue Annual Report mailing for this
account, place an X in this box. / /

If you indicated a change of address or comments on reverse side,
place an X in this box. / /

2. IN THEIR DISCRETION, UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE
ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF.

NOTE: Please sign exactly as name above. Joint owners should each sign. When
signing as attorney, executor, administrator, trustee or guardian, please give
full title as such.

Signature: _____ Date _____

Signature: _____ Date _____

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Income taxes, current

	13,026
	15,691
Deferred income tax asset	
	44,475
	52,415
Prepaid expenses and other	
	26,160
	22,860
Total current assets	
	1,322,938
	1,524,944

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Property and equipment, at cost, net

941,773

894,522

Goodwill

1,491,116

1,356,925

Service contracts, net

107,460

103,445

Other assets, net

108,783

89,900

\$3,972,070

\$3,969,736

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable

\$ 101,935

\$ 71,747

Accrued compensation and related liabilities

	67,396
	66,924
Accrued liabilities	
	220,674
	244,402
Long-term debt due within one year	
	1,631
	609
Total current liabilities	
	391,636
	383,682
Long-term liabilities:	

Long-term debt due after one year

806,447

785,444

Deferred income taxes

165,271

150,560

Accrued liabilities

135,774

116,021

Total long-term liabilities

1,107,492

Shareholders equity:

Preferred stock, no par value:

100,000 shares authorized, none outstanding

Common stock, no par value:

135,276

132,058

425,000,000 shares authorized,

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FY 2011: 173,342,049 issued and 145,301,823 outstanding

FY 2010: 173,207,493 issued and 152,869,848 outstanding

Paid-in capital

90,462

84,616

Retained earnings

3,184,480

3,080,079

Treasury stock:

(1,002,071)

(798,857)

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FY 2011: 28,040,226 shares

FY 2010: 20,337,645 shares

Other accumulated comprehensive income

64,795

36,133

Total shareholders' equity

2,472,942

2,534,029

\$3,972,070

\$3,969,736

See accompanying notes.

Table of Contents

CINTAS CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended	
	February 28, 2011	February 28, 2010
<u>Cash flows from operating activities:</u>		
Net income	\$176,213	\$160,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	112,126	113,834
Amortization of deferred charges	32,166	30,606
Stock-based compensation	9,813	11,323
Deferred income taxes	22,524	11,945
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(32,844)	10,785
Inventories, net	(61,620)	31,900
Uniforms and other rental items in service	(38,433)	14,223
Prepaid expenses and other	(2,418)	(240)
Accounts payable	26,974	15,167
Accrued compensation and related liabilities	241	8,414
Accrued liabilities	(40,663)	11,507
Income taxes payable	3,876	9,583
Net cash provided by operating activities	207,955	429,189
<u>Cash flows from investing activities:</u>		
Capital expenditures	(142,298)	(78,928)
Proceeds from redemption of marketable securities	137,879	34,011
Purchase of marketable securities and investments	(23,174)	(69,819)
Acquisitions of businesses, net of cash acquired	(158,517)	(41,375)
Other, net	(2,845)	3,804
Net cash used in investing activities	(188,955)	(152,307)
<u>Cash flows from financing activities:</u>		
Proceeds from issuance of debt	304,781	----
Repayment of debt	(282,755)	(464)
Dividends paid	(71,812)	----
Repurchase of common stock	(203,214)	(960)
Other, net	930	(394)
Net cash used in financing activities	(252,070)	(1,818)
Effect of exchange rate changes on cash and cash equivalents	6,520	1,694
Net (decrease) increase in cash and cash equivalents	(226,550)	276,758
Cash and cash equivalents at beginning of period	411,281	129,745

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Cash and cash equivalents at end of period	\$184,731	\$406,503
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See accompanying notes.

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The consolidated condensed financial statements of Cintas Corporation (Cintas, the Company, we, us or our) included herein have been prepared by Cintas, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequately presented, it is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and notes included in our Form 10-K for the fiscal year ended May 31, 2010. A summary of our significant accounting policies is presented beginning on page 39 of that report. There have been no material changes in the accounting policies followed by Cintas during the current fiscal year.

Interim results are subject to variations and are not necessarily indicative of the results of operations for a full fiscal year. In the opinion of management, adjustments (which include only normal recurring adjustments) necessary for a fair statement of the consolidated results of the interim periods shown have been made.

2. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. It also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Cintas' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

All financial instruments that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the consolidated condensed balance sheet date.

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These financial instruments measured at fair value on a recurring basis are summarized below (in thousands):

	As of February 28, 2011			Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 184,731	\$ ----	\$ ----	\$ 184,731
Marketable securities:				
U.S. municipal bonds	100	----	----	100
Canadian treasury securities	23,703	8,171	----	31,874
Total assets at fair value	\$ 208,534	\$ 8,171	\$ ----	\$ 216,705
Current accrued liabilities	\$ ----	\$ 575	\$ ----	\$ 575
Total liabilities at fair value	\$ ----	\$ 575	\$ ----	\$ 575

	As of May 31, 2010			Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 411,281	\$ ----	\$ ----	\$ 411,281
Marketable securities:				
U.S. municipal bonds	----	21,954	----	21,954
Canadian treasury securities	97,791	35,061	----	132,852
Accounts receivable, net	----	450	----	450
Total assets at fair value	\$ 509,072	\$ 57,465	\$ ----	\$ 566,537
Current accrued liabilities	\$ ----	\$ 64	\$ ----	\$ 64
Total liabilities at fair value	\$ ----	\$ 64	\$ ----	\$ 64

Cintas cash and cash equivalents and marketable securities are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Cintas does not adjust the quoted market price or the broker or dealer quote for such financial instruments.

The funds invested in Canadian marketable securities are not expected to be repatriated, but instead are expected to be invested indefinitely in foreign subsidiaries. Interest, realized gains and losses and declines in value determined to be other than temporary on available-for-sale securities are included in interest income or expense. The cost of the securities sold is based on the specific identification method. The amortized cost basis of the marketable securities as of February 28, 2011 and May 31, 2010, is \$32.0 million and \$154.9 million, respectively. All contractual maturities are due within one year.

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Accounts receivable, net and current accrued liabilities include foreign currency average rate options. The fair value of Cintas foreign currency average rate options are based on similar exchange traded derivatives and are, therefore, included within Level 2 of the fair value hierarchy.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Cintas believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the consolidated condensed balance sheet date.

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CINTAS CORPORATION

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(Unaudited)

Cintas non-financial assets and liabilities not permitted or required to be measured at fair value on a recurring basis primarily relate to assets and liabilities acquired in a business acquisition. Cintas is required to provide additional disclosures about fair value measurements as part of the consolidated condensed financial statements for each major category of assets and liabilities measured at fair value on a non-recurring basis (including business acquisitions). Based on the nature of Cintas business acquisitions, which occur regularly throughout the fiscal year, the majority of the assets acquired and liabilities assumed consist of working capital, primarily valued using Level 2 inputs, property and equipment, also primarily valued using Level 2 inputs and goodwill and other identified intangible assets valued using Level 3 inputs. In general, non-recurring fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to non-financial assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share using the two-class method for amounts attributable to Cintas common shares (in thousands except per share data):

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2011	2010	2011	2010
<u>Basic and Diluted Earnings per Share</u>				
Net income	\$ 59,070	\$ 48,982	\$176,213	\$160,142
Less dividends to:				
Common shares	\$ ---	\$ 73,377	\$ 71,197	\$ 73,377
Unvested shares	---	536	615	536
Total dividends	\$ ---	\$ 73,913	\$ 71,812	\$ 73,913
Undistributed net income (loss)	\$ 59,070	\$(24,931)	\$104,401	\$ 86,229
Less: net income (loss) allocated to participating unvested securities	316	(94)	564	347
Net income (loss) available to common shareholders	\$ 58,754	\$(24,837)	\$103,837	\$ 85,882
Basic weighted average common shares outstanding	145,303	152,869	147,686	152,854
Effect of dilutive securities - employee stock options	---	---	---	---
Diluted weighted average common shares outstanding	145,303	152,869	147,686	152,854
Basic and diluted earnings per share:				
Common shares - distributed earnings	\$ 0.00	\$ 0.48	\$ 0.49	\$ 0.48
Common shares - undistributed earnings	0.41	(0.16)	0.70	0.56
Total common shares	\$ 0.41	\$ 0.32	\$ 1.19	\$ 1.04
Unvested shares - distributed earnings	\$ 0.00	\$ 0.48	\$ 0.49	\$ 0.48
Unvested shares - undistributed earnings	0.41	(0.16)	0.70	0.56
Total unvested shares	\$ 0.41	\$ 0.32	\$ 1.19	\$ 1.04

During the nine months ended February 28, 2011, Cintas purchased 7,656,193 shares of Cintas common stock under a share buyback program authorized by the Board of Directors on May 2, 2005, and expanded in July 2006.

For the three months ended February 28, 2011 and 2010, 3.5 million and 4.7 million options granted to purchase shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. For the nine months ended February 28, 2011 and 2010, 3.6 million and 4.3 million options granted to purchase shares of Cintas common stock, respectively,

were excluded from the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common shares (anti-dilutive).

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

4. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the nine months ended February 28, 2011, by operating segment, are as follows (in thousands):

	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
<u>Goodwill</u>					
Balance as of June 1, 2010	\$861,117	\$23,928	\$181,967	\$289,913	\$1,356,925
Goodwill acquired	75,740	----	10,866	42,391	128,997
Foreign currency translation	1,337	72	----	3,785	5,194
Balance as of February 28, 2011	\$938,194	\$24,000	\$192,833	\$336,089	\$1,491,116

	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
<u>Service Contracts</u>					
Balance as of June 1, 2010	\$ 48,711	\$ ----	\$ 35,599	\$ 19,135	\$ 103,445
Service contracts acquired	13,090	----	7,498	7,200	27,788
Service contracts amortization	(14,739)	----	(5,363)	(6,081)	(26,183)
Foreign currency translation	1,875	----	----	535	2,410
Balance as of February 28, 2011	\$ 48,937	\$ ----	\$ 37,734	\$ 20,789	\$ 107,460

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Information regarding Cintas service contracts and other assets is as follows (in thousands):

	Carrying Amount	As of February 28, 2011 Accumulated Amortization	Net
Service contracts	\$376,798	\$269,338	\$107,460
Noncompete and consulting agreements	\$ 75,736	\$ 61,825	\$ 13,911
Investments(1)	82,620	----	82,620
Other	16,636	4,384	12,252
Total	\$174,992	\$ 66,209	\$108,783

	Carrying Amount	As of May 31, 2010 Accumulated Amortization	Net
Service contracts	\$346,569	\$243,124	\$103,445
Noncompete and consulting agreements	\$ 68,435	\$ 53,425	\$ 15,010
Investments(1)	68,616	----	68,616
Other	10,516	4,242	6,274
Total	\$147,567	\$ 57,667	\$ 89,900

(1) Investments at February 28, 2011, include the cash surrender value of insurance policies of \$50.1 million, equity method investments of \$29.7 million and cost method investments of \$2.8 million. Investments at May 31, 2010, include the cash surrender value of insurance policies of \$34.3 million, equity method investments of \$30.0 million and cost method investments of \$4.3 million.

Amortization expense was \$32.2 million and \$30.6 million for the nine months ended February 28, 2011 and 2010, respectively. Estimated amortization expense, excluding any future acquisitions, for each of the next five years is \$41.6 million, \$36.1 million, \$19.6 million, \$16.4 million and \$13.7 million, respectively.

Investments recorded using the cost method are evaluated for impairment on an annual basis or when indicators of impairment are identified. For the nine months ended February 28, 2011 and 2010, no losses due to impairment were recorded.

5. Debt, Derivatives and Hedging Activities

Cintas has a commercial paper program with a capacity of \$300.0 million that is fully supported by a backup revolving credit facility through a credit agreement with its banking group. The revolving credit facility has an accordion feature that allows for a maximum borrowing capacity of \$450.0 million and an expiration date of September 26, 2014. As of February 28, 2011, Cintas had \$21.5 million of commercial paper outstanding, and at May 31, 2010, no commercial paper was outstanding.

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(Unaudited)

Cintas used interest rate lock agreements to hedge against movements in the treasury rates at the time Cintas issued its senior notes in fiscal 2002, fiscal 2007 and fiscal 2008. The amortization of the interest rate lock agreements resulted in an increase to other comprehensive income of \$0.2 million for both of the three months ended February 28, 2011 and 2010, respectively, and \$0.6 million for both of the nine months ended February 28, 2011 and 2010, respectively.

To hedge the exposure of movements in the foreign currency rates, Cintas at times uses foreign currency hedges. These hedges would reduce the impact on cash flows from movements in the foreign currency exchange rates. Examples of foreign currency hedge instruments that Cintas may use are average rate options and forward contracts. Cintas had no average rate options included in accounts receivable, net as of February 28, 2011, and \$0.5 million included in accounts receivable, net as of May 31, 2010. Cintas had average rate options included in current accrued liabilities of \$0.6 million and less than \$0.1 million as of February 28, 2011 and May 31, 2010, respectively. The average rate options that settled during the third quarter increased foreign currency exchange costs by \$0.1 million and \$0.2 million during the three months ended February 28, 2011 and 2010, respectively. The average rate options increased foreign currency exchange costs by less than \$0.1 million and by \$0.3 million during the nine months ended February 28, 2011 and 2010, respectively.

Cintas has certain covenants related to debt agreements. These covenants limit Cintas' ability to incur certain liens, to engage in sale-leaseback transactions and to merge, consolidate or sell all or substantially all of Cintas' assets. These covenants also require Cintas to maintain certain debt to capitalization and interest coverage ratios. Cross-default provisions exist between certain debt instruments. If a default of a significant covenant were to occur, the default could result in an acceleration of the maturity of the indebtedness, impair liquidity and limit the ability to raise future capital. As of February 28, 2011, Cintas was in compliance with all significant debt covenants.

6. Income Taxes

In the normal course of business, Cintas provides for uncertain tax positions and the related interest and adjusts its unrecognized tax benefits and accrued interest accordingly. During the three months ended February 28, 2011, unrecognized tax benefits decreased by approximately \$1.7 million and accrued interest increased by approximately \$0.7 million due to the accrual of additional tax and interest and the reduction of reserves due to the closure of audits and expiration of statutes. During the nine months ended February 28, 2011, unrecognized tax benefits increased by approximately \$0.8 million and accrued interest decreased by approximately \$7.2 million due to the expiration of certain statutes.

All U.S. federal income tax returns are closed to audit through fiscal 2008. Cintas is currently in advanced stages of audits in certain foreign jurisdictions and certain domestic states. The years under audit cover fiscal years back to 2001. Based on the resolution of the various audits, it is reasonably possible that the balance of unrecognized tax benefits could decrease by \$4.0 million for the fiscal year ending May 31, 2011.

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

7. Comprehensive Income

Total comprehensive income represents the net change in shareholders' equity during a period from sources other than transactions with shareholders and, as such, includes net income. For Cintas, the only components of total comprehensive income are the change in cumulative foreign currency translation adjustments, the change in the fair value of derivatives, the amortization of interest rate lock agreements and the change in the fair value of available-for-sale securities. The components of comprehensive income for the three and nine month periods ended February 28, 2011 and 2010, are as follows (in thousands):

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2011	2010	2011	2010
Net income	\$59,070	\$48,982	\$176,213	\$160,142
Other comprehensive income:				
Foreign currency translation adjustment	15,472	(94)	28,846	10,432
Change in fair value of derivatives*	(152)	87	(777)	64
Amortization of interest rate lock agreements	192	192	575	575
Change in fair value of available-for-sale securities**	(10)	11	18	29
Comprehensive income	\$74,572	\$49,178	\$204,875	\$171,242

* Net of less than \$(0.1) million and \$0.1 million of tax (benefit) expense for the three months ended February 28, 2011 and 2010, respectively. Net of \$(0.5) million and less than \$0.1 million of tax (benefit) expense for the nine months ended February 28, 2011 and 2010, respectively.

** Net of less than \$(0.1) million and less than \$0.1 million of tax (benefit) expense for the three months ended February 28, 2011 and 2010, respectively. Net of less than \$0.1 million of tax expense for both the nine months ended February 28, 2011 and 2010, respectively.

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

8. Litigation and Other Contingencies

Cintas is subject to legal proceedings, insurance receipts, legal settlements and claims arising from the ordinary course of its business, including personal injury, customer contract, environmental and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such ordinary course of business actions will not have a material adverse effect on the financial position or results of operation of Cintas. Cintas is party to additional litigation not considered in the ordinary course of business, including the litigation discussed below.

Cintas is a defendant in a purported class action lawsuit, *Mirna E. Serrano, et al. v. Cintas Corporation (Serrano)*, filed on May 10, 2004, and pending in the United States District Court, Eastern District of Michigan, Southern Division. The *Serrano* plaintiffs alleged that Cintas discriminated against women in hiring into various service sales representative positions across all divisions of Cintas. On November 15, 2005, the Equal Employment Opportunity Commission (EEOC) intervened in the *Serrano* lawsuit. The *Serrano* plaintiffs seek injunctive relief, compensatory damages, punitive damages, attorneys' fees and other remedies. On October 27, 2008, the United States District Court in the Eastern District of Michigan granted summary judgment in favor of Cintas limiting the scope of the putative class in the *Serrano* lawsuit to female applicants for service sales representative positions at Cintas locations within the state of Michigan. Consequently, all claims brought by female applicants for service sales representative positions outside of the state of Michigan were dismissed. Similarly, any claims brought by the EEOC on behalf of similarly situated female applicants outside of the state of Michigan have also been dismissed from the *Serrano* lawsuit. Cintas is a defendant in another purported class action lawsuit, *Blanca Nelly Avalos, et al. v. Cintas Corporation (Avalos)*, which was filed in the United States District Court, Eastern District of Michigan, Southern Division. The *Avalos* plaintiffs alleged that Cintas discriminated against women, African-Americans and Hispanics in hiring into various service sales representative positions in Cintas Rental division only throughout the United States. The *Avalos* plaintiffs sought injunctive relief, compensatory damages, punitive damages, attorneys' fees and other remedies. The claims in *Avalos* originally were brought in the lawsuit captioned *Robert Ramirez, et al. v. Cintas Corporation (Ramirez)*, filed on January 20, 2004, in the United States District Court, Northern District of California, San Francisco Division. On May 11, 2006, the *Ramirez* and *Avalos* African-American, Hispanic and female failure to hire into service sales representative positions claims and the EEOC's intervention were consolidated for pretrial purposes with the *Serrano* case and transferred to the United States District Court for the Eastern District of Michigan, Southern Division. The consolidated case was known as *Mirna E. Serrano/Blanca Nelly Avalos, et al. v. Cintas Corporation (Serrano/Avalos)*. On March 31, 2009, the United States District Court, Eastern District of Michigan, Southern Division entered an order denying class certification to all plaintiffs in the *Serrano/Avalos* lawsuits. Following denial of class certification, the Court permitted the individual *Avalos* and *Serrano* plaintiffs to proceed separately. In the *Avalos* case, the court dismissed the remaining claims of the individual plaintiffs who remained in that case after the denial of class certification. On May 11, 2010, Plaintiff Tanesha Davis, on behalf of all similarly situated plaintiffs in the *Avalos* case, filed a notice of appeal of the District Court's summary judgment order in the United States Court of Appeals for the Sixth Circuit. The Appellate Court has made no determination regarding the merits of Davis appeal. In September 2010, the Court in *Serrano* dismissed all private individual claims and all claims of the EEOC and the 13 individuals it claimed to represent. The EEOC has appealed the District Court's summary judgment decisions and various other rulings to the United States Court of Appeals for the Sixth Circuit. The Court of Appeals has not yet ruled on the EEOC's appeal.

The litigation discussed above, if decided or settled adversely to Cintas, may, individually or in the aggregate, result in liability material to Cintas' consolidated financial condition or results of operation and could increase costs of operations on an ongoing

basis. Any estimated liability relating to these proceedings is not determinable at this time. Cintas may enter into discussions regarding settlement of

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

these and other lawsuits, and may enter into settlement agreements if it believes such settlement is in the best interest of Cintas shareholders.

Cintas is a defendant in a purported class action lawsuit, *Paul Veliz, et al. v. Cintas Corporation (Veliz)*, filed on March 19, 2003, in the United States District Court, Northern District of California, Oakland Division, alleging that Cintas violated certain federal and state wage and hour laws applicable to its service sales representatives, whom Cintas considers exempt employees, and asserting additional related ERISA claims. On April 5, 2004 and February 14, 2006, the Court stayed the claims of all plaintiffs with valid arbitration agreements pending arbitration of those claims. Claims made in the *Veliz* action, therefore, are pending before the United States District Court, Northern District of California and Judge Bruce Meyerson (Ret.), an Arbitrator selected by the parties. On August 5, 2009, the parties in the *Veliz* action reached a settlement in principle. That settlement has been granted preliminary approval by the District Court. When the settlement is fully documented and approved by the Court, the settlement will resolve all claims now pending or that could have been brought relating to the subject matter of the case before the Court and the Arbitrator. The principal terms of the settlement provide for an aggregate cash payment of approximately \$24.0 million. The pre-tax impact, net of insurance proceeds, was \$19.5 million. Pursuant to the settlement agreement, on December 17, 2010, Cintas paid \$22.8 million to a Court appointed settlement administrator to be held in escrow pending final approval of the settlement by the Court. Once final approval has been granted by the Court, the settlement administrator will distribute the \$22.8 million to the class members under the Court's supervision. According to the terms of the settlement agreement, Cintas will pay the remaining settlement funds to satisfy the future income tax liabilities of the class members as they receive their respective shares of the settlement funds. The balance of the settlement funds will be used to pay the fees and expenses of the settlement administrator.

During the second quarter of fiscal 2010, Cintas had legal settlements that totaled \$4.0 million, net of insurance proceeds. None of these settlements were significant individually. These settlements included litigation related to multiple subjects including employment practices and insurance coverage.

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CINTAS CORPORATION

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(Unaudited)

9. Segment Information

Cintas classifies its businesses into four operating segments. The Rental Uniforms and Ancillary Products operating segment consists of the rental and servicing of uniforms and other garments including flame resistant clothing, mats, mops and shop towels and other ancillary items. In addition to these rental items, restroom cleaning services and supplies and tile and carpet cleaning services are also provided within this operating segment. The Uniform Direct Sales operating segment consists of the direct sale of uniforms and related items and branded promotional products. The First Aid, Safety and Fire Protection Services operating segment consists of first aid, safety and fire protection products and services. The Document Management Services operating segment consists of document destruction, document imaging and document retention services.

Cintas evaluates the performance of each operating segment based on several factors of which the primary financial measures are operating segment revenue and income before income taxes. The accounting policies of the operating segments are the same as those described in Note 1 entitled Basis of Presentation. Information related to the operations of Cintas' operating segments is set forth below (in thousands):

	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Corporate	Total
For the three months ended						
February 28, 2011						
Revenue	\$ 664,976	\$102,598	\$ 91,195	\$ 79,058	\$ ----	\$ 937,827
Income (loss) before income taxes	\$ 85,558	\$ 12,383	\$ 4,628	\$ 6,307	\$ (12,240)	\$ 96,636
For the three months ended						
February 28, 2010						
Revenue	\$ 622,458	\$ 94,428	\$ 79,210	\$ 65,716	\$ ----	\$ 861,812
Income (loss) before income taxes	\$ 64,319	\$ 8,208	\$ 2,062	\$ 9,422	\$ (11,153)	\$ 72,858
As of and for the nine months ended						
February 28, 2011						
Revenue	\$1,980,387	\$310,167	\$278,044	\$229,699	\$ ----	\$2,798,297
Income (loss) before income taxes	\$ 241,888	\$ 35,509	\$ 13,513	\$ 20,556	\$ (35,703)	\$ 275,763
Total assets	\$2,508,299	\$294,238	\$358,536	\$594,292	\$ 216,705	\$3,972,070
As of and for the nine months ended						
February 28, 2010						
Revenue	\$1,921,693	\$283,163	\$250,768	\$182,266	\$ ----	\$2,637,890
Income (loss) before income taxes	\$ 258,653	\$ 26,772	\$ 10,867	\$ 16,528	\$ (58,626)	\$ 254,194
Total assets	\$2,427,309	\$158,229	\$326,497	\$495,778	\$ 552,096	\$3,959,909

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

10. Supplemental Guarantor Information

Cintas Corporation No. 2 (Corp. 2) is the indirectly, wholly-owned principal operating subsidiary of Cintas. Corp. 2 is the issuer of the \$775.0 million of long-term notes, which are unconditionally guaranteed, jointly and severally, by Cintas and its wholly-owned, direct and indirect domestic subsidiaries.

As allowed by SEC rules, the following condensed consolidating financial statements are provided as an alternative to filing separate financial statements of the guarantors. Each of the subsidiaries presented in the condensed consolidating financial statements has been fully consolidated in Cintas consolidated financial statements. The condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Cintas and notes thereto of which this note is an integral part.

Condensed consolidating financial statements for Cintas, Corp. 2, the subsidiary guarantors and non-guarantors are presented on the following pages.

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CONDENSED CONSOLIDATING INCOME STATEMENT

THREE MONTHS ENDED FEBRUARY 28, 2011

(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	\$ ----	\$ 509,321	\$ 129,038	\$ 49,677	\$ (23,060)	\$ 664,976
Other services	----	330,075	98,708	27,289	(183,221)	272,851
Equity in net income of affiliates	59,070	----	----	----	(59,070)	----
	59,070	839,396	227,746	76,966	(265,351)	937,827
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	----	326,000	75,562	33,991	(55,329)	380,224
Cost of other services	----	211,754	88,918	17,490	(152,480)	165,682
Selling and administrative expenses	----	264,019	(1,666)	23,555	(2,863)	283,045
Operating income	59,070	37,623	64,932	1,930	(54,679)	108,876
Interest income	----	(140)	(97)	(43)	----	(280)
Interest expense (income)	----	13,002	(498)	16	----	12,520
Income (loss) before income taxes	59,070	24,761	65,527	1,957	(54,679)	96,636
Income taxes (benefit)	----	9,923	26,931	717	(5)	37,566
Net income (loss)	\$ 59,070	\$ 14,838	\$ 38,596	\$ 1,240	\$ (54,674)	\$ 59,070

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CONDENSED CONSOLIDATING INCOME STATEMENT

THREE MONTHS ENDED FEBRUARY 28, 2010

(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	\$ ----	\$ 474,757	\$ 124,523	\$ 45,472	\$ (22,294)	\$ 622,458
Other services	----	288,303	89,416	17,179	(155,544)	239,354
Equity in net income of affiliates	48,982	----	----	----	(48,982)	----
	48,982	763,060	213,939	62,651	(226,820)	861,812
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	----	299,516	78,344	28,399	(49,509)	356,750
Cost of other services	----	188,941	73,467	10,943	(127,896)	145,455
Selling and administrative expenses	----	159,910	98,029	18,339	(682)	275,596
Operating income	48,982	114,693	(35,901)	4,970	(48,733)	84,011
Interest income	----	(80)	(275)	(67)	----	(422)
Interest expense (income)	----	12,578	(1,005)	2	----	11,575
Income (loss) before income taxes	48,982	102,195	(34,621)	5,035	(48,733)	72,858
Income taxes (benefit)	----	46,690	(24,988)	2,191	(17)	23,876
Net income (loss)	\$ 48,982	\$ 55,505	\$ (9,633)	\$ 2,844	\$ (48,716)	\$ 48,982

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CONDENSED CONSOLIDATING INCOME STATEMENT

NINE MONTHS ENDED FEBRUARY 28, 2011

(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	\$ ----	\$ 1,522,229	\$ 393,250	\$ 143,484	\$ (78,576)	\$ 1,980,387
Other services	----	1,002,435	357,282	78,806	(620,613)	817,910
Equity in net income of affiliates	176,213	----	----	----	(176,213)	----
	176,213	2,524,664	750,532	222,290	(875,402)	2,798,297
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	----	978,149	232,115	96,549	(177,603)	1,129,210
Cost of other services	----	651,265	306,777	49,007	(514,202)	492,847
Selling and administrative expenses	----	789,686	15,086	65,402	(5,400)	864,774
Operating income	176,213	105,564	196,554	11,332	(178,197)	311,466
Interest income	----	(494)	(567)	(100,222)	100,031	(1,252)
Interest expense (income)	----	38,413	(1,488)	30	----	36,955
Income (loss) before income taxes	176,213	67,645	198,609	111,524	(278,228)	275,763
Income taxes (benefit)	----	23,093	67,801	8,658	(2)	99,550
Net income (loss)	\$ 176,213	\$ 44,552	\$ 130,808	\$ 102,866	\$ (278,226)	\$ 176,213

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CONDENSED CONSOLIDATING INCOME STATEMENT

NINE MONTHS ENDED FEBRUARY 28, 2010

(In thousands)

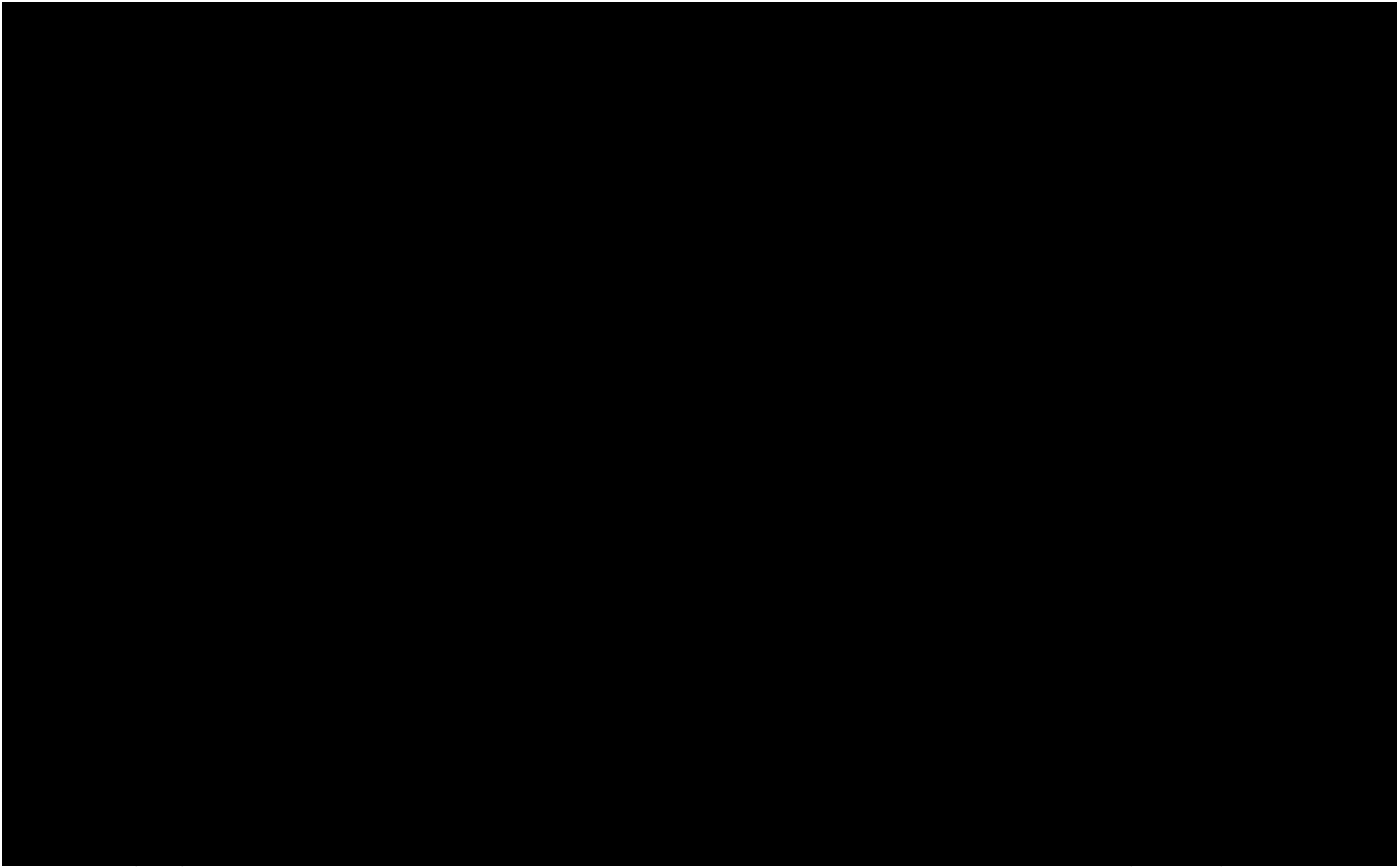


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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF FEBRUARY 28, 2011

(In thousands)

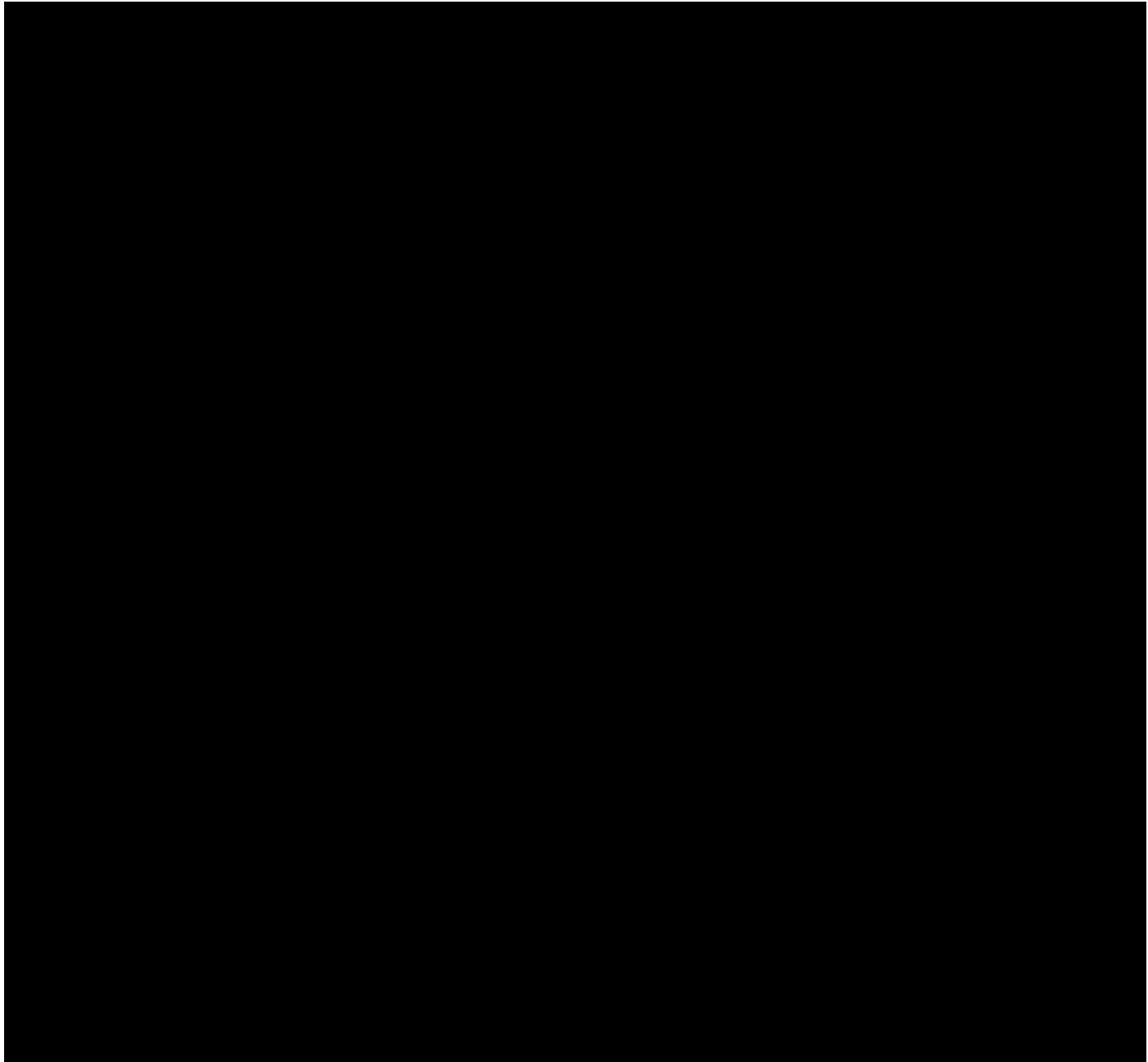


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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MAY 31, 2010

(In thousands)

Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
					

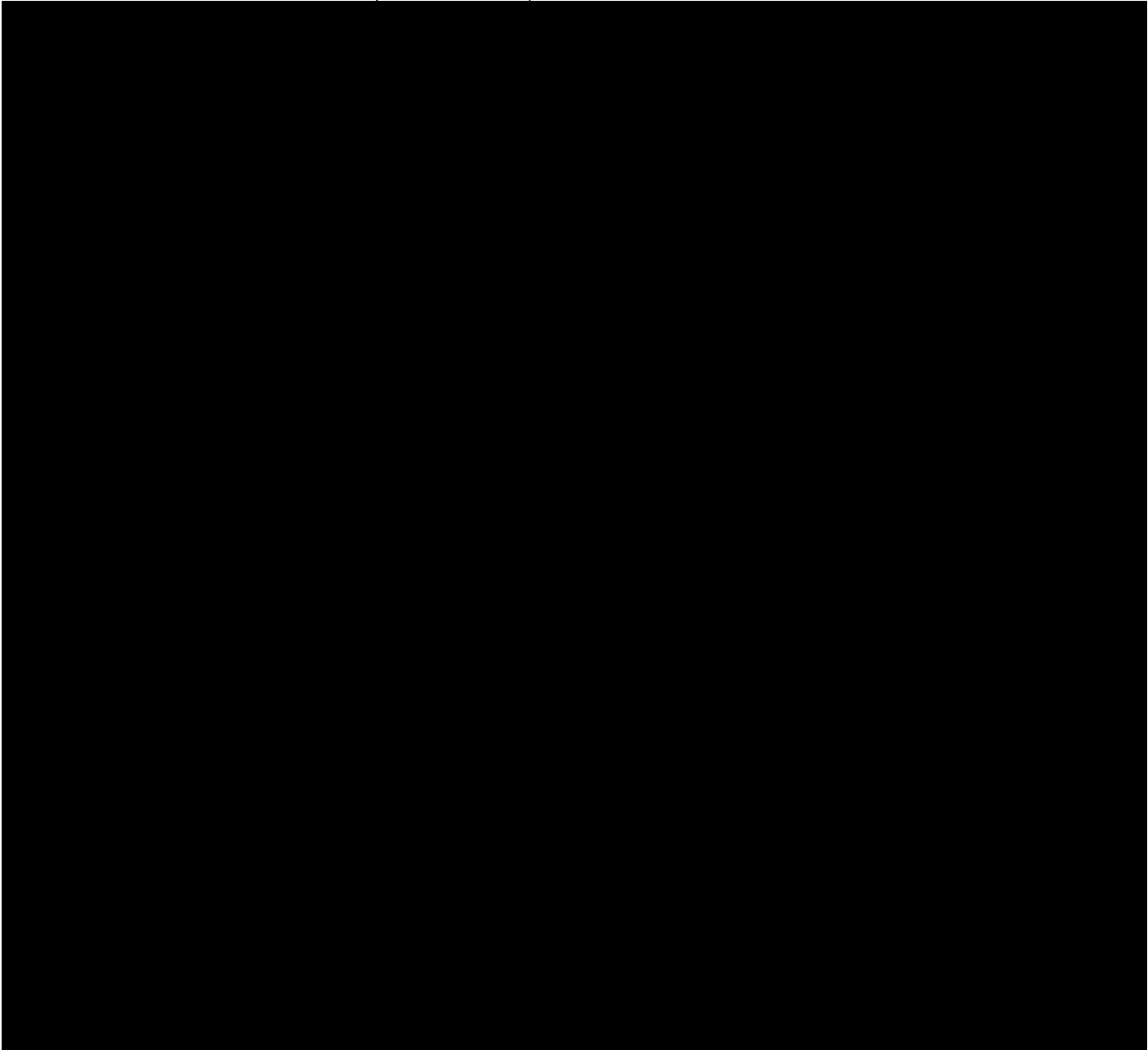
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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

NINE MONTHS ENDED FEBRUARY 28, 2011

(In thousands)

Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
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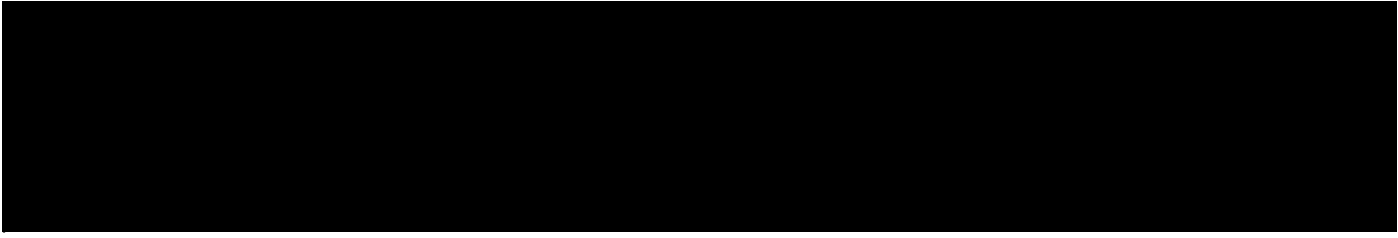


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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

NINE MONTHS ENDED FEBRUARY 28, 2010

(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
<u>Cash flows from operating activities:</u>						
Net income	\$ 160,142	\$ 34,146	\$ 108,599	\$ 13,576	\$ (156,321)	\$ 160,142
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation	----	72,271	36,008	5,555	----	113,834
Amortization of deferred charges	----	28,334	675	1,597	----	30,606
Stock-based compensation	11,323	----	----	----	----	11,323
Deferred income taxes	----	----	11,444	501	----	11,945
Changes in current assets and liabilities, net of acquisitions of businesses:						
Accounts receivable, net	----	22,375	15,617	1,095	(28,302)	10,785
Inventories, net	----	43,463	(9,991)	(284)	(1,288)	31,900
Uniforms and other rental items in service	----	12,047	7,648	(2,940)	(2,532)	14,223
Prepaid expenses and other	----	513	(1,086)	333	----	(240)
Accounts payable	----	29,435	(47,745)	16,786	16,691	15,167
Accrued compensation and related liabilities	----	3,277	3,618	1,519	----	8,414
Accrued liabilities and other	----	(15,704)	27,848	(1,495)	858	11,507
Income taxes payable (receivable)	----	9,823	(384)	144	----	9,583
Net cash provided by (used in) operating activities	171,465	239,980	152,251	36,387	(170,894)	429,189
<u>Cash flows from investing activities:</u>						
Capital expenditures	----	(37,215)	(36,011)	(5,702)	----	(78,928)
Proceeds from sale or redemption of marketable securities	----	----	7,986	26,025	----	34,011
Purchase of marketable securities and investments	----	(1,879)	218,340	(25,282)	(260,998)	(69,819)
Acquisitions of businesses, net of cash acquired	----	(18,829)	----	(22,546)	----	(41,375)
Other	(170,639)	(182,120)	(40,072)	7	396,628	3,804
Net cash (used in) provided by investing activities	(170,639)	(240,043)	150,243	(27,498)	135,630	(152,307)
<u>Cash flows from financing activities:</u>						
Repayment of debt	----	(615)	(35,113)	----	35,264	(464)
Repurchase of common stock	(960)	----	----	----	----	(960)
Other	134	575	----	(1,103)	----	(394)
Net cash (used in) provided by financing activities	(826)	(40)	(35,113)	(1,103)	35,264	(1,818)
Effect of exchange rate changes on cash and cash equivalents	----	186	----	1,508	----	1,694
Net increase in cash and cash equivalents	----	83	267,381	9,294	----	276,758
Cash and cash equivalents at beginning of period	----	39,397	76,979	13,369	----	129,745
Cash and cash equivalents at end of period	\$ ----	\$ 39,480	\$ 344,360	\$ 22,663	\$ ----	\$ 406,503

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CINTAS CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

BUSINESS STRATEGY

Cintas provides highly specialized products and services to businesses of all types primarily throughout North America and Latin America, Europe and Asia. We bring value to our customers by helping them provide a cleaner, safer and more pleasant atmosphere for their customers and employees. Our products and services are designed to improve our customers' images. We also help our customers protect their employees and their company by enhancing workplace safety and helping to ensure legal compliance in key areas of their business.

We are North America's leading provider of corporate identity uniforms through rental and sales programs, as well as a significant provider of related business services, including entrance mats, restroom cleaning services and supplies, tile and carpet cleaning services, first aid, safety and fire protection products and services, document management services and branded promotional products.

Cintas' principal objective is to exceed customers' expectations in order to maximize the long-term value of Cintas for shareholders and working partners, and it provides the framework and focus for Cintas' business strategy. This strategy is to achieve revenue growth for all of our products and services by increasing our penetration at existing customers and by broadening our customer base to include business segments to which Cintas has not historically served. We will also continue to identify additional product and service opportunities for our current and future customers.

To pursue the strategy of increasing penetration, we have a highly talented and diverse team of service professionals visiting our customers on a regular basis. This frequent contact with our customers enables us to develop close personal relationships. The combination of our distribution system and these strong customer relationships provides a platform from which we launch additional products and services.

We pursue the strategy of broadening our customer base in several ways. Cintas has a national sales organization introducing all of its products and services to prospects in all business segments. Our broad range of products and services allows our sales organization to consider any type of business a prospect. We also broaden our customer base through geographic expansion, especially in our emerging businesses of first aid and safety, fire protection and document management. Finally, we evaluate strategic acquisitions as opportunities arise.

RESULTS OF OPERATIONS

Cintas classifies its businesses into four operating segments. The Rental Uniforms and Ancillary Products operating segment consists of the rental and servicing of uniforms and other garments including flame resistant clothing, mats, mops and shop towels and other ancillary items. In addition to these rental items, restroom cleaning services and supplies and tile and carpet cleaning services are also provided within this operating segment. The Uniform Direct Sales operating segment consists of the direct sale of uniforms and related items and branded promotional products. The First Aid, Safety and Fire Protection Services operating segment consists of first aid, safety and fire protection products and services. The Document Management Services operating segment consists of document destruction, document imaging and document retention services. Revenue and income before income taxes for each of these operating segments for the three and nine month periods ended February 28, 2011 and 2010, are presented in Note 9 entitled Segment Information of Notes to Consolidated Condensed Financial Statements.

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Consolidated Results

Three Months Ended February 28, 2011 Compared to Three Months Ended February 28, 2010

Total revenue increased 8.8% for the three months ended February 28, 2011, over the same period in the prior fiscal year from \$861.8 million to \$937.8 million. The increase primarily resulted from an organic growth increase of 5.5%. The remaining 3.3% represents growth derived through acquisitions in our Document Management Services operating segment, our First Aid, Safety and Fire Protection Services operating segment and our Rental Uniforms and Ancillary Products operating segment during the quarter.

Rental Uniforms and Ancillary Products operating segment revenue increased 6.8% for the three months ended February 28, 2011, over the same period in the prior fiscal year from \$622.5 million to \$665.0 million. Other Services revenue, consisting of revenue from the reportable operating segments of Uniform Direct Sales, First Aid, Safety and Fire Protection Services and Document Management Services, increased 14.0% for the three months ended February 28, 2011, over the same period in the prior fiscal year from \$239.4 million to \$272.9 million. The increase primarily resulted from an organic growth increase of 8.6%. The remaining 5.4% represents growth derived through acquisitions in our Document Management Services operating segment and our First Aid, Safety and Fire Protection Services operating segment during the quarter. The organic growth rate for Other Services revenue for the quarter was due to organic growth in each operating segment making up Other Services. The organic growth for these operating segments was 8.7% in Uniform Direct Sales, 9.3% in First Aid, Safety and Protection Services and 7.8% in Document Management Services.

Cost of rental uniforms and ancillary products consists primarily of production expenses, delivery expenses and the amortization of in service inventory, including uniforms, mats, shop towels and other ancillary items. Cost of rental uniforms and ancillary products increased \$23.5 million, or 6.6%, for the three months ended February 28, 2011, compared to the three months ended February 28, 2010. This increase was due to higher Rental Uniforms and Ancillary Products operating segment sales volume.

Cost of other services consists primarily of cost of goods sold (predominantly uniforms and first aid products), delivery expenses and distribution expenses in the Uniform Direct Sales operating segment, the First Aid, Safety and Fire Protection Services operating segment and the Document Management Services operating segment. Cost of other services increased \$20.2 million, or 13.9%, for the three months ended February 28, 2011, compared to the three months ended February 28, 2010. This increase was primarily due to increased Other Services sales volume.

Selling and administrative expenses increased \$7.4 million, or 2.7%, for the three months ended February 28, 2011, compared to the three months ended February 28, 2010. This increase was due to numerous items including increases in labor and professional services expenses.

Net interest expense (interest expense less interest income) was \$12.2 million for the three months ended February 28, 2011, compared to \$11.2 million for the three months ended February 28, 2010. This increase was due to the use of the commercial paper program.

Cintas' effective tax rate increased to 38.9% for the three months ended February 28, 2011, compared to 32.8% for the prior fiscal year period. The lower rate during the prior fiscal year period was due to the impact of the closure of certain tax audits during the three months ended February 28, 2010.

Net income increased \$10.1 million, or 20.6%, for the three months ended February 28, 2011, from the same period in the prior fiscal year. This increase was primarily due to revenue increasing at a faster rate of 8.8% compared to a 6.6% increase in operating expenses. Revenue grew at a faster rate due primarily to improvements in sales representative productivity, improved customer retention and improved capacity utilization from the higher revenue levels. Diluted earnings per share were \$0.41 for the three months ended February 28, 2011, which was an increase of 28.1% compared to the same period in the prior fiscal year. The increase in diluted earnings per share is higher than the increase in net income due to Cintas purchasing 7.7 million shares under the share buyback program this fiscal year.

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Rental Uniforms and Ancillary Products Operating Segment

Three Months Ended February 28, 2011 Compared to Three Months Ended February 28, 2010

As discussed above, Rental Uniforms and Ancillary Products operating segment revenue increased from \$622.5 million to \$665.0 million, or 6.8%, due to improvements in sales representative productivity and improved customer retention. The operating segment's gross margin was \$284.8 million, or 42.8% of revenue. This gross margin percent of revenue of 42.8% was relatively consistent with the prior fiscal year's third quarter of 42.7%.

Selling and administrative expenses were \$199.2 million, or 30.0% of revenue. This is a decrease of \$2.2 million compared to last fiscal year primarily due to a decrease of \$1.5 million in amortization expense.

Income before income taxes increased \$21.2 million to \$85.6 million for the Rental Uniforms and Ancillary Products operating segment for the quarter compared to the same quarter last fiscal year. Income before income taxes was 12.9% of the operating segment's revenue, an improvement compared to the 10.3% in the third quarter of the prior fiscal year. This improvement is primarily due to revenue increasing at a faster rate of 6.8% compared to a 3.8% increase in operating expenses. Revenue grew at a faster rate due primarily to improvements in sales representative productivity, improved customer retention and improved capacity utilization from the higher revenue levels.

Uniform Direct Sales Operating Segment

Three Months Ended February 28, 2011 Compared to Three Months Ended February 28, 2010

Uniform Direct Sales operating segment revenue increased from \$94.4 million to \$102.6 million, or 8.7%, for the three months ended February 28, 2011, over the same quarter in the prior fiscal year due to increased customer orders for uniforms.

Cost of uniform direct sales increased \$5.9 million, or 8.8%, for the three months ended February 28, 2011, due to increased Uniform Direct Sales operating segment sales volume. The gross margin as a percent of revenue was 29.5% for the quarter ended February 28, 2011, which is comparable to the 29.6% in the same quarter in the prior fiscal year.

Selling and administrative expenses decreased \$1.9 million compared to the same quarter last fiscal year. This decrease in selling and administrative expenses was due to numerous items including medical expenses and bad debt expense.

Income before income taxes increased \$4.2 million to \$12.4 million for the Uniform Direct Sales operating segment for the quarter ended February 28, 2011. Income before income taxes was 12.1% of the operating segment's revenue compared to 8.7% for the same quarter last fiscal year. This increase in income before income taxes is primarily due to the increase in revenue and improved capacity utilization from the higher revenue levels.

First Aid, Safety and Fire Protection Services Operating Segment

Three Months Ended February 28, 2011 Compared to Three Months Ended February 28, 2010

First Aid, Safety and Fire Protection Services operating segment revenue increased from \$79.2 million to \$91.2 million, or 15.1%, for the three months ended February 28, 2011. The increase primarily resulted from organic growth of 9.3% due to improvements in sales representative productivity and improved customer retention. The remaining 5.8% represents growth derived mainly through acquisitions.

Cost of first aid, safety and fire protection services increased \$5.4 million, or 11.3%, for the three months ended February 28, 2011. Gross margin for the First Aid, Safety and Fire Protection Services operating segment is defined as revenue less cost of goods, warehouse expenses, service expenses and training expenses. The gross margin as a percent of revenue was 41.5% for the quarter ended February 28,

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2011, which is a 200 basis point increase compared to the gross margin percentage in the third quarter of the prior fiscal year. This increase is due to an increase in revenue and improved capacity utilization from the higher revenue levels.

Selling and administrative expenses increased \$4.0 million compared to the third quarter of the prior fiscal year. This increase is primarily due to an increase in labor and payroll taxes of \$2.5 million.

Income before income taxes for the First Aid, Safety and Fire Protection Services operating segment increased \$2.6 million to \$4.6 million for the three months ended February 28, 2011. Income before income taxes was 5.1% of the operating segment's revenue, compared to 2.6% in last fiscal year's third quarter. This increase is primarily due to the increase in revenue and improved capacity utilization from the higher revenue levels.

Document Management Services Operating Segment

Three Months Ended February 28, 2011 Compared to Three Months Ended February 28, 2010

Document Management Services operating segment revenue increased from \$65.7 million to \$79.1 million, or 20.3%, for the quarter ended February 28, 2011, over the same quarter in the prior fiscal year. The increase resulted from an organic growth increase of 7.8% primarily due to new accounts sold by our sales representatives. The remaining 12.5% represents growth derived mainly through acquisitions. This operating segment derives a portion of its revenue from the sale of shredded paper to paper recyclers. Recycled paper prices remained at relatively high levels, but are consistent with the prices in the same quarter last fiscal year. As a result, the change in recycled paper prices did not significantly impact the revenue growth rate.

Cost of document management services increased \$8.9 million, or 28.8%, for the three months ended February 28, 2011, due to increased Document Management Services operating segment sales volume. Gross margin for the Document Management Services operating segment is defined as revenue less production and service costs. The gross margin as a percent of revenue decreased from 52.7% in last year's third quarter to 49.4% for the quarter ended February 28, 2011. This decrease is primarily due to start-ups in the storage business as well as a 65 basis point increase in energy related costs.

Selling and administrative expenses increased \$7.5 million compared to the same quarter last fiscal year primarily due to an increase in labor and payroll taxes of \$4.3 million.

Income before income taxes for the Document Management Services operating segment decreased \$3.1 million to \$6.3 million for the period compared to the same period in the prior fiscal year. Income before income taxes as a percentage of the operating segment's revenue decreased from 14.3% in last year's third quarter to 8.0% for the quarter ended February 28, 2011. The decrease in income before income taxes is due to the costs associated with the start-ups in the storage business, the increase in energy related costs and the increase in selling and administrative expenses.

Consolidated Results

Nine Months Ended February 28, 2011 Compared to Nine Months Ended February 28, 2010

Total revenue increased 6.1% for the nine months ended February 28, 2011, over the same period in the prior fiscal year from \$2.6 billion to \$2.8 billion. The increase primarily resulted from an organic growth increase of 4.2%. The remaining 1.9% represents growth derived through acquisitions in our Document Management Services operating segment, our First Aid, Safety and Fire Protection Services operating segment and our Rental Uniforms and Ancillary Products operating segment during the period.

Rental Uniforms and Ancillary Products operating segment revenue increased 3.1% for the nine months ended February 28, 2011, over the same period in the prior fiscal year from \$1.9 billion to \$2.0 billion. Other Services revenue, consisting of revenue from the reportable operating segments of Uniform Direct Sales, First Aid, Safety and Fire Protection Services and Document Management Services, increased

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14.2% for the nine months ended February 28, 2011, over the same period in the prior fiscal year from \$716.2 million to \$817.9 million. The increase primarily resulted from an organic increase of 9.8%. The remaining 4.4% represents growth derived through acquisitions in our Document Management Services operating segment and our First Aid, Safety and Fire Protection Services operating segment during the period. The organic growth rate for the quarter was the result of a 14.9% organic increase in Document Management Services operating segment revenue, a 9.5% organic increase in Uniform Direct Sales operating segment revenue and a 6.4% organic increase in First Aid, Safety and Fire Protection Services operating segment revenue.

Cost of rental uniforms and ancillary products consists primarily of production expenses, delivery expenses and the amortization of in service inventory, including uniforms, mats, shop towels and other ancillary items. Cost of rental uniforms and ancillary products increased \$45.8 million, or 4.2%, for the nine months ended February 28, 2011, compared to the nine months ended February 28, 2010. This increase was due to higher Rental Uniforms and Ancillary Products operating segment sales volume. In addition, maintenance costs increased \$7.0 million and energy related costs increased \$3.8 million compared to the nine months ended February 28, 2011.

Cost of other services consists primarily of cost of goods sold (predominantly uniforms and first aid products), delivery expenses and distribution expenses in the Uniform Direct Sales operating segment, the First Aid, Safety and Fire Protection Services operating segment and the Document Management Services operating segment. Cost of other services increased \$50.6 million, or 11.4%, for the nine months ended February 28, 2011, compared to the nine months ended February 28, 2010. This increase was primarily due to increased Other Services sales volume.

Selling and administrative expenses increased \$65.3 million, or 8.2%, for the nine months ended February 28, 2011, compared to the nine months ended February 28, 2010. Labor and payroll tax expenses increased by \$41.0 million compared to the same period in the prior fiscal year primarily as a result of an increase in the number of sales representatives. In addition, bad debt expense increased \$5.7 million due to a slight deterioration in the aging in part resulting from an ongoing accounts receivable consolidation project, and professional services increased \$8.3 million due to costs related to our enterprise-wide system conversion.

During the first quarter of fiscal 2010, Cintas and the plaintiffs involved in the litigation, *Paul Veliz, et al. v. Cintas Corporation*, reached a settlement in principle. The pre-tax impact, net of insurance proceeds, was approximately \$19.5 million. This settlement is more fully described in Note 8 entitled Litigation and Other Contingencies in Notes to Consolidated Condensed Financial Statements. During the second quarter of fiscal 2010, Cintas had legal settlements that totaled \$4.0 million, net of insurance proceeds. None of these settlements were significant individually. These settlements included litigation related to multiple subjects including employment practices and insurance coverage.

Net interest expense (interest expense less interest income) was \$35.7 million the nine months ended February 28, 2011, compared to \$35.1 million for the nine months ended February 28, 2010.

Cintas effective tax rate decreased to 36.1% for the nine months ended February 28, 2011, compared to 37.0% for the prior year period. This decrease was due to the impact of the closure of certain tax audits during the nine months ended February 28, 2011.

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Net income increased \$16.1 million, or 10.0%, for the nine months ended February 28, 2011, from the same period in the prior fiscal year. This increase was primarily due to increased revenue for the period, improved capacity utilization from the higher revenue levels and the legal settlements which occurred last fiscal year. Diluted earnings per share were \$1.19 for the nine months ended February 28, 2011, which was an increase of 14.4% compared to the same period in the prior fiscal year. The increase in diluted earnings per share is higher than the increase in net income due to Cintas purchasing 7.7 million shares under the share buyback program this fiscal year.

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Rental Uniforms and Ancillary Products Operating Segment

Nine Months Ended February 28, 2011 Compared to Nine Months Ended February 28, 2010

As discussed above, Rental Uniforms and Ancillary Products operating segment revenue increased from \$1.9 billion to \$2.0 billion, or 3.1%, and the cost of rental uniforms and ancillary products increased \$45.8 million, or 4.2%. The operating segment's gross margin was \$851.2 million, or 43.0% of revenue. This gross margin percent of revenue of 43.0% was 60 basis points lower than the prior fiscal year's 43.6%. Maintenance costs increased \$7.0 million, or approximately 30 basis points, and energy related costs, which include natural gas, electric and gas, increased \$3.8 million, or 10 basis points, from the prior fiscal year period.

Selling and administrative expenses as a percent of revenue, at 30.8%, increased 60 basis points compared to the same period of the prior fiscal year. This increase is primarily due to an increase in selling labor due to the addition of sales representatives. The sales representatives were added to grow revenue in the operating segment.

Income before income taxes decreased \$16.8 million to \$241.9 million for the Rental Uniforms and Ancillary Products operating segment compared to the same period last fiscal year. Income before income taxes was 12.2% of the operating segment's revenue, which is a 130 basis point decrease compared to the same period of the prior fiscal year. This is primarily due to the increase in selling and administrative expenses and the lower gross margin as a percent of revenue.

Uniform Direct Sales Operating Segment

Nine Months Ended February 28, 2011 Compared to Nine Months Ended February 28, 2010

Uniform Direct Sales operating segment revenue increased from \$283.2 million to \$310.2 million, or 9.5%, for the nine months ended February 28, 2011, over the same period in the prior fiscal year due to increased customer orders for uniforms.

Cost of uniform direct sales increased \$18.6 million, or 9.4%, for the nine months ended February 28, 2011, due to increased Uniform Direct Sales operating segment sales volume. The gross margin as a percent of revenue was 29.9% for the nine months ended February 28, 2011, which is relatively consistent with the 29.8% in the same period of the prior fiscal year.

Selling and administrative expenses decreased \$0.4 million compared to last fiscal year. Selling and administrative expenses decreased as a percent of revenue from 20.3% in the first nine months last fiscal year to 18.4% in this fiscal year's first nine months. This decrease in selling and administrative expenses as a percent of revenue was due to the selling and administrative expenses being relatively consistent with last fiscal year while revenue increased by 9.5%.

Income before income taxes increased \$8.7 million to \$35.5 million for the Uniform Direct Sales operating segment for the nine months ended February 28, 2011. Income before income taxes was 11.4% of the operating segment's revenue compared to 9.5% for the same period last fiscal year. This increase in income before income taxes is primarily due to the increase in revenue while keeping selling and administrative expenses relatively consistent.

First Aid, Safety and Fire Protection Services Operating Segment

Nine Months Ended February 28, 2011 Compared to Nine Months Ended February 28, 2010

First Aid, Safety and Fire Protection Services operating segment revenue increased from \$250.8 million to \$278.0 million, or 10.9%, for the nine months ended February 28, 2011. The increase primarily resulted from an organic growth of 6.4%. The remaining 4.5% represents growth derived mainly through acquisitions.

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Cost of first aid, safety and fire protection services increased \$9.9 million, or 6.5%, for the nine months ended February 28, 2011. Gross margin for the First Aid, Safety and Fire Protection Services operating segment is defined as revenue less cost of goods, warehouse expenses, service expenses and training expenses. The gross margin as a percent of revenue was 41.2% for the nine months ended February 28, 2011, which is a 250 basis point increase compared to the gross margin percentage for the nine months ended February 28, 2010. This increase is due to an increase in revenue and improved capacity utilization from the higher revenue levels.

Selling and administrative expenses as a percent of revenue, at 36.3%, increased 190 basis points compared to the first nine months of the prior fiscal year. Selling and administrative expenses increased from \$86.3 million in last fiscal year's first nine months to \$101.0 million in the first nine months of this fiscal year due to an increase in the number of sales representatives and a \$2.7 million increase in bad debt expense.

Income before income taxes for the First Aid, Safety and Fire Protection Services operating segment increased \$2.6 million to \$13.5 million for the nine months ended February 28, 2011. Income before income taxes was 4.9% of the operating segment's revenue, compared to 4.3% in last fiscal year's first nine months. This increase in income before income taxes as a percent of revenue is primarily due to the increase in revenue and improved capacity utilization from the higher revenue levels.

Document Management Services Operating Segment

Nine Months Ended February 28, 2011 Compared to Nine Months Ended February 28, 2010

Document Management Services operating segment revenue increased from \$182.3 million to \$229.7 million, or 26.0%, for the nine months ended February 28, 2011, over the same period in the prior fiscal year. The increase primarily resulted from an organic growth increase of 14.9%. The remaining 11.1% represents growth derived mainly through acquisitions. This operating segment derives a portion of its revenue from the sale of shredded paper to paper recyclers. The average price from these paper sales increased by approximately 33% in the nine months ended February 28, 2011, compared to the nine months ended February 28, 2010, due to increased volume and increases in recycled paper prices. This increase resulted in higher recycled paper revenue. Excluding recycled paper revenue, segment revenue grew 7.1% organically compared to last fiscal year's first nine months.

Cost of document management services increased \$22.1 million, or 24.6%, for the nine months ended February 28, 2011, due to increased Document Management Services operating segment volume. Gross margin for the Document Management Services operating segment is defined as revenue less production and service costs. The gross margin as a percent of revenue increased from 50.7% for the nine months ended February 28, 2010, to 51.3% for the nine months ended February 28, 2011. This increase is due to the increase in the recycled paper prices which increased revenue.

Selling and administrative expenses increased \$21.4 million compared to last fiscal year. These expenses as a percent of revenue, at 42.4%, increased 70 basis points compared to the first nine months of the prior fiscal year. This increase is primarily due to an increase in the number of sales representatives.

Income before income taxes for the Document Management Services operating segment increased \$4.0 million to \$20.6 million for the period compared to the same period in the prior fiscal year. However, income before income taxes as a percentage of the operating segment's revenue was 8.9% which is relatively consistent with the 9.1% from last fiscal year.

Table of Contents**Liquidity and Capital Resources**

The following is a summary of our cash flows and cash and cash equivalents and marketable securities as of and for the nine months ended February 28, 2011 (in thousands):

	2011	2010
Net cash provided by operating activities	\$ 207,955	\$ 429,189
Net cash used in investing activities	\$ (188,955)	\$ (152,307)
Net cash used in financing activities	\$ (252,070)	\$ (1,818)
Cash and cash equivalents and marketable securities at the end of the period	\$ 216,705	\$ 552,096

The cash and cash equivalents and marketable securities as of February 28, 2011, include \$165.1 million that is located outside of the United States. We expect to use these amounts to fund our international operations and expansion activities. The marketable securities at February 28, 2011, consist of United States municipal bonds and primarily Canadian treasury securities. We believe that our investment policy pertaining to marketable securities is conservative. The criterion used in making investment decisions is the preservation of principal, while earning an attractive yield.

Cash flows provided by operating activities have historically supplied us with a significant source of liquidity. We generally use these cash flows to fund most, if not all, of our operations and expansion activities and dividends on our common stock. We may also use cash flows provided by operating activities, as well as proceeds from long-term debt and short-term borrowings, to fund growth and expansion opportunities, as well as other cash requirements such as share buybacks.

Net cash provided by operating activities was \$208.0 million for the nine months ended February 28, 2011, a decrease of \$221.2 million compared to the same period last fiscal year. Last fiscal year's net cash provided by operating activities benefited from lower working capital needs associated with our decreasing sales volumes and the accrual of approximately \$28.0 million in legal settlements. As sales volumes have increased this fiscal year, our working capital needs have increased. Our operating cash flows were negatively impacted by the accounts receivable increase of \$32.8 million, and the inventories, net and uniforms and other rental items in service increase of \$100.1 million, both due to the higher sales volume and an intentional increase in inventory in anticipation of and as a precaution to a planned enterprise-wide system conversion of the Cintas Global Supply Chain division.

Net cash used in investing activities includes capital expenditures and cash paid for acquisitions of businesses. Capital expenditures were \$142.3 million and \$78.9 million for the nine months ended February 28, 2011 and 2010, respectively. These capital expenditures primarily relate to expansion efforts in Rental Uniforms and Ancillary Products and Document Management Services operating segments and to an enterprise-wide system conversion. Capital expenditures increased during the nine months ended February 28, 2011, compared to the same period last fiscal year as economic conditions in the United States and Canada stabilized in 2010, providing better revenue growth opportunities. Cash paid for acquisitions of businesses was \$158.5 million and \$41.4 million for the nine months ended February 28, 2011 and 2010, respectively. The acquisitions this fiscal year occurred in our Document Management Services, First Aid, Safety and Fire Protection Services and Rental Uniforms and Ancillary Products operating segments. The cash used for capital expenditures and acquisitions was offset by net proceeds from the sale or redemption of marketable securities.

Net cash used in financing activities was \$252.1 million and \$1.8 million for the nine months ended February 28, 2011 and 2010, respectively. We completed our share buyback program by purchasing \$203.2 million of Cintas common stock during the nine months ended February 28, 2011. We also paid an annual cash dividend of \$71.8 million in December 2010. Throughout our third quarter, we issued various levels of commercial paper in order to fund the dividend payment and other cash requirements. The maximum amount of commercial paper outstanding at any one time was approximately \$90 million, and the amount outstanding at February 28, 2011, was \$21.5 million.

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On October 26, 2010, we announced that the Board of Directors authorized an additional \$500.0 million share buyback program at market prices. No purchases have been made under this new program.

As of February 28, 2011, we had \$775.0 million in fixed rate notes outstanding with maturities ranging from 2012 to 2036. Cintas has a commercial paper program with capacity of \$300.0 million that is fully supported by a backup revolving credit facility through a credit agreement with its banking group. This revolving credit facility has an accordion feature that allows for a maximum borrowing capacity of \$450.0 million and an expiration date of September 26, 2014. We believe this program will be adequate to provide necessary funding for our cash requirements. As of February 28, 2011, we had \$21.5 million of commercial paper outstanding. No commercial paper outstanding and no outstanding borrowings on our revolving credit facility were outstanding as of May 31, 2010.

Cintas has certain covenants related to debt agreements. These covenants limit Cintas' ability to incur certain liens, to engage in sale-leaseback transactions and to merge, consolidate or sell all or substantially all of Cintas' assets. These covenants also require Cintas to maintain certain debt to capitalization and interest coverage ratios. Cross-default provisions exist between certain debt instruments. If a default of a significant covenant were to occur, the default could result in an acceleration of the maturity of the indebtedness, impair liquidity and limit the ability to raise future capital. As of February 28, 2011, Cintas was in compliance with all significant debt covenants.

Our access to the commercial paper and long-term debt markets has historically provided us with sources of liquidity. We do not anticipate having difficulty in obtaining financing from those markets in the future in view of our favorable experiences in the debt markets in the recent past. Our ability to continue to access the commercial paper and long-term debt markets on favorable interest rate and other terms will depend, to a significant degree, on the ratings assigned by the credit rating agencies to our indebtedness. As of February 28, 2011, our ratings were as follows:

<u>Rating Agency</u>	<u>Outlook</u>	<u>Commercial Paper</u>	<u>Long-term Debt</u>
Standard & Poor's	Stable	A-2	A-
Moody's Investors Service	Stable	P-1	A2

In the event that the ratings of our commercial paper or our outstanding long-term debt issues were substantially lowered or withdrawn for any reason, or if the ratings assigned to any new issue of long-term debt securities were significantly lower than those noted above, particularly if we no longer had investment grade ratings, our ability to access the debt markets may be adversely affected. In addition, in such a case, our cost of funds for new issues of commercial paper and long-term debt would be higher than our cost of funds would have been had the ratings of those new issues been at or above the level of the ratings noted above. The rating agency ratings are not recommendations to buy, sell or hold our commercial paper or debt securities. Each rating may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating. Moreover, each credit rating is specific to the security to which it applies.

To monitor our credit rating and our capacity for long-term financing, we consider various qualitative and quantitative factors. One such factor is the ratio of our total debt to capitalization. For the purpose of this calculation, debt is defined as the sum of short-term borrowings, long-term debt due within one year, obligations under capital leases due in one year, long-term debt and long-term obligations under capital leases. Total capitalization is defined as debt plus shareholders' equity. At February 28, 2011 and

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May 31, 2010, the ratio of our total debt to capitalization was 24.6% and 23.7%, respectively. We believe these levels are reasonable and allow for additional funding if the need arises.

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Litigation and Other Contingencies

Cintas is subject to legal proceedings and claims arising from the ordinary course of its business, including personal injury, customer contract, environmental and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such ordinary course of business actions will not have a material adverse effect on the financial position or results of operations of Cintas. Cintas is party to additional litigation not considered in the ordinary course of business. Please refer to Note 8 entitled Litigation and Other Contingencies of Notes to Consolidated Condensed Financial Statements for a detailed discussion of certain specific litigation.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements. Forward-looking statements may be identified by words such as estimates, anticipates, predicts, projects, plans, expects, intends, target, forecast, believes, seeks, will or the negative versions thereof and similar words, terms and expressions and by the context in which they are used. Such statements are based upon current expectations of Cintas and speak only as of the date made. You should not place undue reliance on any forward-looking statement. We cannot guarantee that any forward-looking statement will be realized. These statements are subject to various risks, uncertainties, potentially inaccurate assumptions and other factors that could cause actual results to differ from those set forth in or implied by this Quarterly Report. Factors that might cause such a difference include, but are not limited to, the possibility of greater than anticipated operating costs including energy costs, lower sales volumes, loss of customers due to outsourcing trends, the performance and costs of integration of acquisitions, fluctuations in costs of materials and labor including increased medical costs, costs and possible effects of union organizing activities, failure to comply with government regulations concerning employment discrimination, employee pay and benefits and employee health and safety, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, the cost, results and ongoing assessment of internal controls for financial reporting required by the Sarbanes-Oxley Act of 2002, disruptions caused by the unaccessibility of computer systems data, the initiation or outcome of litigation, investigations or other proceedings, higher assumed sourcing or distribution costs of products, the disruption of operations from catastrophic or extraordinary events, the amount and timing of repurchases of our Common Stock, if any, changes in federal and state tax and labor laws and the reactions of competitors in terms of price and service. Cintas undertakes no obligation to publicly release any revisions to any forward-looking statements or to otherwise update any forward-looking statements whether as a result of new information or to reflect events, circumstances or any other unanticipated developments arising after the date on which such statements are made. A further list and description of risks, uncertainties and other matters can be found in our Annual Report on Form 10-K for the year ended May 31, 2010 and in our reports on Forms 10-Q and 8-K. The risks and uncertainties described herein are not the only ones we may face. Additional risks and uncertainties presently not known to us or that we currently believe to be immaterial may also harm our business.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In our normal operations, Cintas has market risk exposure to interest rates. There has been no material change to this market risk exposure to interest rates from that which was previously disclosed on page 30 of our Form 10-K for the year ended May 31, 2010.

Through its foreign operations, Cintas is exposed to foreign currency risk. Foreign currency exposures arise from transactions denominated in a currency other than the functional currency and from foreign currency denominated revenue and profit translated into U.S. dollars. The primary foreign currency to which Cintas is exposed is the Canadian dollar. Cintas has average rate options in place to limit a portion of the risks of the revenue translation from Canadian foreign currency exchange rate movements during the remainder of the fiscal year; however, the amount of these options is not significant.

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ITEM 4.

CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

With the participation of Cintas management, including Cintas Chief Executive Officer, Chief Financial Officer, General Counsel and Controllers, Cintas has evaluated the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of February 28, 2011. Based on such evaluation, Cintas management, including Cintas Chief Executive Officer, Chief Financial Officer, General Counsel and Controllers, has concluded that Cintas disclosure controls and procedures were effective as of February 28, 2011, in ensuring (i) information required to be disclosed by Cintas in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by Cintas in the reports that it files or submits under the Exchange Act is accumulated and communicated to Cintas management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There were no changes in Cintas internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended February 28, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. See Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm on pages 32 and 33 of our Form 10-K for the fiscal year ended May 31, 2010.

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CINTAS CORPORATION

Part II. Other Information

Item 1. Legal Proceedings.

I. Supplemental Information: We discuss material legal proceedings (other than ordinary routine litigation incidental to our business) pending against us in Item 1. Financial Statements, in Note 8 entitled Litigation and Other Contingencies of Notes to Consolidated Condensed Financial Statements. We refer you to and incorporate by reference into this Part II, Item 1 that discussion for important information concerning those legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On May 2, 2005, Cintas announced that the Board of Directors authorized a \$500.0 million share buyback program at market prices. In July 2006, Cintas announced that the Board of Directors approved the expansion of its share buyback program by an additional \$500.0 million. The Board did not specify an expiration date for this program.

From the inception of the share buyback program through March 31, 2011, Cintas has purchased a total of approximately 28.0 million shares of Cintas stock at an average price of \$35.78 per share for a total purchase price of \$1 billion. The existing share buyback program has been completed. On October 26, 2010, Cintas announced that the Board of Directors authorized an additional \$500.0 million share buyback program at market prices. No purchases have been made under this new program.

Item 6. Exhibits.

10.1 Credit Agreement dated as of May 28, 2004 by and among Cintas Corporation No. 2, as Borrower, the lenders named in such Credit Agreement and KeyBank National Association, as agent for the lenders

10.2 Fourth Amendment Agreement to Credit Agreement dated as of September 27, 2010

31.1 Certification of Principal Executive Officer required by Rule 13a-14(a)

31.2 Certification of Principal Financial Officer required by Rule 13a-14(a)

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

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Signatures

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

CINTAS CORPORATION
(Registrant)

Date: April 8, 2011

By: /s/ William C. Gale
William C. Gale
Senior Vice President and Chief Financial Officer
(Chief Accounting Officer)

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