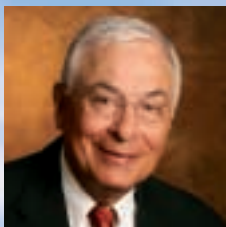




G&K Services, Inc.

2004 Annual Report,
Form 10-K,
and Proxy Statement



TO OUR SHAREHOLDERS:

Over the past several years, G&K has gone through a series of significant changes at all levels of the company. New board members and governance procedures, new senior management, new products and markets, and a revised strategic plan have all combined to provide a fresh approach to our pursuit of excellence.

Yet our basic business principles remain unchanged. We are committed to using high ethical standards in all our business activities. To our shareholders we pledge a strong return on their investment. To our customers we promise to meet or exceed their highest expectations. To our 8,200 employees we will provide a safe work environment and treat each person with fairness and respect. To the communities in which we do business we commit to be a responsible corporate citizen.

G&K's board supports these principles fully. We have added significant governance procedures over the past several years to ensure that shareholder interests are well heard and protected. In 2004 we completed the formation of a governance committee, which takes a leading role in nominations to the board and its committees and conducts regular performance reviews of the CEO, the board and each committee.

In the last year we welcomed three new board members: John Bronson, former senior vice president of human resources at Williams-Sonoma and a 20 year veteran of PepsiCo; Alice Richter, retired partner with KPMG LLP; and Rick Marcantonio who in January succeeded Tom Moberly as CEO.

Two board members, Sid Verdoorn and Bill Hope, retired last November. I want to thank Sid for his valuable contributions to the board during his term. And my special thanks to Bill for his nearly innumerable contributions during board service stretching back to 1984.

Tom Moberly will be retiring from the board in November after 30 years with G&K including five years as CEO and six years as a director. His contributions to the company's success have been wide ranging and very significant and we all wish him the best in retirement.

Don Goldfus will also be retiring in November after 15 years of devoted board service. He has been an outstanding board member, and we will miss his counsel.



TABLE OF CONTENTS

2	Financial Highlights and Company Description
3	Letter to Shareholders
5	Executive Management Team

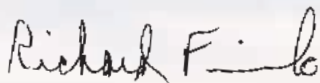
6	Building on Our Base...
8	Expanding New and National Accounts...
10	Acquisitions: An Important Growth Driver

12	Leveraging Our Operating Efficiency...
14	Performance Charts
15	Eleven-Year Summary
16	At-A-Glance

17	Form 10-K and Proxy Statement
Inside Back Cover	Executive Management Team, Board of Directors and Corporate Information

Rick Marcantonio, G&K's new CEO since January, brings to our company broad experience, creative energy and a commitment to excellence. He values G&K's history but is focused on the changes required by the challenges of the future. When Rick joined G&K in 2002, as COO, the board knew we would be transitioning to a new leader. Over the past year that transition occurred, and the company is moving to regain a high-performance culture. We are confident of moving forward under his leadership to achieve our long-term goals.

Sincerely,



Richard M. Fink

Chairman of the Board

Richard L. Marcantonio

Background

- *Native of Chicago*
- *54 years old*

G&K experience

- *Joined G&K as president and chief operating officer on July 15, 2002*
- *Appointed CEO January 1, 2004*

Prior leadership experience

- *President, Industrial and Service Sectors, Ecolab Inc., 1997 - 2002*
- *20 years' management experience with Keebler Company and Specialty Brands, both subsidiaries of United Biscuits (Holdings) p/c.*
- *Served as president and chief executive officer for Specialty Brands*
- *Held numerous management, sales and marketing positions for Keebler*

Community involvement

- *Chairman of the board for Minnesota Public Radio*
- *Board member for American Public Media Group*

Education

- *B.A. degree in business administration from Elmhurst College, IL*



FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)	July 3, 2004 (53 weeks)	June 28, 2003 (52 weeks)	% Change
OPERATING RESULTS			
Revenues	\$733,447	\$705,588	3.9%
Income from operations	69,037	68,919	0.2
Pretax income	57,071	55,228	3.3
Net income	35,384	33,689	5.0
PER SHARE DATA			
Earnings	1.69	1.63	3.7%
Dividends	0.07	0.07	0.0
Book value	20.36	18.38	10.8
Average common shares outstanding	20,900	20,691	1.0
FINANCIAL POSITION			
Working capital ⁽¹⁾	\$ 78,973	\$ 85,118	(7.2)%
Total assets	802,747	778,806	3.1
Long-term debt	184,305	236,731	(22.1)
Stockholders' equity	425,423	380,269	11.9
Free cash flow ⁽²⁾	78,918	65,510	20.5
OPERATING RATIOS			
Current ratio	1.6	1.8	
Debt as a percentage of total capitalization	32.9%	39.8%	
Return on average equity	8.8	9.4	
Pretax margin	7.8	7.8	
Effective tax rate	38.0	39.0	

⁽¹⁾ In the current year, the company made certain prior year balance sheet reclassifications moving pension liability and deferred taxes from short-term to long-term which better reflect the nature of these liabilities. Accordingly, all periods presented have been restated to reflect these changes. This reclassification did not impact current or historical net income or stockholders' equity.

⁽²⁾ Free cash flow is defined throughout this document as cash provided by operating activities less capital expenditures.

G&K Services is a North American market leader in branded identity apparel programs and facility services. Our primary goal is to enhance our customers' image and safety in the workplace through innovation. We operate our business using an exacting set of world-class standards to serve more than one million people who each day wear G&K-supplied uniforms and use our products in more than 160,000 facilities.

G&K's market-leading services include:

G&K Apparel Rental Services Rented or leased branded identity apparel programs that include uniforms, corporate casual wear, and executive apparel, innovatively customized to the unique image, safety, and security needs of targeted industry and market segments.

G&K First Step® Facility Services A comprehensive selection of facility services that enhance companies' image, safety, and hygiene in the workplace, including branded and ergonomic area floor coverings, dust control products, and restroom hygiene solutions.

G&K TeamWear® Personalized, custom-embroidered logo apparel and other products, as well as special event programs sold directly to customers and tailored to enhance their brand image and identity needs.

G&K Cleanroom State-of-the-art cleanroom garments and process control services for high-technology industry needs.

NEW BEGINNINGS; LASTING CHANGE

TO OUR SHAREHOLDERS:

As we near the completion of my first year as chief executive of G&K, I can look back on a year in which our company made great progress in driving fundamental changes in the way we run our business. As we enter fiscal 2005, G&K is a company of higher expectations for financial performance and accountability. We have significantly strengthened our management team, and we are focusing more deliberately on the markets in which we do business, the services we offer, and the products we provide.

IMPROVING OPERATING PERFORMANCE

Over the past 12 months, we worked to improve the way we operate, making sure we have the right plants, the right people and the right processes in place to seize upon our opportunities in the most cost-efficient manner. We looked closely at our internal processes and were successful at improving merchandising controls, enhancing productivity, lowering administrative costs, reducing bad debt expense and interest expense and implementing further plant automation. We increased asset utilization and significantly improved working capital management. All these measures were an important first step in a multi-year process designed to restore our historical level of profitability and organic growth, while continuing to invest in a company positioned to prosper in the 21st Century.

The overall result: We've increased earnings per share for the past five consecutive quarters. And while this process is far from complete, we believe we've made significant headway toward our long-term goal of building an enterprise to deliver accelerated growth in revenue and earnings.

NEW LEADERSHIP

Progress doesn't take place without people and change, and over the past two years, we have built a team of talented executives to provide the leadership needed to undertake these changes. Last May, Damian Luna joined G&K as senior vice president, sales; and David Fisher joined as vice president, general counsel and corporate secretary. Jeff Kiesel became G&K's senior vice president of field operations in July of 2003. Peter Ellis, our senior vice president of marketing and business development, and Holly Lamond, chief information officer, both came to G&K in June of 2003. I'm very pleased with the caliber of executives we've been able to attract to G&K and believe that each will make substantial contributions to our success.

The newer executives join excellent management team members already in place. Sally Bredehoft, senior vice president, human resources and Jeff Wright, senior vice president and chief financial officer have been with the company since 1999. Dick Stutz, senior

vice president, operations and sourcing is a 29-year veteran of G&K. The extensive company and industry experience of these three individuals combined with the fresh ideas and new perspectives of the new executive members have created a powerful team to move G&K to the next level.

NEW FOCUS ON ORGANIC GROWTH

I believe that strong organic growth is imperative for any organization. As we completed fiscal 2004, we began broadening our focus to include a more customer-driven strategy designed to grow G&K revenues. The groundwork for this phase of our plan already has been laid. Over the past several quarters we have expanded our sales force, began developing new marketing programs and moved forward with technological enhancements necessary to manage our sales process better.

Additionally, we have launched a key initiative to increase our customer loyalty beyond our already high levels. We have conducted customer research, identified key customer retention factors and are installing new processes to further enhance our customer relationships.

We will continue proactively cross-selling additional products and services to our existing customer base providing them with comprehensive solutions for their uniform and facility service needs.

Our goal is to position the company to benefit fully from rebounding labor markets and a stronger economy. We plan to continue to invest in organic revenue growth initiatives – this is our top priority in fiscal 2005.

GROWTH THROUGH ACQUISITIONS

Our industry already has experienced considerable consolidation; however, we still have ample opportunities to grow through acquisition in both the rental and direct sale markets – and the financial strength to do so whenever the opportunity presents itself. Our footprint now covers 78 of the top 100 North American markets; we intend to move aggressively to strengthen our presence in existing markets and expand into new markets.

Opportunities abound, and we intend to seize them. Fiscal 2004 was a year of great beginnings. Fiscal 2005 will be one of lasting and fundamental change.

Sincerely,



Richard L. Marcantonio

President and Chief Executive Officer

WE WILL INNOVATE... AND WE WILL GROW

This past fiscal year, G&K looked inward to renew our commitment to greatness, growth and profitability. At the heart of that process was the development of a new mission statement, one that would carry the company through its next 100 years of prosperity.

This is that mission:

**G&K Services will be the market leader in enhancing image
and safety in the workplace, through innovation.**

We believe we have the people, the processes, the plant and equipment and most important, the creativity, to bring that mission statement to life – now and through G&K's second 100 years.



EXECUTIVE MANAGEMENT TEAM

(seated in chair)

Richard L. Marcantonio
President and
Chief Executive Officer

(first row, left to right)

David F. Fisher
Vice President, General Counsel
and Corporate Secretary

Sally J. Bredehoft
Senior Vice President,
Human Resources

Jeffrey L. Wright
Senior Vice President and
Chief Financial Officer

Peter B. S. Ellis
Senior Vice President,
Marketing and Business
Development

(second row, left to right)

Jeffrey R. Kiesel
Senior Vice President,
Field Operations

Damian J. Luna
Senior Vice President,
Sales

Richard J. Stutz
Senior Vice President,
Operations and Sourcing

Holly A. Lamond
Chief Information Officer

G&K customer: UPS

UPS operates the eleventh largest airline in the world to provide specialized transportation, supply chain and package delivery services to more than 200 countries and territories around the world.





BUILDING ON OUR BASE...

Our current customer base is both our greatest asset and our greatest opportunity. Over the past 18 months we have pursued a high-priority initiative to expand the breadth and depth of our customer relationships. Our goal: to be a single-source partner to our customers, fulfilling their broad array of image and safety needs. Our 1,200-plus route service representatives serve more than a million people in more than 160,000 facilities, delivering products and services to provide a clean, safe work environment and a professional image for their employees. Over the past six quarters, these efforts – coupled with improved sales training – have helped us grow our route sales by more than 25 percent.

G&K customer: Safeway, Inc.

Founded in 1915, Safeway Inc. has grown into one of the largest food and drug retailers in North America and operates more than 1,800 stores.



EXPANDING NEW AND NATIONAL ACCOUNTS...

An important fiscal 2004 initiative – and one that will extend into 2005 and beyond – was the continued acceleration of growth in our national accounts business. We're making great progress. In fiscal 2004, our national accounts base was our fastest growing segment, up nearly 20 percent. It now represents 13 percent of our rental business. Combined with greater emphasis on expanding our customer base through a larger sales force and enhanced productivity, our national account strategy is part of our overall effort to build top-line growth momentum in the business. Further growth will come as we develop innovative solutions to fulfill the market needs of our customers.



ACQUISITIONS: AN IMPORTANT GROWTH DRIVER

Acquisitions remain a central part of our growth strategy. We acquired two new businesses in fiscal 2004, and our acquisition pipeline continues to be active. Acquisitions have allowed us to add new markets and increase our market share enabling us to effectively serve the most complex North American accounts. Since 1997, we have added 28 additional markets to our geographic footprint. With the most recent addition of Vancouver, G&K continued to broaden its presence in the top North American markets. G&K now services 78 of the top 100 markets, up from 48 just seven years ago.



CREAM ☆ DESSERTS ☆ FRESH CUT FRIES ☆ CH



G&K customer:
Swiss Chalet Rotisserie & Grill

Swiss Chalet, which opened its first restaurant on Toronto's Bloor Street in 1954, now operates more than 180 restaurants in Canada and the United States.



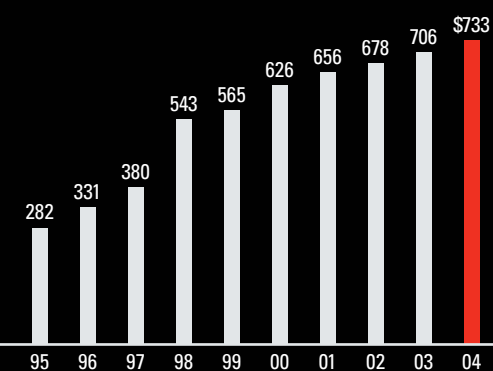
LEVERAGING OUR OPERATING EFFICIENCY...

A key to our goal of returning G&K to its historical level of operating profitability is the continued improvement in our operating efficiency, a major initiative over the past two years. In fiscal 2004 we increased asset utilization, closing four acquired facilities, and focused closely on the return we generate from every plant, process, and piece of equipment. Our continuous improvement program has boosted total productivity and improved our cash generation. Free cash flow – cash from operations less capital expenditures – totaled nearly \$80 million in fiscal 2004, up more than 20 percent compared to last year. This result represents more free cash flow than any other year in the history of the company.

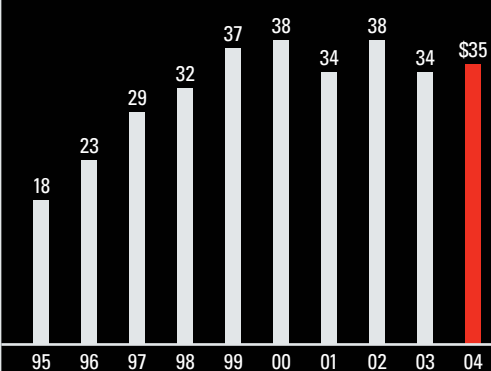


FINANCIAL PERFORMANCE

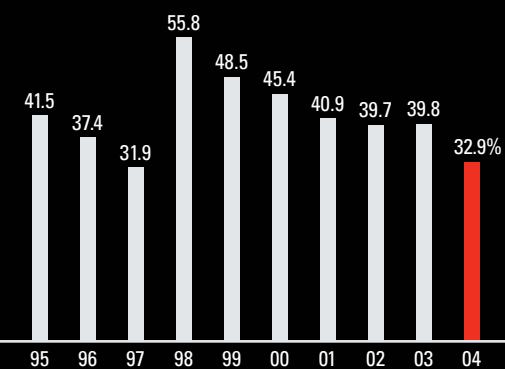
Revenues (dollars in millions)



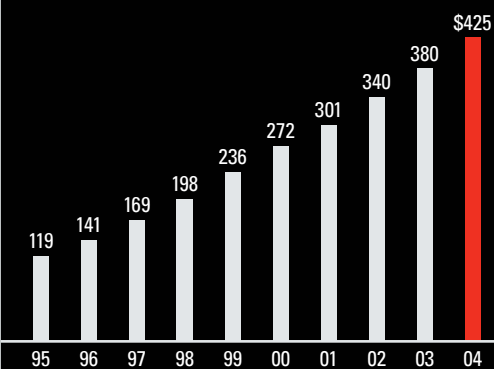
Net Income (dollars in millions)



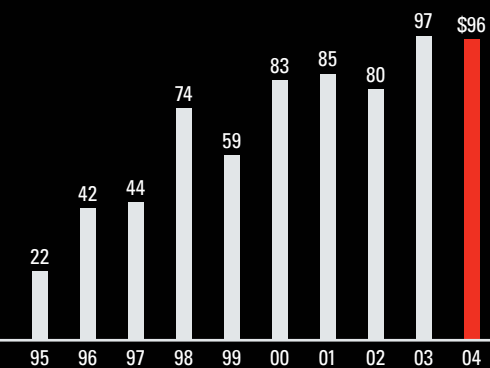
Debt as a Percentage of Total Capitalization (percent)



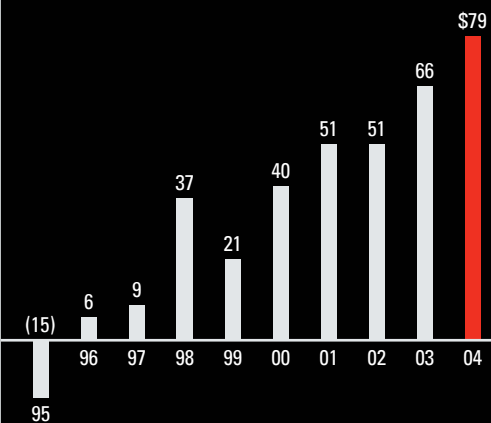
Stockholders' Equity (dollars in millions)



Cash Flow from Operating Activities (dollars in millions)



Free Cash Flow (dollars in millions)



ELEVEN-YEAR SUMMARY

G&K Services, Inc. and Subsidiaries

	2004 ⁽¹⁾	2003	2002	2001	2000 ⁽¹⁾	1999	1998	1997	1996	1995	1994
PER SHARE (diluted)											
Revenues	\$ 35.09	\$ 34.10	\$ 32.80	\$ 32.09	\$ 30.55	\$ 27.56	\$ 26.55	\$ 18.61	\$ 16.24	\$ 13.88	\$ 11.84
Assets	38.43	37.64	33.00	30.31	29.04	26.40	26.00	15.27	13.85	12.47	10.14
Equity	20.36	18.38	16.46	14.73	13.25	11.49	9.69	8.27	6.91	5.83	4.98
Earnings	1.69	1.63	1.85	1.65	1.85	1.81	1.57	1.42	1.11	0.90	0.73
Dividends	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Price: High	40.96	37.00	41.60	30.25	54.00	56.25	47.31	37.75	32.00	19.50	17.00
Low	28.26	21.57	21.86	17.00	14.75	39.75	33.00	23.50	18.75	13.00	11.69
INCOME DATA (000s)											
Revenues	\$733,447	\$705,588	\$677,591	\$656,381	\$625,855	\$565,245	\$543,091	\$380,102	\$331,229	\$282,048	\$239,610
Operating Income	69,037	68,919	76,861	73,593	79,721	78,411	74,595	54,745	45,180	37,340	31,132
Interest Expense	(11,966)	(13,691)	(13,609)	(17,239)	(16,702)	(17,213)	(21,848)	(6,846)	(7,964)	(7,076)	(5,814)
Pretax Income	57,071	55,228	63,252	56,354	63,019	61,198	52,747	47,899	37,216	30,264	25,318
Income Taxes	21,687	21,539	24,985	22,571	25,207	24,169	20,689	18,897	14,496	11,978	10,527
Net Income	35,384	33,689	38,267	33,783	37,812	37,029	32,058	29,002	22,720	18,286	14,791
Average Diluted Shares Outstanding	20,900	20,691	20,660	20,457	20,487	20,509	20,454	20,426	20,394	20,317	20,233
BALANCE SHEET (000s)											
Current Assets	\$207,367	\$192,044	\$185,810	\$188,671	\$176,302	\$162,806	\$153,413	\$113,128	\$ 99,650	\$ 87,319	\$ 63,530
Net Fixed Assets	240,609	250,757	230,530	225,965	216,434	198,435	187,685	149,721	132,898	114,450	89,584
Total Assets	802,747	778,806	681,699	619,963	594,952	541,432	531,842	311,965	282,520	253,333	205,064
Current Liabilities ⁽²⁾	128,394	106,926	83,868	134,872	123,938	87,686	78,069	71,836	49,813	42,450	34,179
Long-Term Debt	184,305	236,731	214,977	148,951	167,345	193,952	234,843	54,284	75,143	76,519	54,676
Stockholders' Equity	425,423	380,269	340,158	301,267	271,522	235,633	198,120	168,987	140,976	118,529	100,857
CASH FLOW DATA (000s)											
Cash from Operations	\$ 96,267	\$ 96,913	\$ 79,679	\$ 84,930	\$ 83,314	\$ 59,381	\$ 74,452	\$ 44,092	\$ 41,884	\$ 21,733	\$ 28,054
Property, Plant and Equipment Additions, Net	(17,349)	(31,403)	(29,156)	(34,115)	(43,699)	(37,974)	(37,398)	(35,536)	(36,237)	(36,545)	(17,541)
RATIO ANALYSIS (%)											
Operating Margin	9.4%	9.8%	11.3%	11.2%	12.7%	13.9%	13.7%	14.4%	13.6%	13.2%	13.0%
Pretax Margin	7.8	7.8	9.3	8.6	10.1	10.8	9.7	12.6	11.2	10.7	10.6
Effective Tax Rate	38.0	39.0	39.5	40.1	40.0	39.5	39.2	39.5	39.0	39.6	41.6
Net Margin	4.8	4.8	5.6	5.1	6.0	6.6	5.9	7.6	6.9	6.5	6.2
Return on Assets ⁽³⁾	4.5	4.9	6.2	5.7	7.0	7.0	10.3	10.3	9.0	8.9	7.3
Return on Average Equity	8.8	9.4	11.9	11.8	14.9	17.1	17.5	18.7	17.5	16.7	15.5

TEN-YEAR HIGHLIGHTS

Compound Annual Revenue Growth	11.8%
Compound Annual Net Income Growth	9.1%

⁽¹⁾ The company utilizes a 52-53 week fiscal year ending on the Saturday nearest June 30. Fiscal 2004 and 2000 results are based on 53 weeks, whereas the remaining years shown reflect 52 weeks.

⁽²⁾ In the current year, the company made certain prior year balance sheet reclassifications moving pension liability and deferred taxes from short-term to long-term which better reflect the nature of these liabilities. Accordingly, all periods presented have been restated to reflect these changes. This reclassification did not impact current or historical net income or stockholders' equity.

⁽³⁾ Based on beginning amounts.

**G&K Services
At-A-Glance**



**130+ Service
Locations**



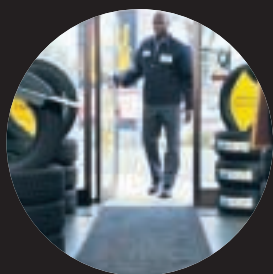
**8,200
Employees**



**5-Year Customer
Contracts**



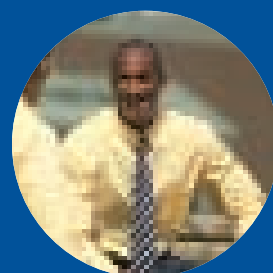
**7% Market
Share of \$11 Billion**



**160,000+
Customers**



102-Year History



G&K SERVICES, INC.

For the fiscal year ending July 3, 2004

ANNUAL REPORT ON FORM 10-K

PROXY STATEMENT FOR THE 2004 ANNUAL MEETING OF SHAREHOLDERS

FORM 10-K TABLE OF CONTENTS**PART I**

Item 1. Business	3
Item 2. Properties	5
Item 3. Legal Proceedings	5
Item 4. Submission of Matters to a Vote of Security Holders	5

PART II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters	6
Item 6. Selected Financial Data	7
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 7A. Quantitative and Qualitative Disclosure About Market Risk	14
Item 8. Financial Statements and Supplementary Data	14
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
Item 9A. Controls and Procedures	15

PART III

Item 10. Directors and Executive Officers of the Registrant	16
Item 11. Executive Compensation	16
Item 12. Security Ownership of Certain Beneficial Owners and Management	16
Item 13. Certain Relationships and Related Transactions	16
Item 14. Principal Accounting Fees and Services	16

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K	17
---	----

PROXY STATEMENT TABLE OF CONTENTS

Notice of Annual Meeting of Shareholders	1
Voting By Proxy and Revocation of Proxies	3
Voting Procedures	3
Proposal Number 1: Election of Class III Directors	4
Directors and Executive Officers of the Registrant	5
Directors Not Seeking Re-election	6
Executive Compensation	7
Summary Compensation Table	7
Option Grants In Last Fiscal Year	8
Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values	8
Pension Plan Table	9
Employment Agreements	9
Director Compensation	10
Stock Performance Graph	10
Proposal Number 2: To Ratify The Appointment of Independent Auditors	11
Fees billed to Company by Auditors	11
Pre-Approval Policy	11
Other Matters	12
Board of Directors and Committees	12
Board of Directors	12
Corporate Governance Committee	12
Audit Committee	13
Compensation Committee	13
Ability of Shareholders to Communicate with the Company's Board of Directors	13
Report of the Audit Committee	14
Board Compensation Committee Report on Executive Compensation	14
Voting Securities and Principal Holders Thereof	16
Certain Transactions	17
Section 16(a) Beneficial Ownership Reporting Compliance	17
Proposals of Shareholders	18
Discretionary Proxy Voting Authority/Untimely Shareholder Proposals	18
Solicitation	18

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

FORM 10-K



(Mark One)

- ☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the Fiscal Year Ended July 3, 2004
- ☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-4063

G&K SERVICES, INC.

(Exact name of registrant as specified in its charter)

MINNESOTA

(State of incorporation)

41-0449530

(I.R.S. Employer Identification No.)

5995 Opus Parkway

Minnetonka, Minnesota 55343

(Address of principal executive offices)

Registrant's telephone number, including area code (952) 912-5500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on which Registered

None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock (par value \$0.50 per share)

Class B Common Stock (par value \$0.50 per share)

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

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

The aggregate market value of the voting stock of registrant held by non-affiliates of the registrant on August 30, 2004, computed by reference to the closing sale price of such shares on such date, was approximately \$763,316,762. The aggregate market value of the voting stock of registrant held by non-affiliates of the registrant on December 26, 2003 (the last business day of the registrant's most recently completed second fiscal quarter), computed by reference to the closing sale price of such shares on such date, was approximately \$772,018,614.

On August 30, 2004, there were outstanding 19,437,792 and 1,474,996 shares of the registrant's Class A and Class B Common Stock, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Document

Portions of proxy statement for the annual meeting of stockholders

Document is Incorporated

Part III

ITEM 1. BUSINESS

G&K Services, Inc., founded in 1902 and headquartered in Minnetonka, Minnesota, is a market leader in providing branded identity apparel and facility services programs that enhance image and safety in the workplace. We serve a wide variety of North American industrial, service and high-technology companies providing them with rented uniforms and facility services products such as floor mats, dust mops, wiping towels, restroom supplies and selected linen items. We also sell uniforms and other apparel items to customers in our direct sale programs. The North American rental market is approximately \$6.5-\$7.0 billion, while the portion of the direct sale market targeted by us is approximately \$4.5-\$5.0 billion in size.

Through internal growth and acquisitions, we have steadily expanded our operations into additional geographic markets. We operate out of over 130 North American locations serving customers in 46 states and 3 Canadian provinces.

We target our marketing efforts on customers, industries and geographic locations that are expanding and are in need of a quality-oriented corporate identity or facility services program that provides high levels of product quality, consistent customer-centric service levels, multi-channel sales, service, reporting and outsourced program management. Our experience with both existing and potential customers, large and small, confirms that a large segment of the market is willing to pay a premium price to a vendor that can consistently supply these features.

Customers, Products and Services

We serve over 160,000 customers, from Fortune 100 companies to fast-growing small and midsize firms. No single customer represents more than 1.0% of our total revenues. We serve customers in virtually all industries including automotive, warehousing, distribution, transportation, energy, manufacturing, pharmaceutical, semi-conductor, restaurants and hospitality, and many others. Over one million people wear our uniforms every day.

Our full-service business apparel and facility services programs provide rental-lease or purchase options to meet varied customer needs including heavy-industrial, light-manufacturing, service businesses, corporate casual and executive apparel markets. In addition, we offer cleanroom garments and process control services to meet the needs of high-technology customers.

We believe that customers use business apparel programs to meet a variety of critical business needs that enhance image and safety in the workplace, including:

- Company identity and security – uniforms help identify employees working for a particular company or department. Uniformed employees are perceived as trained, competent and dependable.

- Brand awareness – uniforms promote a company's brand identity and employees serve as "walking billboards."
- Image – uniforms help companies project a professional image through their employees and frame the perception of credibility, knowledge, trust and a commitment to quality to their customers.
- Employee retention – uniforms enhance worker morale and help build a teamwork attitude in addition to being an employee benefit.
- Worker protection – uniforms help protect workers from difficult environments such as heavy soils, heat, flame or chemicals.
- Product protection – uniforms and facility services help protect products against contamination in the food, pharmaceutical, electronics and health care industries.

We provide our apparel-rental customers with a full range of services and solutions. A consultative approach is used to advise and assist our customers in creating tailored solutions including determining garment application and choosing the appropriate fabrics, styles and colors to meet their branding, identity and safety needs. We have a large stock of new and used garments to provide rapid response as customer needs change due to increases, decreases or turnover in their work force. Professional cleaning, finishing, repair and replacement of uniforms in use is a normal part of the rental service. Soiled uniforms are picked up at the customer's location and returned clean and in good condition on a weekly cycle.

We also believe that for most customers, uniform rental programs provide significant advantages over ownership. Renting eliminates investment in uniforms; offers flexibility in styles, colors and quantities as customer requirements change; assures consistent professional cleaning, finishing, repair and replacement of items in use; and provides freedom from the expense and management time necessary to administer a uniform program.

Our facility services programs provide a wide range of dust control, maintenance and hygiene products and services. They include several floor mat offerings (traction control, logo, message, scraper and anti-fatigue), dust and wet mops, wiping towels, fender covers, selected linen items and several restroom hygiene products. These products support customers' efforts in maintaining a clean, safe and attractive environment within their facilities.

We also offer direct sale and custom-embroidered logo apparel programs to meet customer identity needs. The direct sale programs can be used for departments and/or customers that require highly customized and branded apparel or for workers who don't start at the same location each day and need uniform apparel they can care for themselves. It can be a more economical approach for high turnover positions and can be used for employee rewards and recognition or customer and vendor appreciation programs.

Acquisitions

We made several small acquisitions in each of the past three fiscal years. All acquisitions were accounted for using the purchase method. The pro forma effect of these acquisitions, had they been acquired at the beginning of each fiscal year, were not material. The total purchase consideration, including related acquisition costs of these transactions, was \$24.9 million, \$88.7 million and \$69.7 million in fiscal 2004, 2003 and 2002, respectively. The total purchase price exceeded the estimated fair values of assets acquired and liabilities assumed by \$19.3 million in fiscal 2004, \$63.2 million in fiscal 2003 and \$52.1 million in fiscal 2002.

Competition

Customers in the corporate identity apparel and facility services industry choose suppliers primarily based upon the quality, price and breadth of products offered and the comprehensive nature of the services provided. While we rank among the nation's largest garment rental suppliers, we encounter competition from a number of companies in the geographic areas we serve. Major competitors include publicly held companies such as ARAMARK (a division of ARAMARK Corporation), Cintas Corporation and UniFirst Corporation. We also compete with a multitude of regional and local competitors that vary by market. We believe that we compete effectively in our line of business because of the quality and breadth of our product line, the comprehensive customer service levels we provide and our proven ability as an outsource partner. In addition, our competitors generally compete with us for acquisition candidates, which can reduce the number of acquisition candidates available to us.

Manufacturing and Suppliers

We manufactured approximately one-half of the uniform garments placed into service in fiscal 2004. These garments are manufactured in three Company owned facilities located in the Continental U.S. and Dominican Republic. Various outside vendors are used to supplement our additional rental needs, including garments, floor mats, dust mops, wiping towels, linens and related products. We are not aware of any circumstances that would limit our ability to obtain raw materials to support the manufacturing process or to obtain garments or other rental items to meet our customers' needs.

Environmental Matters

Our operations are subject to various federal, state and/or local laws regulating the discharge of materials into the environment. This includes discharges into wastewater and air, and the generation, handling, storage, transportation and disposal of waste and hazardous substances. We generate modest amounts of waste in connection with our laundry operations, specifically detergent wastewater, wastewater sludge, waste oil and other residues. Some of these wastes are classified as hazardous wastes under these laws. We have continued to make significant investments in properly handling and disposing of these wastes.

We have been identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or similar state laws, at a number of waste disposal sites. Under such laws, PRP's typically are jointly and severally liable for any investigation and remediation costs incurred with respect to such sites. Therefore, there can be no assurance that we will not have to contribute material amounts for future remediation that could be greater than the share of waste contributed by us would otherwise indicate. Additionally, environmental laws may impose liability for cost of removal or remediation of certain hazardous wastes located on or in or emanating from owned or leased real estate, whether or not we knew of or were responsible for the presence of such wastes. While we take appropriate steps when acquiring or leasing new properties, there can be no assurance that this risk has been eliminated.

We have been placed on notice by the owners of a Wayzata, Minnesota shopping center regarding the alleged presence of solvents in the ground water in the vicinity of the shopping center, where certain affiliates of ours formerly operated a dry cleaning establishment in the shopping center. At this time, no demand has been made and no action has been commenced against us. The owners of the shopping center have informed us that they are pursuing cleanup through state funding mechanisms. Since little information is available at this time, we are unable to predict what, if any, liability we may have in this matter.

Although any ultimate liability arising from environmental related matters described herein could result in significant expenditures that, if aggregated and assumed to occur within a single fiscal year, could be material to our results of operation or financial position, the likelihood of such occurrence is considered remote. Based on information currently available and our best assessment of the ultimate amount and timing of environmental-related events, we believe that the cost of these environmental-related matters are not reasonably likely to have a material adverse effect on our results of operations or financial position.

Employees

Our U.S. operations had a total of 7,235 employees as of July 3, 2004, consisting of 4,078 production employees and 3,157 sales, office, route and management personnel. Unions represent approximately 14.5% of our U.S. employees. Management believes its domestic employee relations are satisfactory.

Our Canadian operations had a total of 1,030 employees as of July 3, 2004, consisting of 541 production employees and 489 sales, office, route and management personnel. Unions represent approximately 69.4% of our Canadian employees. Management believes Canadian employee relations are satisfactory.

Foreign and Domestic Operations

Financial information relating to foreign and domestic operations is set forth in Note 10 of our consolidated financial statements included in Item 8 of this Form 10-K.

Additional Information

We own a portfolio of registered trademarks, trade names and licenses, and certain U.S. and foreign process and manufacturing patents relating to our business as we currently conduct it. These proprietary properties, in the aggregate, constitute a valuable asset. Among these are the trademarks and trade names G&K Services, G&K TeamWear® and G&K First Step® Facility Services brands, various logos and marketing themes and collateral. We do not believe, however, that our business is dependent upon any single proprietary property or any particular group of proprietary properties. We do not consider our business to be seasonal to any extent or subject to any unusual working capital requirements.

Available Information

We make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. These reports are available on our website at <http://www.gkservices.com>. In addition, you may request a copy of these filings, excluding exhibits, by contacting our Investor Relations group at (952) 912-5500 or at G&K Services, Inc., 5995 Opus Parkway, Minnetonka, Minnesota 55343. Information included on our website is not deemed to be incorporated into this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

We occupy 155 facilities located in the United States and Canada. These facilities include our processing, branch, garment manufacturing, distribution and administrative support locations. We own approximately 80.0% of our processing facilities, each of which average over 43,000 square feet in size. We clean and supply rental items principally from 57 industrial garment, cleanroom garment, dust control and linen supply plants located in 48 cities in the United States and 6 cities in Canada.

ITEM 3. LEGAL PROCEEDINGS

We are involved in a variety of legal actions relating to personal injury, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These legal actions include but are not limited to those items set forth in Item 1. Business – Environmental Matters and lawsuits that challenge the practice of charging for certain environmental services on invoices. None of these legal actions are expected to have a material adverse effect on our results of operations or financial position.

We are also involved in a lawsuit in California that alleges G&K violated certain state wage and hour laws applicable to its route sales representatives. Subsequent to July 3, 2004, we reached a tentative settlement of this case for a payment of approximately \$1.25 million, subject to court approval. The settlement resulted in the recording of a one-time charge of \$1.25 million in the fourth quarter of fiscal 2004.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders during the fourth quarter of fiscal 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Our Class A Common Stock is quoted on the Nasdaq National Market under the symbol "GKSRA". Our Class B Common Stock is not registered and no active trading market exists for the Class B Common Stock. The following table sets forth the high and low reported sales prices for the Class A Common Stock as quoted on the Nasdaq National Market for the periods indicated.

	Fiscal 2004		Fiscal 2003	
	High	Low	High	Low
1st Quarter	\$36.120	\$28.260	\$36.000	\$27.000
2nd Quarter	37.250	30.280	37.000	29.280
3rd Quarter	39.750	34.510	36.300	21.570
4th Quarter	40.960	35.080	32.200	23.750

As of August 30, 2004, we had approximately 549 registered holders of record of our common stock.

We have declared cash dividends of \$0.0175 per share in each of the quarters for the fiscal years ended July 3, 2004 and June 28, 2003. Our debt agreements contain various restrictive covenants, which, among other things, limit the payment of cash dividends we declare during any fiscal year.

The following table sets forth certain information as of July 3, 2004 with respect to equity compensation plans under which securities are authorized for issuance:

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options (A)	Weighted-Average Exercise Price of Outstanding Options (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column [A])
Equity compensation plans approved by security holders:			
Employee Plans ⁽¹⁾	1,179,945	\$33.23	1,546,497
1996 Directors' stock option plan	52,000	32.14	40,000
Total	1,231,945	\$33.18	1,586,497
Equity compensation plans not approved by stockholders:			
None	—	—	—
Total	1,231,945	\$33.18	1,586,497

⁽¹⁾ Includes our 1989 Stock Option and Compensation Plan and 1998 Stock Option and Compensation Plan.

The following table includes information about our share repurchases for the year ended July 3, 2004; all transactions took place during the 3rd quarter of fiscal 2004.

Period	Total Number of Shares (or Units) Purchased ⁽¹⁾	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
Month #1 (Fiscal month ending February 5, 2004)	4,212	\$0.50	—	—
Month #3 (Fiscal month ending April 2, 2004)	4,574	\$0.50	—	—

⁽¹⁾ All repurchased shares were initially issued under the Employee Plans as restricted stock grants subject to forfeiture upon termination of employment. All repurchases were made upon forfeiture of shares by the recipient of such restricted stock grants. Pursuant to the Restricted Stock Agreements governing such grants, the repurchase price for all shares was \$0.50, which represents the per share amount paid by the restricted stock grant recipient on the date of grant.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data. All amounts are in thousands, except per share data.

	2004	2003	2002	2001	2000
Revenues	\$733,447	\$705,588	\$677,591	\$656,381	\$625,855
Net Income	35,384	33,689	38,267	33,783	37,812
Per Share Data:					
Basic earnings per share	1.71	1.64	1.87	1.65	1.85
Diluted earnings per share	1.69	1.63	1.85	1.65	1.85
Dividends per share	0.07	0.07	0.07	0.07	0.07
Total Assets	802,747	778,806	681,699	619,963	594,952
Long-Term Debt	184,305	236,731	214,977	148,951	167,345
Stockholders' Equity	425,423	380,269	340,158	301,267	271,522

See Note 1 of our consolidated financial statements included in Item 8 of this Form 10-K for an explanation of the method employed to determine the number of shares used to compute per share amounts. We utilize a 52-53 week fiscal year ending on the Saturday nearest June 30. Fiscal 2004 and 2000 were 53-week years.

The fiscal 2002 results include the impact of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," under which goodwill and intangible assets with indefinite lives are no longer amortized. See Note 3 of the consolidated financial statements included in Item 8 of this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes thereto which are included herein. We utilize a 52-53 week fiscal year ending on the Saturday nearest June 30. The fiscal year ended July 3, 2004 was a 53-week year with the extra week reported in the fourth quarter.

Overview

G&K Services, Inc., founded in 1902 and headquartered in Minnetonka, Minnesota, is a market leader in providing branded identity apparel and facility services programs that enhance image and safety in the workplace. We serve a wide variety of North American industrial, service and high-technology companies providing them with rented uniforms and facility services products such as floor mats, dust mops, wiping towels, restroom supplies and selected linen items. We also sell uniforms and other apparel items to customers in our direct sale programs. The North American rental market is approximately \$6.5-\$7.0 billion, while the portion of the direct sale market targeted by us is approximately \$4.5-\$5.0 billion in size.

In fiscal 2004, revenue grew to \$733.4 million, up 3.9% over the prior year. Excluding the impact of the 53rd week, full year revenues were up 2.0%. Revenue growth continued to be negatively impacted by weak economic conditions and declining employment levels within our existing customer base. These negative impacts were more than offset by several small acquisitions completed over the past two fiscal years.

Our primary goal in fiscal 2004 was to restore earnings momentum in the business. Fiscal 2004 net income grew by 5.0% to \$35.4 million. This improvement in earnings was the result of the attention we placed on internal operating initiatives such as plant consolidations, labor efficiency, merchandise cost controls and general and administrative cost reductions. In addition, we placed a large emphasis on working capital management during the fiscal year, resulting in significant levels of cash flows from operations and reductions in interest expense. These improvements, along with the impact of the extra week of operations, were partially offset by higher energy and employee benefit costs, lost margin from lower employment levels within our customer base, expenses associated with a transfer of production within our manufacturing facilities and costs accrued in connection with a tentative settlement of a wage and hour dispute.

We made several small acquisitions in each of the past three fiscal years. All acquisitions were accounted for using the purchase method. The pro forma effect of these acquisitions, had they been acquired at the beginning of each fiscal year, were not material. The total purchase consideration, including related acquisition costs of these transactions, was \$24.9 million, \$88.7 million and \$69.7 million in fiscal 2004, 2003 and 2002, respectively. The total purchase price exceeded the estimated fair values of assets acquired and liabilities assumed by \$19.3 million in fiscal 2004, \$63.2 million in fiscal 2003 and \$52.1 million in fiscal 2002.

Critical Accounting Policies

The discussion of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. As such, management is required to make certain estimates, judgments and assumptions that are believed to be reasonable based on the information available. These estimates and assumptions affect the reported amount of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. See Note 1 to the consolidated financial statements for additional discussion of the application of these and other accounting policies.

Revenue Recognition and Allowance for Doubtful Accounts

Our rental operations business is largely based on written service agreements whereby we agree to collect, launder and deliver uniforms and other related products. The service agreements provide for weekly billing upon completion of the laundering process and delivery to the customer. Accordingly, we recognize revenue from rental operations in the period in which the services are provided. Revenue from rental operations also includes billings to customers for lost or abused merchandise. Direct sale revenue is recognized in the period in which the product is shipped.

Estimates are used in determining the collectibility of billed accounts receivable. Management analyzes specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances when evaluating the adequacy of the allowance for doubtful accounts. Significant management judgments and estimates are used in connection with establishing the allowance in any accounting period. While we have been consistent in applying our judgments and in making our estimates over the past three fiscal years, material differences may result in the amount and timing of bad debt expense recognition for any given period if management makes different judgments or utilizes different estimates.

Inventories

Our inventories consist of new goods and rental merchandise in service. Estimates are used in determining the likelihood that new goods on hand can be sold to customers or used in rental operations. Historical inventory usage and current revenue trends are considered in estimating both obsolete and excess inventories. New goods are stated at lower of cost or market, net of any reserve for obsolete or excess inventory. Merchandise placed in service to support rental operations is amortized into cost of rental operations over the estimated useful lives of the underlying inventory items, primarily on a straight-line basis, which results in a matching of the cost of the merchandise with the weekly rental revenue generated by merchandise. Estimated lives of rental merchandise in service range from nine months to three years. In establishing estimated lives for merchandise in service, management considers historical experience and the intended use of the merchandise. Material differences may result in the amount and timing of operating profit for any period if management makes different judgments or utilizes different estimates.

Goodwill, Intangibles and Other Long-Lived Assets

We adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") at the beginning of fiscal 2002 and as a result no longer amortize goodwill. SFAS 142 also requires that companies test goodwill for impairment on an annual basis and when events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which goodwill is assigned below its carrying amount. Our evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling. Management completes its annual impairment test in the fourth quarter of each fiscal year and there have been no impairments of goodwill or definite-lived intangible assets in fiscal 2004, 2003 or 2002. Future events could cause management to conclude that impairment indicators exist and that goodwill and other intangibles associated with acquired businesses are impaired. Any resulting impairment loss could have a material impact on our financial condition and results of operations.

Property, plant and equipment and definite-lived intangible assets are depreciated or amortized over their useful lives. Useful lives are based on management estimates of the period that the assets will generate revenue. Long-lived assets are evaluated for impairment whenever events and circumstances indicate an asset may be impaired. There have been no write-downs of any long-lived assets in fiscal 2004, 2003 or 2002.

Insurance

We self-insure for certain obligations related to health and workers' compensation programs. We purchase stop-loss insurance policies to protect us from catastrophic losses. Estimates are used in determining the potential liability associated with reported claims and for losses that have occurred, but have not been reported. Management estimates consider historical claims experience, escalating medical cost trends, expected timing of claim payments and an actuarial analysis provided by a third party. During fiscal 2002, we changed certain assumptions utilized in evaluating our workers' compensation self-insurance liability and began to apply a discounting factor to estimated future payments. The impact of these changes was not material to our consolidated balance sheets or statements of operations for any period presented. Changes in the cost of medical care, our ability to settle claims and the estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

Income Taxes

In the normal course of business, we are subject to audits from federal, state, Canadian provincial and other tax authorities regarding various tax liabilities. These audits may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. The amount ultimately paid upon resolution of issues raised may differ from the amount accrued. We believe that taxes accrued on our consolidated balance sheets fairly represent the amount of future tax liability due.

We utilize income tax planning to reduce our overall cost of income taxes. Upon audit, it is possible that certain strategies might be disallowed resulting in an increased liability for income taxes. We believe that the provision for liabilities resulting from the implementation of income tax planning is appropriate. To date, we have not experienced an examination by governmental revenue authorities that would lead management to believe that our past provisions for exposures related to income tax planning are not appropriate.

Deferred income taxes are determined in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. We record valuation allowances to reduce deferred tax assets when it is more likely than not that some portion of the asset may not be realized. As such, we have established a valuation allowance for all foreign tax credit carryforwards due to the uncertainty of the use of the tax benefit in future periods. We evaluate our deferred tax assets and liabilities on a periodic basis. We believe that we have adequately provided for our future tax consequences based upon current facts, circumstances and tax law.

Results of Operations

The percentage relationships to revenues of certain income and expense items for the three fiscal years ended July 3, 2004, June 28, 2003 and June 29, 2002, and the percentage changes in these income and expense items between years are presented in the following table:

	Percentage of Revenues Years Ended			Percentage Change Between Years	
	FY 2004	FY 2003	FY 2002	FY 2004 vs. FY 2003	FY 2003 vs. FY 2002
Revenues:					
Rental operations	96.6%	96.6%	96.8%	4.0%	3.9%
Direct sales	3.4	3.4	3.2	3.5	11.3
Total revenues	100.0	100.0	100.0	3.9	4.1
Operating expenses:					
Cost of rental operations	63.2	62.6	61.4	5.1	5.8
Cost of direct sales	76.4	75.1	73.0	5.4	14.5
Total cost of sales	63.7	63.0	61.8	5.1	6.1
Selling and administrative	21.5	21.9	21.6	2.3	5.6
Depreciation	4.3	4.3	4.4	3.3	2.7
Amortization of intangibles	1.1	1.0	0.9	8.8	20.3
Income from operations	9.4	9.8	11.3	0.2	(10.3)
Interest expense	1.6	2.0	2.0	(12.6)	0.6
Income before income taxes	7.8	7.8	9.3	3.3	(12.7)
Provision for income taxes	3.0	3.0	3.7	0.7	(13.8)
Net income	4.8%	4.8%	5.6%	5.0%	(12.0)%

Fiscal 2004 Compared to Fiscal 2003

Fiscal Years. We operate on a fiscal year ending on the Saturday closest to June 30. As a result, periodically we will have a fiscal year with 53 weeks of results. Fiscal 2004 was a 53-week year. We estimate that the extra week of operation generated incremental earnings of approximately \$0.07-\$0.08 per share.

Revenues. Total revenues in fiscal 2004 rose 3.9% to \$733.4 million from \$705.6 million in fiscal 2003. Excluding the extra week, revenues were up 2.0% over fiscal 2003. Rental revenue was up \$27.0 million in fiscal 2004, a 4.0% increase over fiscal 2003. Rental revenue increased 2.1% when excluding the impact of the extra week recorded in the current year. The organic industrial rental growth rate, which is calculated using industrial rental revenue adjusted for foreign currency exchange rate differences, revenue from newly acquired business and an extra week recorded in the current year compared to prior year results, was approximately negative 2.0%. We believe that the organic industrial rental growth rate better reflects the growth of our existing business and is therefore useful in analyzing our financial condition and results of operations. Organic industrial rental revenue continues to be negatively impacted by lost uniform wearers due to reduced employment levels within our existing customer base.

Direct sale revenue was \$24.7 million in fiscal 2004, a 3.5% increase over \$23.9 million in fiscal 2003. The increase in direct sale revenue was driven by a focused effort to provide direct sale garments to our existing rental customers.

Cost of Rental and Direct Sale. Cost of rental operations increased 5.1% to \$448.1 million in fiscal 2004 from \$426.6 million in fiscal 2003. Gross margin from rental sales decreased to 36.8% in fiscal 2004 from 37.4% in the prior year. The decrease in rental gross margins was due to employee benefit costs (including pension), higher energy costs and lost margin from lower employment levels within our existing customer base.

Cost of direct sales increased to \$18.9 million in fiscal 2004 from \$17.9 million in fiscal 2003. Gross margin from direct sales decreased in fiscal 2004 to 23.6% from 24.9% in fiscal 2003. The decrease in gross margin was due primarily to product mix and merchandise cost increases.

Selling and Administrative. Selling and administrative expenses increased 2.3% to \$158.0 million in fiscal 2004 from \$154.5 million in fiscal 2003. As a percentage of total revenues, selling and administrative expenses decreased to 21.5% in fiscal 2004 from 21.9% in fiscal 2003. The decrease as a percent of revenue was due to reduced expenses related to uncollectible accounts receivable and reduced selling expenses, which were partially offset by increased employee benefit costs. Also offsetting this improvement was the tentative settlement of a wage and hour dispute in California, which represented one-time costs of \$1.25 million in the current year.

Depreciation. Depreciation expense increased 3.3% to \$31.4 million in fiscal 2004 from \$30.4 million in fiscal 2003. As a percentage of total revenues, depreciation expense remained constant at 4.3% in both fiscal 2004 and fiscal 2003. Capital expenditures for fiscal 2004, excluding acquisition of businesses, were \$17.3 million compared to \$31.4 million in fiscal 2003 as we continued to prudently manage our strategic investments.

Amortization. Amortization expense increased to \$7.9 million in fiscal 2004 from \$7.3 million in fiscal 2003. As a percent of total revenues, amortization expense increased to 1.1% in fiscal 2004 compared to 1.0% in fiscal 2003.

Interest Expense. Interest expense was \$12.0 million in fiscal 2004 as compared to \$13.7 million in fiscal 2003. The decrease was due primarily to lower debt levels associated with significant levels of cash flow.

Provision for Income Taxes. Our effective tax rate for fiscal 2004 decreased to 38.0% from 39.0% in fiscal 2003 largely due to decreases in Canadian statutory income tax rates.

Fiscal 2003 Compared to Fiscal 2002

Revenues. Total revenues in fiscal 2003 rose 4.1% to \$705.6 million from \$677.6 million in fiscal 2002. Rental revenue rose \$25.6 million in fiscal 2003, a 3.9% increase over fiscal 2002. The organic industrial rental growth rate, which is calculated using industrial rental revenue adjusted for foreign currency exchange rate differences and revenue from newly acquired business compared to prior year results, was approximately negative 2.5%. Rental revenue continues to be negatively impacted by lost uniform wearers due to reduced employment levels within our existing customer base.

Direct sale revenue was \$23.9 million in fiscal 2003, an 11.3% increase over \$21.5 million in fiscal 2002. Direct sale revenue increased as a result of initiatives to penetrate direct sale opportunities with existing customers such as our annual winter outerwear promotion.

Cost of Rental and Direct Sale. Cost of rental operations increased 5.8% to \$426.6 million in fiscal 2003 from \$403.1 million in fiscal 2002. Gross margin from rental sales decreased to 37.4% in fiscal 2003 from 38.6% in the prior year. Both rental and direct sale margins were impacted during the year by the closing of a Canadian manufacturing facility. Total one-time expenses related to closing the facility reduced the overall combined margin by approximately \$1.0 million and had minimal impact on future results of operations. Rental gross margins were also impacted by increasing energy and employee benefit costs as well as continued lost margin from lower employment levels within our existing customer base.

Cost of direct sales increased to \$17.9 million in fiscal 2003 from \$15.7 million in fiscal 2002. Gross margin from direct sales decreased in fiscal 2003 to 24.9% from 27.0% in fiscal 2002. The decrease in gross margin was due primarily to product mix and pricing pressures, partially offset by increased volume in conjunction with the successful winter outerwear promotion in the second quarter of fiscal 2003.

Selling and Administrative. Selling and administrative expenses increased 5.6% to \$154.5 million in fiscal 2003 from \$146.3 million in fiscal 2002. As a percentage of total revenues, selling and administrative expenses increased to 21.9% in fiscal 2003 from 21.6% in fiscal 2002. During fiscal 2003 we took actions to reduce certain selling and administrative costs, including the closing of the Canadian manufacturing facility, and incurred severance and other employee-related costs. These actions had an impact of increasing selling and administrative expenses by \$0.9 million and did not have a significant impact on results of operations in subsequent periods. Selling and administrative expenses also increased due to higher expenses related to uncollectible accounts receivable and increasing property and casualty insurance costs.

Depreciation. Depreciation expense increased 2.7% to \$30.4 million in fiscal 2003 from \$29.6 million in fiscal 2002. As a percentage of total revenues, depreciation expense decreased to 4.3% in fiscal 2003 compared to 4.4% in fiscal 2002. Capital expenditures for fiscal 2003, excluding acquisition of businesses, was \$31.4 million compared to \$29.2 million in fiscal 2002.

Amortization. Amortization expense increased to \$7.3 million in fiscal 2003 from \$6.1 million in fiscal 2002. As a percent of total revenues, amortization expense increased to 1.0% in fiscal 2003 compared to 0.9% in fiscal 2002.

Interest Expense. Interest expense was \$13.7 million in fiscal 2003 as compared to \$13.6 million in fiscal 2002. The increase in interest expense was primarily due to higher debt levels in connection with our acquisition activities throughout fiscal 2003, partially offset by lower effective interest rates.

Provision for Income Taxes. Our effective tax rate for fiscal 2003 decreased to 39.0% from 39.5% in fiscal 2002 largely due to decreases in Canadian statutory income tax rates.

Liquidity, Capital Resources and Financial Condition

Our primary sources of cash are net cash flows from operations and borrowings under our credit facilities. Primary uses of cash are interest payments on indebtedness, capital expenditures, acquisitions and general corporate purposes.

Operating Activities. Net cash provided by operating activities was \$96.3 million in fiscal 2004, \$96.9 million in fiscal 2003 and \$79.7 million in fiscal 2002. Solid earnings along with effective working capital management have been a large contributor to the high levels of operating cash flow over each of the past three fiscal years. We have paid particular attention to management of new and in-service inventories, a continued focus on timely collection of accounts receivable and enhancing payment terms related to trade and accrued payables.

Working capital at July 3, 2004 was \$79.0 million, a \$6.1 million decrease from \$85.1 million at June 28, 2003. This decrease is due to an increase in the current maturities of long-term debt associated with scheduled debt payments and an increase in income tax payable due to timing of payments.

Investing Activities. Net cash used for investing activities was \$43.9 million in fiscal 2004, \$121.5 million in fiscal 2003 and \$100.1 million in fiscal 2002. In fiscal 2004, 2003 and 2002 cash was largely used for acquisitions and property, plant and equipment additions.

Financing Activities. Financing activities used cash of \$37.3 million in fiscal 2004, provided cash of \$26.0 million in fiscal 2003 and \$15.2 million in fiscal 2002. Cash used in fiscal 2004 was primarily related to the repayment of long-term debt. Cash provided in both fiscal 2003 and 2002 was from debt proceeds used primarily for acquisitions of businesses. We paid dividends of \$1.5 million in both fiscal 2004 and fiscal 2003 and \$1.4 million in fiscal 2002.

We maintain a \$325.0 million term loan and revolving credit facility expiring July 2, 2007. The facility provides for a \$75.0 million term loan and a \$250.0 million revolving credit facility. As of July 3, 2004, borrowings outstanding under the term loan were \$56.3 million and under the revolving credit facility were \$99.6 million at rates ranging from 2.40% to 2.86%. Borrowings under this facility are unsecured. The unused portion of the revolver may be used for general corporate purposes, acquisitions, working capital needs and to provide up to \$30.0 million in letters of credit. As of July 3, 2004, letters of credit outstanding against the revolver were \$17.0 million.

We have a \$50.0 million, 8.4% private debt placement with certain institutional investors. The 10-year notes have a seven-year average life with a final maturity on July 20, 2010. Beginning on July 20, 2004, and annually thereafter to maturity, we will repay \$7.1 million of the principal amount at par. We used the net proceeds from the sale of the notes to reduce other indebtedness and for general corporate purposes.

The credit facilities and the fixed rate notes contain various restrictive covenants that among other matters require us to maintain a minimum fixed charge coverage ratio, minimum stockholders' equity and a maximum leverage ratio, all as defined. These debt arrangements also provide for certain limits related to additional indebtedness, investments and dividends. At July 3, 2004, we were in compliance with all debt covenants and only a material adverse change in our financial performance and condition could result in a potential event of default. In the unlikely event that an event of default would be imminent, management believes that we would be able to successfully negotiate amended covenants or obtain waivers; however, certain financial concessions might be required. Our results of operations and financial condition could be adversely affected if amended covenants or waivers in acceptable terms could not be successfully negotiated.

Cash Obligations. Under various agreements, we are obligated to make future cash payments in fixed amounts. These include payments under the variable rate term loan and revolving credit facility, the fixed rate term loan, capital lease obligations and rent payments required under non-cancelable operating leases with initial or remaining terms in excess of one year.

The following table summarizes our fixed cash obligations as of July 3, 2004 for the next five fiscal years and thereafter (in thousands):

	2005	2006	2007	2008	2009	2010 and Thereafter	Total
Variable rate term loan and revolving credit facility	\$15,000	\$18,750	\$22,500	\$ 99,600	\$ —	\$ —	\$155,850
Fixed rate term loan	7,143	7,143	7,143	7,143	7,143	14,285	50,000
Other debt arrangements, including capital leases	1,875	531	67	—	—	—	2,473
Operating leases	13,619	11,296	9,083	6,992	4,461	4,467	49,918
Total contractual cash obligations	\$37,637	\$37,720	\$38,793	\$113,735	\$11,604	\$18,752	\$258,241

Also, at July 3, 2004, we had stand-by letters of credit totaling \$17.0 million issued and outstanding, primarily in connection with our property and casualty insurance programs. No amounts have been drawn upon these letters of credit.

At July 3, 2004, we had available cash on hand of \$26.9 million and approximately \$130.0 million of available capacity under our revolving credit facility. We anticipate that we will generate sufficient cash flows from operations to satisfy our cash commitments and capital requirements for fiscal 2005 and to significantly reduce the amounts outstanding under the revolving credit facility; however, we may utilize borrowings under the revolving credit facility to supplement our cash requirements from time to time. We estimate that capital expenditures in fiscal 2005 will be approximately \$25.0 million to \$30.0 million.

The amount of cash flow generated from operations is subject to a number of risks and uncertainties. In fiscal 2005, we may actively seek and consider acquisitions of business assets; the consummation of any acquisition could affect our liquidity profile and level of outstanding debt. We believe that our earnings and cash flow from operations, existing credit facilities and our ability to obtain additional debt or equity capital, if necessary, will be adequate to finance acquisition opportunities.

Pension Obligations

We account for our defined benefit pension plan using SFAS No. 87 "Employer's Accounting for Pensions" ("SFAS 87"). Under SFAS 87, pension expense is recognized on an accrual basis over employees' approximate service periods. Pension expense calculated under SFAS 87 is generally independent of funding decisions or requirements. We recognized expense for our defined benefit pension plan of \$6.1 million, \$3.1 million and \$2.0 million in fiscal 2004, 2003 and 2002, respectively. At July 3, 2004, the fair value of our pension plan assets totaled \$26.7 million. We anticipate making a cash contribution of approximately \$1.3 million in fiscal 2005.

The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. Pension expense increases as the expected rate of return on pension plan assets decreases. At July 3, 2004, we estimate that the pension plan assets will generate a long-term rate of return of 8.0%. This rate is consistent with the assumed rate used at both June 28, 2003 and June 29, 2002 and was developed by evaluating input from our actuary as well as long-term inflation assumptions. The expected long-term rate of return on plan assets at July 3, 2004 is based on an allocation of U.S. equities and U.S. fixed income securities. Decreasing the expected long-term rate of return by 0.5% (from 8.0% to 7.5%) would increase our estimated 2005 pension expense by approximately \$0.1 million. Pension liability and future pension expense increase as the discount rate is reduced. We discounted future pension obligations using a rate of 6.25% at July 3, 2004, 6.0% at June 28, 2003 and 7.5% at June 29, 2002. The discount rate is determined based on the current rates earned on high quality long-term bonds. Decreasing the discount rate by 0.5% (from 6.25% to 5.75%) would increase our accumulated benefit obligation at July 3, 2004 by approximately \$3.8 million and increase the estimated fiscal 2005 pension expense by approximately \$0.9 million.

Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in our pension plan will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

Impact of Inflation

In general, management believes that our results of operations are not dependent on moderate changes in the inflation rate. Historically, we have been able to manage the impacts of more significant changes in inflation rates through our customer relationships, customer agreements that generally provide for price increases consistent with the rate of inflation or 5.0%, whichever is greater, and continued focus on improvements of operational productivity.

Significant increases in energy costs, specifically natural gas and gasoline, can materially affect our results of operations and financial condition. Currently, energy costs represent between 3-4% of our total revenue.

Litigation

We are involved in a variety of legal actions relating to personal injury, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These legal actions include lawsuits that challenge the practice of charging for certain environmental services on invoices, and being named, along with other defendants, as a potentially responsible party at certain waste disposal sites where ground water contamination has been detected or is suspected. None of these legal actions are expected to have a material adverse effect on our results of operations or financial position.

We are also involved in a lawsuit in California that alleges G&K violated certain state wage and hour laws applicable to its route sales representatives. Subsequent to July 3, 2004, we reached a tentative settlement of this case for a payment of approximately \$1.25 million, subject to court approval. The settlement resulted in the recording of a one-time charge of \$1.25 million in the fourth quarter of fiscal 2004.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") revised SFAS No. 132, "Employer's Disclosures About Pensions and Other Postretirement Benefits" ("SFAS 132"). The FASB's revision of Statement No. 132 requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations and cash flows as well as the components of the net periodic benefit cost recognized in interim periods. We adopted the disclosure requirements of SFAS 132 (revised) beginning with the third quarter ended March 27, 2004.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," which clarifies the financial reporting guidance associated with the consolidation of another entity. In December 2003, the FASB revised and superceded FIN 46 with the issuance of FIN 46R in order to address certain implementation issues. We have adopted FIN 46R effective March 31, 2004. The impact of adopting FIN 46R was not material.

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Act") provides companies with a "safe harbor" when making forward-looking statements as a way of encouraging them to furnish their shareholders with information regarding expected trends in their operating results, anticipated business developments and other prospective information. Statements made in this report concerning our intentions, expectations or predictions about future results or events are "forward-looking statements" within the meaning of the Act. These statements reflect our current expectations or beliefs, and are subject to risks and uncertainties that could cause actual results or events to vary from stated expectations, which could be material and adverse. Given that circumstances may change, and new risks to the business may emerge from time to time, having the potential to negatively impact our business in ways we could not anticipate at the time of making a forward-looking statement, you are cautioned not to place undue reliance on these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Some of the factors that could cause actual results or events to vary from stated expectations include, but are not limited to, the following: unforeseen operating risks; the effects of overall economic conditions and employment levels; fluctuations in costs of insurance and energy; acquisition integration costs; the performance of acquired businesses; preservation of positive labor relationships; competition, including pricing, within the branded identity apparel and facility services industry; and the availability of capital to finance planned growth.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risks. Market risk is the potential loss arising from adverse changes in interest rates and foreign currency exchange rates. We do not enter into derivative or other financial instruments for speculative purposes.

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates. We use financial instruments, including fixed and variable rate debt, as well as interest rate swaps to manage interest rate risk. Interest rate swap agreements are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Assuming the current level of borrowings, a one percentage point increase in interest rates under these borrowings would have increased our interest expense for fiscal 2004 by approximately \$0.9 million. This estimated exposure considers the mitigating effects of interest rate swap agreements outstanding at July 3, 2004 on the change in the cost of variable rate debt.

The following table provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. The fair values were estimated by discounting the projected cash flows using the current rate applicable to similar transactions. For debt obligations, the following table presents principal cash flow and related weighted average interest rates by expected maturity dates by fiscal year.

Maturity Date	Fixed Rate		Variable Rate	
	Amount	Rate	Amount	Rate
2005	\$ 7,143	8.40%	\$ 15,000	3.54%
2006	7,143	8.40	18,750	4.04
2007	7,143	8.40	22,500	4.35
2008	7,143	8.40	99,600	4.61
2009	7,143	8.40	—	—
Thereafter	14,285	8.40	—	—
Total	\$50,000	8.40%	\$155,850	4.40%
Fair Value	\$56,745	—	\$155,850	—

For interest rate swaps, the following table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates by fiscal year. Notional amounts are used to calculate the contractual payments to be exchanged under the contract.

Maturity Date	Notional Principal Amount	Average Interest Pay Rate	Average Interest Receive Rate
2005	\$25,000	2.92%	2.29%
2006	30,000	2.84	2.73
Thereafter	10,000	2.81	2.88
Total	\$65,000	2.85%	2.65%
Fair Value	\$65,177	—	—

Foreign Currency Exchange Risk

We have a significant foreign subsidiary located in Canada. The assets and liabilities of this subsidiary are denominated in the Canadian dollar and as such are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Results of operations are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities are recorded as a component of stockholders' equity. Gains and losses from foreign currency transactions are included in results of operations.

We may periodically hedge firm commitments with our foreign subsidiary, generally with foreign currency contracts. These agreements are recorded at current market values and the gains and losses are included in earnings. Gains and losses on such transactions were not significant in fiscal 2004. Notional amounts outstanding under foreign currency contracts at July 3, 2004 were \$0.4 million, all of which will mature during fiscal 2005. Notional amounts outstanding under foreign currency contracts at June 28, 2003 were \$2.7 million, all of which matured during fiscal 2004. Notional amounts outstanding under foreign currency contracts at June 29, 2002 were \$4.8 million, all of which matured during fiscal 2003. Foreign currency contracts were recorded at fair value as of July 3, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Consolidated Financial Statements and Notes beginning on page F-1.

Following is a summary of the results of operations for each of the quarters within fiscal years ended July 3, 2004 and June 28, 2003. All amounts are in thousands, except per share data.

QUARTERLY FINANCIAL DATA

G&K Services, Inc. and Subsidiaries

(Unaudited)	First	Second	Third	Fourth
2004				
Revenues	\$178,603	\$182,539	\$179,025	\$193,280
Gross Profit	64,457	65,694	64,582	71,684
Income from Operations	16,234	17,130	17,364	18,309
Net Income	8,109	8,802	9,014	9,459
Basic Earnings per Share	0.39	0.43	0.43	0.45
Diluted Earnings per Share	0.39	0.42	0.43	0.45
Dividends per Share	0.0175	0.0175	0.0175	0.0175
2003				
Revenues	\$169,798	\$179,653	\$176,520	\$179,617
Gross Profit	64,827	68,136	63,430	64,692
Income from Operations	19,153	19,855	13,849	16,062
Net Income	9,694	9,958	6,370	7,667
Basic Earnings per Share	0.47	0.48	0.31	0.37
Diluted Earnings per Share	0.47	0.48	0.31	0.37
Dividends per Share	0.0175	0.0175	0.0175	0.0175

We utilize a 52-53 week fiscal year ending on the Saturday nearest June 30. The fiscal year ended July 3, 2004 was a 53-week year with the extra week reported in the fourth quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of July 3, 2004. Based on that evaluation, the president and chief executive officer, and the chief financial officer concluded that our disclosure controls and procedures are effective in recording, processing, summarizing and timely reporting information required to be disclosed in our reports to the Securities and Exchange Commission.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the fourth quarter of fiscal 2004 that have materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to information with respect to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Reference is made to information with respect to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reference is made to information with respect to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is made to information with respect to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Reference is made to information with respect to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report:

1. Financial Statements

The following consolidated financial statements of G&K are part of this report and are submitted in a separate section of this report.

	Form 10-K Page Reference
Consolidated Statements of Operations	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Stockholders' Equity and Comprehensive Income	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	F-16

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC have been omitted as not required or not applicable, or the information has been included elsewhere by reference in the financial statements and related notes, except for Schedule II, which is included as Exhibit 99.1 to this Form 10-K, as filed with the SEC.

3. Exhibits

The following exhibits, as required by Item 601 of Regulation S-K are filed as a part of this report:

- 3(a)** Articles of Amendment and Restatement of the Registrant, as filed with the Secretary of State of Minnesota (incorporated herein by reference to Exhibit 3(i) to the Registrant's Form 10-Q filed November 13, 2001).
- 3(b)** Amended and Restated Bylaws of the Registrant (incorporated herein by reference to Exhibit 3 (ii) to the Registrant's Form 10-Q filed November 13, 2001).
- 4(a)** Rights Agreement, dated as of September 17, 2001, by and between G&K Services, Inc. and Wells Fargo Bank Minnesota, National Association (incorporated by reference to the Registrant's Form 8-K filing dated September 19, 2001).
- 10(a)** Stockholder Agreement by and among the Registrant, Richard Fink, William Hope, Stephen LaBelle, Daniel Nielsen, Phillip Oberg and Robert Stotts, dated June 14, 1985 (incorporated herein by reference to the Registrant's Schedule 13E-4 filing dated May 13, 1985).
- 10(b)** 1989 Stock Option and Compensation Plan, as amended on October 30, 1997. **
- 10(c)** 1996 Director Stock Option Plan, as amended March 10, 2004. *,**
- 10(d)** Asset Purchase Agreement, dated as of May 30, 1997, by and among National Service Industries, Inc., a Delaware corporation; National Service Industries, Inc., a Georgia corporation; NSI Enterprises, Inc., a California corporation and G&K Services, Inc. (incorporated herein by reference to the Registrant's Form 8-K filing dated July 14, 1997).
- 10(e)** Side Letter dated as of July 14, 1997, by and among National Service Industries, Inc., a Delaware corporation; National Service Industries, Inc., a Georgia corporation; NSI Enterprises, Inc., a California corporation and G&K Services, Inc. (incorporated herein by reference to the Registrant's Form 8-K filing dated July 14, 1997).
- 10(f)** Asset Purchase Agreement, dated as of April 25, 1998, by and among G&K Services Linen Co., G&K Services Co., G&K Services, Inc., and TTSI Services Acquisition Sub, Inc. and Tartan Textile Services, Inc. (incorporated herein by reference to the Registrant's Form 8-K filing dated May 14, 1998).

- 10(g)** 1998 Stock Option and Compensation Plan, as amended November 7, 2002. **
- 10(h)** Form of Change of Control Agreement between Registrant and each of Robert G. Wood and Jeffrey L. Wright, dated February 24, 1999 (incorporated herein by reference to the Registrant's Form 10-Q filed May 11, 1999). **
- 10(i)** Note Purchase Agreement dated July 20, 2000 among G&K Services, Inc. and seven institutional investors (incorporated herein by reference to the Registrant's Form 10-K filed September 28, 2000).
- 10(j)** Form of Executive Employment Agreement between Registrant and each of Robert G. Wood and Jeffrey L. Wright, dated January 1, 2001 (incorporated herein by reference to the Registrant's Form 10-K filed September 27, 2001). **
- 10(k)** Credit Agreement, dated June 25, 2002, by and among the Registrant, G&K Services Canada, Inc., Bank One N.A., Wachovia Bank, National Association, Wachovia Securities, Inc (f/k/a First Union Securities, Inc.), Banc One Capital Markets, Inc. and various lenders (incorporated herein by reference to Exhibit 10(m) to the Registrant's Form 10-K filed September 26, 2002).
- 10(l)** Executive Employment Agreement between Registrant and Richard L. Marcantonio, dated June 25, 2002 (incorporated herein by reference to Exhibit 10(n) to the Registrant's Form 10-K filed September 26, 2002). **
- 10(m)** Promissory Note of Richard L. Marcantonio dated July 26, 2002 and payable to the Registrant (incorporated herein by reference to Registrant's Form 10-Q filed November 12, 2002). **
- 10(n)** Stock Pledge Agreement dated as of July 26, 2002, by and between the Registrant and Richard L. Marcantonio (incorporated herein by reference to Registrant's Form 10-Q filed November 12, 2002). **
- 10(o)** Change of Control Agreement between Registrant and Richard L. Marcantonio dated November 12, 2002 (incorporated herein by reference to Registrant's Form 10-Q filed May 13, 2003). **
- 10(p)** Executive Employment Agreement between Registrant and Jeffrey R. Kiesel, dated July 14, 2003 (incorporated herein by reference to Registrant's Form 10-Q filed February 5, 2004). **
- 10(q)** First Amendment, dated December 17, 2003 to Credit Agreement dated June 25, 2002, among the Registrant, G&K Services Canada, Inc., Bank One, N.A., Wachovia Bank, National Association, Wachovia Securities, Inc, Banc One Capital Markets, Inc. and various lenders (incorporated herein by reference to Registrant's Form 10-Q filed February 5, 2004).
- 10(r)** Executive Employment Agreement between Registrant and David F. Fisher, dated May 10, 2004. *, **
- 14** Code of Ethics *
- 21** Subsidiaries of G&K Services, Inc. *
- 23** Consent of Independent Registered Public Accounting Firm *
- 24** Power of Attorney dated as of September 1, 2004 *
- 31.1** Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
- 31.2** Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-15(e)/15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
- 32.1** Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
- 32.2** Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
- 99.1** Report of Ernst & Young LLP, Independent Registered Public Accounting Firm and Schedule II. *

Footnotes:

* Filed herewith

** Compensatory plan or arrangement

(b) Reports filed on Form 8-K

None

(c) Exhibits

See exhibits listed under Item 15(a)(3).

(d) Financial Statement Schedules

See the financial statement schedules listed under Item 15(a)(2).

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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.

Date: September 16, 2004

G&K Services, Inc.

(Registrant)

By: /s/ Richard L. Marcantonio

Richard L. Marcantonio
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jeffrey L. Wright

Jeffrey L. Wright
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Michael F. Woodard

Michael F. Woodard
Vice President and Controller
(Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below on the 16th day of September 2004, by the following persons in the capacity indicated:

Signature	Title
<u>/s/ Richard M. Fink</u> Richard M. Fink	Chairman of the Board and Director
<u>/s/ Richard L. Marcantonio</u> Richard L. Marcantonio	President and Chief Executive Officer (Principal Executive Officer)
<u>*</u> Michael G. Allen	Director
<u>*</u> Paul Baszucki	Director
<u>*</u> John S. Bronson	Director
<u>*</u> Wayne M. Fortun	Director
<u>*</u> Donald W. Goldfus	Director
<u>*</u> Thomas R. Moberly	Director
<u>*</u> M. Lenny Pippin	Director
<u>*</u> Alice M. Richter	Director
*By: <u>/s/ Richard L. Marcantonio</u> Richard L. Marcantonio Attorney-in-fact	

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations for the Fiscal Years Ended July 3, 2004, June 28, 2003 and June 29, 2002	F - 2
Consolidated Balance Sheets as of July 3, 2004 and June 28, 2003	F - 3
Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Fiscal Years Ended July 3, 2004, June 28, 2003 and June 29, 2002	F - 4
Consolidated Statements of Cash Flows for the Fiscal Years Ended July 3, 2004, June 28, 2003 and June 29, 2002	F - 5
Notes to Consolidated Financial Statements	F - 6
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	F - 16

CONSOLIDATED STATEMENTS OF OPERATIONS

G&K Services, Inc. and Subsidiaries

	For the Fiscal Years Ended		
	July 3, 2004 (53 weeks)	June 28, 2003 (52 weeks)	June 29, 2002 (52 weeks)
(In thousands, except per share data)			
Revenues			
Rental operations	\$708,708	\$681,693	\$656,121
Direct sales	24,739	23,895	21,470
Total revenues	733,447	705,588	677,591
Operating Expenses			
Cost of rental operations	448,131	426,564	403,110
Cost of direct sales	18,899	17,939	15,672
Selling and administrative	158,034	154,471	146,295
Depreciation	31,417	30,406	29,596
Amortization of intangibles	7,929	7,289	6,057
Total operating expenses	664,410	636,669	600,730
Income from Operations	69,037	68,919	76,861
Interest expense	11,966	13,691	13,609
Income before Income Taxes	57,071	55,228	63,252
Provision for income taxes	21,687	21,539	24,985
Net Income	\$ 35,384	\$ 33,689	\$ 38,267
Basic weighted average number of shares outstanding	20,710	20,585	20,505
Basic Earnings per Common Share	\$ 1.71	\$ 1.64	\$ 1.87
Diluted weighted average number of shares outstanding	20,900	20,691	20,660
Diluted Earnings per Common Share	\$ 1.69	\$ 1.63	\$ 1.85
Dividends per Share	\$ 0.07	\$ 0.07	\$ 0.07

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

CONSOLIDATED BALANCE SHEETS

G&K Services, Inc. and Subsidiaries

(In thousands, except share data)

July 3, 2004

June 28, 2003

Assets

Current Assets

Cash and cash equivalents	\$ 26,931	\$ 11,504
Accounts receivable, less allowance for doubtful accounts of \$2,603 and \$3,687	71,058	69,839
Inventories	94,476	95,853
Prepaid expenses	14,902	14,848
Total current assets	207,367	192,044

Property, Plant and Equipment

Land	35,789	35,543
Buildings and improvements	140,290	133,078
Machinery and equipment	257,266	258,319
Automobiles and trucks	39,300	39,888
Less accumulated depreciation	(232,036)	(216,071)
Total property, plant and equipment	240,609	250,757

Other Assets

Goodwill, net	285,892	266,140
Customer contracts and related customer relationships, net	41,151	44,934
Non-competition agreements, net	3,809	4,666
Other, principally retirement plan assets	23,919	20,265
Total other assets	354,771	336,005
	\$ 802,747	\$ 778,806

Liabilities and Stockholders' Equity

Current Liabilities

Accounts payable	\$ 20,511	\$ 20,228
Accrued expenses		
Salaries and employee benefits	32,953	35,107
Other	43,517	27,220
Deferred income taxes	7,395	9,941
Current maturities of long-term debt	24,018	14,430
Total current liabilities	128,394	106,926

Long-Term Debt, net of Current Maturities

184,305 236,731

Deferred Income Taxes

38,256 32,185

Other Noncurrent Liabilities

26,369 22,695

Commitments and Contingencies (Notes 8 and 9)

Stockholders' Equity

Common stock, \$0.50 par value		
Class A, 400,000,000 shares authorized, 19,432,106 and 19,253,986 shares issued and outstanding	9,716	9,627
Class B, 30,000,000 shares authorized, 1,474,996 and 1,474,996 shares issued and outstanding	738	738
Additional paid-in capital	37,370	31,768
Retained earnings	381,953	348,028
Deferred compensation	(2,270)	(3,226)
Accumulated other comprehensive loss	(2,084)	(6,666)
Total stockholders' equity	425,423	380,269
	\$ 802,747	\$ 778,806

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

G&K Services, Inc. and Subsidiaries

(In thousands, except per share data)	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)			Stock- holders' Equity
						Net Unrealized Gain/(Loss) on Financial Instruments	Minimum Pension Liability	Cumulative Translation Adjustments	
Balance June 30, 2001	\$9,582	\$738	\$29,117	\$278,972	\$(4,402)	\$(1,388)	\$ —	\$(11,352)	\$301,267
Net income	—	—	—	38,267	—	—	—	—	38,267
Foreign currency translation	—	—	—	—	—	—	—	(221)	(221)
Unrealized holding gains, net of income tax	—	—	—	—	—	123	—	—	123
Comprehensive income									38,169
Issuance of common stock under stock plans, net (67 shares)	34	—	1,813	—	(807)	—	—	—	1,040
Tax benefit of employee stock options	—	—	190	—	—	—	—	—	190
Amortization of deferred compensation	—	—	—	—	937	—	—	—	937
Cash dividends (\$0.07 per share)	—	—	—	(1,445)	—	—	—	—	(1,445)
Balance June 29, 2002	9,616	738	31,120	315,794	(4,272)	(1,265)	—	(11,573)	340,158
Net income	—	—	—	33,689	—	—	—	—	33,689
Foreign currency translation	—	—	—	—	—	—	—	9,368	9,368
Unrealized holding gains, net of income tax	—	—	—	—	—	34	—	—	34
Minimum pension liability, net of income tax	—	—	—	—	—	—	(3,230)	—	(3,230)
Comprehensive income									39,861
Issuance of common stock under stock plans, net (22 shares)	11	—	588	—	56	—	—	—	655
Tax benefit of employee stock options	—	—	60	—	—	—	—	—	60
Amortization of deferred compensation	—	—	—	—	990	—	—	—	990
Cash dividends (\$0.07 per share)	—	—	—	(1,455)	—	—	—	—	(1,455)
Balance June 28, 2003	9,627	738	31,768	348,028	(3,226)	(1,231)	(3,230)	(2,205)	380,269
Net income	—	—	—	35,384	—	—	—	—	35,384
Foreign currency translation	—	—	—	—	—	—	—	1,594	1,594
Unrealized holding gains, net of income tax	—	—	—	—	—	1,121	—	—	1,121
Minimum pension liability, net of income tax	—	—	—	—	—	—	1,867	—	1,867
Comprehensive income									39,966
Issuance of common stock under stock plans, net (178 shares)	89	—	5,110	—	19	—	—	—	5,218
Tax benefit of employee stock options	—	—	492	—	—	—	—	—	492
Amortization of deferred compensation	—	—	—	—	937	—	—	—	937
Cash dividends (\$0.07 per share)	—	—	—	(1,459)	—	—	—	—	(1,459)
Balance July 3, 2004	\$9,716	\$738	\$37,370	\$381,953	\$(2,270)	\$ (110)	\$(1,363)	\$ (611)	\$425,423

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

G&K Services, Inc. and Subsidiaries

(In thousands)	For the Fiscal Years Ended		
	July 3, 2004 (53 weeks)	June 28, 2003 (52 weeks)	June 29, 2002 (52 weeks)
Operating Activities:			
Net income	\$ 35,384	\$ 33,689	\$ 38,267
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	39,346	37,695	35,653
Deferred income taxes	1,300	4,636	(312)
Amortization of deferred compensation – restricted stock	937	990	937
Changes in current operating items, exclusive of acquisitions –			
Accounts receivable and prepaid expenses	129	4,105	2,153
Inventories	2,474	1,692	2,798
Accounts payable and other accrued expenses	11,640	10,838	(1,066)
Other assets and liabilities	5,057	3,268	1,249
Net cash provided by operating activities	96,267	96,913	79,679
Investing Activities:			
Property, plant and equipment additions, net	(17,349)	(31,403)	(29,156)
Acquisition of business assets	(24,940)	(88,744)	(69,730)
Purchases of investments, net	(1,587)	(1,395)	(1,203)
Net cash used for investing activities	(43,876)	(121,542)	(100,089)
Financing Activities:			
Proceeds from debt financing	195,569	178,464	125,918
Repayments of debt financing	(236,598)	(151,667)	(110,322)
Cash dividends paid	(1,459)	(1,455)	(1,445)
Sale of common stock	5,218	655	1,040
Net cash (used for) provided by financing activities	(37,270)	25,997	15,191
Increase (Decrease) in Cash and Cash Equivalents	15,121	1,368	(5,219)
Effect of Exchange Rates on Cash	306	150	(112)
Cash and Cash Equivalents:			
Beginning of year	11,504	9,986	15,317
End of year	\$ 26,931	\$ 11,504	\$ 9,986
Supplemental Cash Flow Information:			
Cash paid for –			
Interest	\$ 11,825	\$ 12,641	\$ 12,965
Income taxes	\$ 9,619	\$ 15,267	\$ 32,681

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

G&K Services, Inc. (the "Company") is a market leader in providing branded identity apparel and facility services programs that enhance image and safety in the workplace. The Company serves a wide variety of industrial, service and high-technology companies providing them with rented uniforms or purchase options as well as facility services products such as floor mats, dust mops, wiping towels, selected linen items and several restroom products. The Company also manufactures certain uniform garments that it uses to support its garment rental programs. The Company has two operating segments, United States and Canada, which have been identified as components of the Company that are reviewed by the Company's Chief Executive Officer to determine resource allocation and evaluate performance.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company operates on a fiscal year ending on the Saturday closest to June 30. Fiscal years for the consolidated financial statements included herein ended on July 3, 2004 (53 weeks), June 28, 2003 (52 weeks) and June 29, 2002 (52 weeks).

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with a maturity of three months or less, at the date of acquisition, to be cash equivalents.

Accounts Receivable

Accounts receivable is recorded net of an allowance for expected losses. The allowance, recognized as an amount equal to the anticipated future write-offs, is based on age of outstanding balances, analysis of specific accounts and historical bad debt expense and current economic trends.

Inventories

Inventories consist of new goods and rental merchandise in service. Estimates are used in determining the likelihood that new goods on hand can be sold to customers or used in rental operations. Historical inventory usage and current revenue trends are considered in estimating both obsolete and excess inventories. New goods are stated at lower of first-in, first-out (FIFO) cost or market, net of any reserve for obsolete or excess inventory. Merchandise placed in service to support rental operations is amortized into cost of rental operations over the estimated useful lives of the underlying inventory items, primarily on a straight-line basis, which results in

a matching of the cost of the merchandise with the weekly rental revenue generated by merchandise. Estimated lives of rental merchandise in service range from nine months to three years. In establishing estimated lives for merchandise in service, management considers historical experience and the intended use of the merchandise. The components of inventories as of July 3, 2004 and June 28, 2003 are as follows:

	2004	2003
New goods	\$28,092	\$27,123
Rental merchandise in service	66,384	68,730
	\$94,476	\$95,853

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated for financial reporting purposes generally using the straight-line method over the estimated useful lives as follows:

	Life (Years)
Automobiles and trucks	3 to 8
Machinery and equipment	3 to 10
Buildings	20 to 33
Building improvements	10

Costs of significant additions, renewals and betterments, including external and certain internal computer software development costs, are capitalized. When an asset is sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and the gain or loss on disposition is reflected in earnings. Maintenance and repairs are charged to expense when incurred.

Goodwill, Intangible and Long-Lived Assets

The cost of acquisitions in excess of the fair value of the underlying net assets is recorded as goodwill. Non-competition agreements that limit the seller from competing with the Company for a fixed period of time and acquired customer contracts and related customer relationships are stated at cost less accumulated amortization and are amortized over the terms of the respective agreements or estimated average life of an account, primarily five to 11 years.

The carrying value of goodwill is evaluated on an annual basis and when events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which goodwill is assigned below its carrying amount. When evaluating whether goodwill is impaired, the fair value of the reporting unit to which goodwill is assigned is compared to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of the goodwill with its carrying amount. In calculating the implied fair value of goodwill, the fair

value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. Management completes its annual goodwill impairment test in the fourth quarter of each fiscal year and there have been no impairments of goodwill in fiscal 2004, 2003 or 2002.

The Company reviews all other long-lived assets, including definite-lived intangible assets, for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS 144"). Under SFAS 144, impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The Company also performs a periodic assessment of the useful lives assigned to intangible assets. All of the Company's intangibles are subject to amortization.

Retirement Plan Assets

Retirement plan assets consist primarily of mutual funds and cash equivalents, which are stated at their fair value as determined by quoted market prices and the cash surrender values of life insurance policies.

Foreign Currency

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities are recorded as a component of stockholders' equity. Gains and losses from foreign currency transactions are included in results of operations and were not material in fiscal 2004, 2003 or 2002.

Revenue Recognition

The Company's rental operations business is largely based on written service agreements whereby it agrees to collect, launder and deliver uniforms and other related products. The service agreements provide for weekly billing upon completion of the laundering process and delivery to the customer. Accordingly, the Company recognizes revenue from rental operations in the period in which the services are provided. Revenue from rental operations also includes billings to customers for lost or abused merchandise. Direct sale revenue is recognized in the period in which the product is shipped.

Insurance

The Company self-insures for certain obligations related to health and workers' compensation programs. The Company purchases stop-loss insurance policies to protect it from catastrophic losses.

The Company periodically evaluates its liabilities under such programs based on a third party actuarial analysis. Management's estimates consider historical claims experience, escalating medical cost trends and the expected timing of claim payments. During fiscal 2002, the Company changed certain assumptions utilized in evaluating its workers' compensation self-insurance liability and began to apply a discount factor to estimated future payments. The impact of these changes was not material to the Company's consolidated balance sheets and statements of operations.

Income Taxes

Deferred income taxes are determined in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. The Company records valuation allowances to reduce deferred tax assets when it is more likely than not that some portion of the asset may not be realized and as such, has established a valuation allowance for all foreign tax credit carryforwards due to the uncertainty of the use of the tax benefit in future periods.

Per Share Data

Basic earnings per common share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share was computed similarly to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and other dilutive securities, including nonvested restricted stock, using the treasury stock method.

For the Fiscal Years Ended (In thousands)	July 3, 2004	June 28, 2003	June 29, 2002
Weighted average number of common shares outstanding used in computation of basic earnings per share	20,710	20,585	20,505
Weighted average effect of nonvested restricted stock grants and assumed exercise of options	190	106	155
Shares used in computation of diluted earnings per share	20,900	20,691	20,660

Potential common shares of 335,000, 562,000 and 464,000 related to the Company's outstanding stock options and restricted stock grants were excluded from the computation of diluted earnings per share for fiscal 2004, 2003 and 2002, respectively. Inclusion of these shares would have been anti-dilutive as the exercise price of these shares exceeded market value.

Stock-Based Compensation

The Company maintains Stock Option and Compensation Plans (the "Employee Plans"), which are more fully described in Note 6. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its stock option plans. Accordingly, only compensation cost related to restricted stock issued under the Employee Plans has been recognized in the accompanying consolidated statements of operations. Compensation cost related to the restricted shares was \$937, \$990 and \$937 in fiscal 2004, 2003 and 2002, respectively. Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company's net income and net income per common share would have been adjusted as follows:

Fiscal Years	2004	2003	2002
Net income, as reported	\$35,384	\$33,689	\$38,267
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,746)	(1,843)	(2,128)
Pro forma net income	\$33,638	\$31,846	\$36,139
Basic net income per share:			
As reported	\$ 1.71	\$ 1.64	\$ 1.87
Pro forma	1.62	1.55	1.76
Diluted net income per share:			
As reported	\$ 1.69	\$ 1.63	\$ 1.85
Pro forma	1.61	1.54	1.75

The weighted average fair value of options granted in fiscal 2004, 2003 and 2002 was \$10.83, \$12.28 and \$11.73, respectively. The weighted average exercise price was \$32.81, \$33.66 and \$28.02 for fiscal 2004, 2003 and 2002, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: risk-free interest rates of 3.48% for fiscal 2004, 3.27% for fiscal 2003 and 4.45% for fiscal 2002; expected dividends of \$0.07 per share; expected lives of five years for fiscal 2004, 2003 and 2002; and expected volatility of 30.93% for fiscal 2004 grants, 36.56% for fiscal 2003 grants and 41.42% for fiscal 2002 grants.

Comprehensive Income

The Company has chosen to disclose comprehensive income, which consists of net income, foreign currency translation adjustment, unrealized gains/losses on interest rate swap agreements and minimum pension liability adjustments, in the consolidated statements of stockholders' equity and comprehensive income.

Financial Instruments

The Company accounts for financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and related authoritative guidance. The statement requires that all derivative financial instruments that qualify for hedge accounting, such as interest rate swap contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are either recognized periodically in income or stockholders' equity (as a component of other comprehensive income).

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") revised SFAS No. 132, "Employer's Disclosures About Pensions and Other Postretirement Benefits" ("SFAS 132"). The FASB's revision of Statement No. 132 requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations and cash flows as well as the components of the net periodic benefit cost recognized in interim periods. The Company adopted the disclosure requirements of SFAS 132 (revised) beginning with the third quarter ended March 27, 2004.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," which clarifies the financial reporting guidance associated with the consolidation of another entity. In December 2003, the FASB revised and superseded FIN 46 with the issuance of FIN 46R in order to address certain implementation issues. The Company has adopted FIN 46R effective March 31, 2004. The impact of adopting FIN 46R was not material.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current year presentation. These reclassifications did not impact current or historical net income or stockholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. ACQUISITIONS

During each of fiscal 2004, 2003 and 2002, the Company made several small acquisitions. All acquisitions were accounted for using the purchase method. The total purchase consideration, including related acquisition costs, as well as the amounts exceeding the estimated fair values of assets acquired and liabilities assumed were as follows:

Fiscal Years	2004	2003	2002
Total purchase price and related acquisition costs	\$24,940	\$88,744	\$69,730
Goodwill	19,304	63,206	52,073

The pro forma effects of these acquisitions, had they been acquired at the beginning of the fiscal year, were not material to the Company.

NOTE 3. GOODWILL AND INTANGIBLE ASSETS

The Company adopted SFAS No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") effective July 1, 2001. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill is no longer amortized but reviewed annually, or more frequently if certain indicators arise, for impairment. The Company periodically evaluates the carrying value and remaining useful lives of amortizable intangible assets. There have been no impairments of goodwill and useful lives were deemed appropriate on amortizable intangible assets in fiscal 2004, 2003 and 2002.

The changes in the carrying amount of goodwill for the fiscal years ended July 3, 2004 and June 28, 2003, by operating segment, are as follows:

	United States	Canada	Total
Balance as of June 28, 2003	\$236,913	\$29,227	\$266,140
Goodwill acquired during the period	18,085	1,219	19,304
Other, primarily foreign currency translation	—	448	448
Balance as of July 3, 2004	\$254,998	\$30,894	\$285,892

	United States	Canada	Total
Balance as of June 29, 2002	\$173,707	\$26,433	\$200,140
Goodwill acquired during the period	63,206	—	63,206
Other, primarily foreign currency translation	—	2,794	2,794
Balance as of June 28, 2003	\$236,913	\$29,227	\$266,140

Information regarding the Company's other intangible assets are as follows:

As of July 3, 2004	Carrying Amount	Accumulated Amortization	Net
Customer contracts and related customer relationships	\$80,142	\$38,991	\$41,151
Non-competition agreements	9,822	6,013	3,809
Total	\$89,964	\$45,004	\$44,960

As of June 28, 2003	Carrying Amount	Accumulated Amortization	Net
Customer contracts and related customer relationships	\$76,853	\$31,919	\$44,934
Non-competition agreements	9,721	5,055	4,666
Total	\$86,574	\$36,974	\$49,600

Total amortization expense was \$7,929 in fiscal 2004, \$7,289 in fiscal 2003 and \$6,057 in fiscal 2002. Estimated amortization expense for each of the five succeeding fiscal years based on intangible assets as of July 3, 2004 is as follows:

2005	\$8,034
2006	7,706
2007	7,581
2008	7,208
2009	3,532

NOTE 4. LONG-TERM DEBT

Debt as of July 3, 2004 and June 28, 2003 includes the following:

	2004	2003
Borrowings under unsecured term loan and unsecured revolving credit facility at rates ranging from 2.40% to 2.86% at July 3, 2004 and from 2.48% to 4.25% at June 28, 2003	\$155,850	\$196,600
Borrowings under unsecured fixed rate term loan at 8.40%	50,000	50,000
Other debt arrangements including capital leases	2,473	4,561
	208,323	251,161
Less current maturities	(24,018)	(14,430)
Total long-term debt	\$184,305	\$236,731

The Company maintains a \$325,000 term loan and revolving credit facility. The credit facility includes (i) a \$75,000 term loan facility with maturities of the remaining balance in fiscal years 2005 through 2007 of \$15,000, \$18,750 and \$22,500, respectively, and (ii) a \$250,000 revolving credit facility expiring on July 2, 2007. As of July 3, 2004, borrowings outstanding under the term loan

were \$56,250 and under the revolving credit facility were \$99,600. The unused portion of the revolver may be used for general corporate purposes, acquisitions, working capital needs and to provide up to \$30,000 in letters of credit. As of July 3, 2004, letters of credit outstanding against the revolver were \$17,040.

Borrowings under the term loan and revolving credit facility bear interest at 1.00% to 1.75% over the rate offered to major banks in the London Interbank Eurodollar market ("Eurodollar Rate"), or the Canadian prime rate for Canadian borrowings, based on a leverage ratio calculated on a quarterly basis. Advances outstanding as of July 3, 2004 bear interest at the Eurodollar Rate or Canadian prime rate plus 1.25%. The Company also pays a fee on the unused daily balance of the revolver based on a leverage ratio calculated on a quarterly basis.

The Company has a \$50,000, 8.4% private debt placement with certain institutional investors. The 10-year notes have a seven-year average life with a final maturity on July 20, 2010. Beginning on July 20, 2004, and annually thereafter to maturity, the Company will repay \$7,143 of the principal amount at par. The Company used the net proceeds from the sale of the notes to reduce other indebtedness and for general corporate purposes.

The credit facilities and the fixed rate notes contain various restrictive covenants that among other matters require the Company to maintain a minimum fixed charge coverage ratio, minimum stockholders' equity and a maximum leverage ratio, all as defined. These debt arrangements also provide for certain limits related to additional indebtedness, investments and dividends. As of July 3, 2004, the Company was in compliance with all financial debt covenants.

The fair value of the Company's long-term debt is determined using quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the long-term debt under the term loan and revolving credit facility approximates the carrying value as of July 3, 2004 and June 28, 2003. The fair value of the fixed rate term loan is \$56,745 as of July 3, 2004.

The following table summarizes payments due on long-term debt, including capital leases, as of July 3, 2004 for the next five fiscal years and thereafter:

2005	\$ 24,018
2006	26,424
2007	29,710
2008	106,743
2009	7,143
2010 and thereafter	14,285

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments principally to manage the risk that changes in interest rates will affect the amount of its future interest payments. Interest rate swap contracts are used to balance the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swap contracts are reflected at fair value in the consolidated balance sheets and the related gains or losses on these contracts are deferred in stockholders' equity (as a component of other comprehensive income). Amounts to be paid or received under the contracts are accrued as interest rates change and are recognized over the life of the contracts as an adjustment to interest expense. The net effect of this accounting is that interest expense on the portion of variable rate debt being hedged is generally recorded based on fixed interest rates.

At July 3, 2004, the Company had interest rate swap contracts to pay fixed rates of interest (average rate of 2.85%) and receive variable rates of interest based on three-month London Interbank Offered Rate ("LIBOR") on \$65,000 notional amount of indebtedness. The \$65,000 notional amount of outstanding contracts will mature \$25,000 during fiscal 2005 and \$40,000 thereafter. At June 28, 2003, the Company had interest rate swap contracts on \$85,000 notional amount of indebtedness. These swap contracts have been designated as highly effective cash flow hedges and accordingly, gains or losses on any ineffectiveness was not material to any period. If these swap agreements were to be terminated, the Company would have incurred an after-tax loss on the contracts of \$110 and \$1,231 at July 3, 2004 and June 28, 2003, respectively.

The Company may periodically hedge firm commitments with its foreign subsidiary, generally with foreign currency contracts. These agreements are recorded at current market values and the gains and losses are included in earnings. Gains and losses on such transactions were not significant in fiscal 2004 or 2003. Notional amounts outstanding under foreign currency contracts at July 3, 2004 were \$409, all of which will mature during fiscal 2005. Notional amounts outstanding under foreign currency contracts at June 28, 2003 were \$2,742, all of which matured during fiscal 2004. Foreign currency contracts were recorded at fair value as of July 3, 2004.

NOTE 6. STOCKHOLDERS' EQUITY

Each share of Class A common stock is entitled to one vote and is freely transferable. Each share of Class B is entitled to 10 votes and can be converted to Class A common stock on a share-for-share basis. Until converted to Class A common stock, however, Class B shares are not freely transferable. No cash dividends can be paid on Class B common stock unless dividends of at least an equal amount per share are paid on Class A shares. A majority of the Class B shares are held by an officer of the Company.

Stock Award Plans

The Company maintains Stock Option and Compensation Plans (the "Employee Plans") to grant certain stock awards, including stock options at fair market value and restricted shares, to key employees of the Company. Exercise periods for stock options are limited to a maximum of 10 years and a minimum of one year. A maximum of 3,000,000 stock awards can be granted under the Employee Plans and 1,546,497 awards were available for grant as of July 3, 2004.

The Company also maintains the 1996 Director Stock Option Plan (the "Directors' Plan"). The Directors' Plan provides for automatic grants of 3,000 nonqualified stock options (initial grants) to nonemployee directors of the Company as of the later of August 1996 or the date such individuals became directors of the Company and 1,000 nonqualified stock options on each subsequent annual shareholder meeting date. The Company has reserved 100,000 shares of Class A common stock for issuance under the Directors' Plan. These options expire within 10 years of grant and are exercisable one year from the date of grant, except for the initial grants, of which, one-third of the total options are exercisable each year beginning with the first anniversary of the date of grant. The option price will be the average market price of the Class A common stock during the 10 business days preceding the date of grant.

The following schedule summarizes activity in the plans:

	Stock Options			Weighted Average Exercise Price
	Employee Plans	Directors' Plan	Grant Price	
Outstanding at June 30, 2001	885,984	39,000	\$16.00 - 53.34	\$33.43
Granted	427,495	11,000	25.87 - 40.85	28.16
Exercised	(36,750)	(5,000)	16.00 - 34.48	24.60
Canceled	(144,809)	(6,000)	21.50 - 46.00	31.79
Outstanding at June 29, 2002	1,131,920	39,000	\$16.50 - 53.34	\$31.98
Granted	364,308	7,000	29.23 - 35.69	33.49
Exercised	(26,700)	—	16.50 - 28.06	24.64
Canceled	(184,032)	(2,000)	25.00 - 46.00	32.07
Outstanding at June 28, 2003	1,285,496	44,000	\$16.50 - 53.34	\$32.53
Granted	303,629	11,000	31.18 - 39.19	32.78
Exercised	(178,191)	(3,000)	25.00 - 35.69	28.85
Canceled	(230,989)	—	27.95 - 46.00	32.30
Outstanding at July 3, 2004	1,179,945	52,000	\$16.50 - 53.34	\$33.18
Exercisable at July 3, 2004	485,225	39,000	\$16.50 - 53.34	\$35.55

The following schedule summarizes the information related to stock options outstanding at July 3, 2004:

Range of Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding	Average Remaining Option Life (Years)	Weighted Average Exercise Price	Number Exercisable
\$16.50 - 25.00	79,563	5.7	\$24.67	79,563
25.01 - 37.00	913,428	8.0	31.22	211,545
37.01 - 53.34	238,954	5.6	43.52	233,117
	1,231,945	7.4	\$33.18	524,225

Under the Employee Plans, the Company grants restricted stock to key employees for nominal consideration. The restrictions lapse over periods up to seven years. During fiscal 2004, 2003 and 2002 the Company granted 5,000, 25,000 and 33,580 shares of restricted stock, respectively. The weighted average grant date fair value per share of restricted stock granted during fiscal 2004, 2003 and 2002 was \$31.18, \$33.07 and \$32.67, respectively. The Company records deferred compensation to stockholders' equity at the time of grant for the difference between the par value and fair market value as of the grant date. Compensation expense is recognized as the restrictions are removed from the stock for the difference between the par value and fair market value as of the grant date. Total compensation expense related to restricted stock was \$937, \$990 and \$937 in fiscal 2004, 2003 and 2002, respectively.

NOTE 7. INCOME TAXES

The components of the provision for income taxes are as follows:

Fiscal Years	2004	2003	2002
Current:			
Federal	\$15,794	\$10,668	\$11,437
State and local	1,897	1,396	2,075
Foreign	4,581	6,025	8,495
	22,272	18,089	22,007
Deferred	(585)	3,450	2,978
	\$21,687	\$21,539	\$24,985

The reconciliation between income taxes using the statutory federal income tax rate and the recorded income tax provision is as follows:

Fiscal Years	2004	2003	2002
Federal taxes at the statutory rate	\$19,975	\$19,330	\$22,138
State taxes, net of federal tax benefit	1,514	1,447	1,495
Foreign taxes	(838)	(15)	1,001
Permanent differences and other, net	1,036	777	351
Total provision	\$21,687	\$21,539	\$24,985
Effective rate	38.0%	39.0%	39.5%

Significant components of the Company's deferred tax assets and deferred tax liabilities as of July 3, 2004 and June 28, 2003 are as follows:

	2004	2003
Deferred tax liabilities:		
Inventory	\$(21,027)	\$(22,095)
Depreciation	(28,821)	(26,712)
Intangibles	(21,275)	(17,457)
Other	—	(1,811)
Total deferred tax liabilities	(71,123)	(68,075)
Deferred tax assets:		
Accruals, reserves and other	25,472	25,949
Net deferred tax liabilities	\$(45,651)	\$(42,126)

The Company has foreign tax credit carryforwards of \$1,436, which expire in fiscal 2008. A valuation allowance has been established for all foreign tax credit carryforwards due to the uncertainty of the use of the tax benefit in future periods.

NOTE 8. EMPLOYEE BENEFIT PLANS

Pension Plan

The Company has a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees, except certain employees who are covered by union-administered plans. Benefits are based on the number of years of service and each employee's compensation near retirement. The Company makes annual contributions to the Plan consistent with federal funding requirements.

Supplemental Executive Retirement Plan

Annual benefits under the Supplemental Executive Retirement Plan ("SERP") are based on years of service and individual compensation near retirement. The Company has purchased life insurance contracts that may be used to fund the retirement benefits. The net cash surrender value of the contracts as of July 3, 2004 and June 28, 2003 was \$10,603 and \$8,139, respectively, and is included in other assets in the accompanying consolidated balance sheets.

Obligations and Funded Status at July 3, 2004 and June 28, 2003

	Pension Plan		Supplemental Executive Retirement Plan	
	2004	2003	2004	2003
Change in benefit obligation:				
Projected benefit obligation, beginning of year	\$ 40,629	\$ 25,535	\$ 10,066	\$ 6,545
Service cost	3,949	2,541	857	369
Interest cost	2,514	1,962	671	531
Plan amendments	—	—	(80)	—
Actuarial (gain) loss	(1,957)	11,686	(90)	2,859
Benefits paid	(1,236)	(1,095)	(265)	(238)
Projected benefit obligation, end of year	\$ 43,899	\$ 40,629	\$ 11,159	\$ 10,066
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 16,839	\$ 18,651	\$ —	\$ —
Actual return on plan assets	3,303	(717)	—	—
Employer contributions	7,768	—	265	238
Benefits paid	(1,236)	(1,095)	(265)	(238)
Fair value of plan assets, end of year	\$ 26,674	\$ 16,839	\$ —	\$ —
Funded status	\$(17,225)	\$(23,790)	\$(11,159)	\$(10,066)
Unrecognized prior service cost	276	331	245	368
Unrecognized actuarial loss	9,516	14,315	2,981	3,440
Net amount recognized	\$ (7,433)	\$ (9,144)	\$ (7,933)	\$ (6,258)

Amounts recognized in the statements of financial position consist of:

	Pension Plan		Supplemental Executive Retirement Plan	
	2004	2003	2004	2003
Accrued benefit liability	\$(9,820)	\$(14,037)	\$(7,933)	\$(7,150)
Intangible assets	276	331	—	368
Accumulated other comprehensive income	2,111	4,562	—	524
Net amount recognized	\$(7,433)	\$ (9,144)	\$(7,933)	\$(6,258)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with an accumulated benefit obligation in excess of plans assets were \$43,899, \$36,494 and \$26,674, respectively, as of July 3, 2004 and \$40,629, \$30,876 and \$16,839, respectively as of June 28, 2003. No pension plans had plan assets in excess of accumulated benefit obligations at July 3, 2004 or June 28, 2003.

Components of Net Periodic Benefit Cost

	Pension Plan			Supplemental Executive Retirement Plan		
	2004	2003	2002	2004	2003	2002
Service cost	\$ 3,949	\$ 2,541	\$ 2,141	\$ 857	\$ 369	\$ 259
Interest cost	2,514	1,962	1,653	671	531	441
Expected return on assets	(1,514)	(1,468)	(1,711)	—	—	—
Prior service cost	55	55	53	43	65	65
(Gain) loss	1,053	—	(161)	369	63	4
Net periodic benefit cost	\$ 6,057	\$ 3,090	\$ 1,975	\$1,940	\$1,028	\$ 769

Assumptions

The following weighted average assumptions were used to determine benefit obligations for the plans at July 3, 2004 and June 28, 2003:

	Pension Plan		Supplemental Executive Retirement Plan	
	2004	2003	2004	2003
Discount rate	6.25%	6.00%	6.25%	6.00%
Rate of compensation increase	4.25	5.00	5.00	5.00

The following weighted average assumptions were used to determine net periodic benefit cost for the plans for the years ended July 3, 2004 and June 28, 2003:

	Pension Plan		Supplemental Executive Retirement Plan	
	2004	2003	2004	2003
Discount rate	6.00%	7.50%	6.00%	7.50%
Expected return on plan assets	8.00	8.00	N/A	N/A
Rate of compensation increase	5.00	5.00	5.00	5.00

To develop the expected long-term rate of return on asset assumptions, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.00% long-term rate of return on assets assumption.

Additional Information

The pension plan weighted average asset allocations at July 3, 2004 and June 28, 2003 are as follows:

	Pension Plan	
	2004	2003
International equity	15%	10%
Value equity	25	25
Small cap equity	10	5
Core growth equity	20	25
Fixed income	30	35
Total	100%	100%

The asset allocation strategy for 2004 targets 25.0%-30.0% in high-quality fixed income instruments with the balance of the portfolio to be invested in a diversified and complimentary portfolio of equity vehicles. The objective is to achieve a long-term rate of return of 7.0%-9.5%. In determining investment options, all classes or categories of investments allowed by the Employee Retirement Income Security Act of 1974 ("ERISA") are acceptable investment choices. As directed by ERISA, no single investment will comprise more than 10.0% of assets, except for certain government backed securities.

Pension assets consist primarily of listed common stocks and U.S. government and corporate obligations. The plan held approximately 67,500 shares of the Company's Class B common stock at July 3, 2004 and June 28, 2003, with market values of \$2,697 and \$2,007, respectively. The plan received \$5 in dividends on the Company's Class B common stock during each of fiscal 2004 and 2003.

The Company expects to contribute \$1,332 to its pension plan and \$361 to the SERP in fiscal year 2005.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan	Supplemental Executive Retirement Plan
2005	\$722	\$361
2006	804	361
2007	884	350
2008	964	334
2009	1,057	323
2010 and thereafter	7,271	2,138

Union Pension Plans

Certain employees of the Company are covered by union-sponsored, collectively bargained, multiemployer pension plans ("Union Plans"). The Company contributed and charged to expense \$1,460 in fiscal 2004, \$1,189 in fiscal 2003 and \$1,062 in fiscal 2002 for such plans. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. The Company may be liable for its share of unfunded vested benefits, if any, related to the Union Plans. Information from the Union Plans' administrators is not available to permit the Company to determine its share, if any, of unfunded vested benefits.

401(k) Plan

All full-time nonunion employees are eligible to participate in a 401(k) plan. The Company matches a portion of the employee's salary reduction contributions and provides investment choices for the employee. The matching contributions under the 401(k) plan, which vest over a five-year employment period, were \$1,712 in fiscal 2004, \$1,663 in fiscal 2003 and \$1,229 in fiscal 2002.

Executive Deferred Compensation Plan

Under the Executive Deferred Compensation Plan ("DEFCO") plan, the Company matches a portion of the designated employees' contributions. The Company's matching contributions under the DEFCO plan were \$528 in fiscal 2004, \$476 in fiscal 2003 and \$397 in fiscal 2002. The accumulated benefit obligation of \$9,492 as of July 3, 2004 and \$7,532 as of June 28, 2003 is included in other noncurrent liabilities in the accompanying consolidated balance sheets. The Company has purchased investments, including stable income and stock index managed funds, based on investment

elections made by the employees, which may be used to fund the retirement benefits. The investments are recorded at estimated fair value based on quoted market prices and are included in other assets in the accompanying consolidated balance sheets. Unrealized gains and losses are included in income on a current basis. At July 3, 2004 and June 28, 2003, the estimated fair value of the investments was \$9,492 and \$7,532, and the cost of the investments was \$9,305 and \$8,576, respectively.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in a variety of legal actions relating to personal injury, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These legal actions include lawsuits that challenge the practice of charging for certain environmental services on invoices, and being named, along with other defendants, as a potentially responsible party at certain waste disposal sites where ground water contamination has been detected or is suspected. None of these legal actions are expected to have a material adverse effect on the Company's results of operations or financial position.

Leases

The Company leases certain facilities and equipment for varying periods. Most facility leases contain renewal options from one to five years. Management expects that in the normal course of business, leases will be renewed or replaced by other leases.

The following is a schedule of future minimum lease payments for operating leases that had initial or remaining non-cancelable lease terms in excess of one year as of July 3, 2004:

	Operating Leases
2005	\$13,619
2006	11,296
2007	9,083
2008	6,992
2009	4,461
2010 and thereafter	4,467
Total minimum lease payments	\$49,918

Total rent expense for operating leases, including those with terms of less than one year was \$18,547 in fiscal 2004, \$17,780 in fiscal 2003 and \$15,462 in fiscal 2002.

NOTE 10. SEGMENT INFORMATION

The Company has two operating segments, United States and Canada, which have been identified as components of the Company that are reviewed by the Company's Chief Executive Officer to determine resource allocation and evaluate performance. Each operating segment derives revenues from the branded identity apparel and facility services industry, which includes garment rental and non-apparel items such as floor mats, dust mops, wiping towels, selected linen items and several restroom products. No one customer's transactions account for 1.0% or more of the Company's revenues.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). Corporate expenses are allocated to the segments based on segment revenue. The Company evaluates performance based on income from operations. Financial information by geographic location is as follows:

	United States	Canada	Elimination	Total
2004 (53 weeks):				
Revenues	\$633,715	\$ 99,732	\$ —	\$733,447
Income from operations	50,282	18,755	—	69,037
Interest expense	12,029	(63)	—	11,966
Total assets	771,338	115,167	(83,758)	802,747
Capital expenditures	15,375	1,974	—	17,349
Depreciation and amortization expense	35,029	4,317	—	39,346
Income tax expense	17,927	3,760	—	21,687

2003 (52 weeks):				
Revenues	\$618,798	\$ 86,790	\$ —	\$705,588
Income from operations	52,823	16,933	(837)	68,919
Interest expense	13,330	1,198	(837)	13,691
Total assets	752,469	96,706	(70,369)	778,806
Capital expenditures	22,521	8,882	—	31,403
Depreciation and amortization expense	34,136	3,559	—	37,695
Income tax expense	14,720	6,819	—	21,539

2002 (52 weeks):				
Revenues	\$595,365	\$ 82,226	\$ —	\$677,591
Income from operations	58,224	19,973	(1,336)	76,861
Interest expense	13,343	1,602	(1,336)	13,609
Total assets	677,029	77,859	(73,189)	681,699
Capital expenditures	26,060	3,096	—	29,156
Depreciation and amortization expense	32,219	3,434	—	35,653
Income tax expense	17,218	7,767	—	24,985

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of G&K Services, Inc.:

We have audited the accompanying consolidated balance sheets of G&K Services, Inc. as of July 3, 2004 and June 28, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended July 3, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of G&K Services, Inc. as of July 3, 2004 and June 28, 2003, and the results of its operations and its cash flows for each of the three fiscal years in the period ended July 3, 2004 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, effective July 1, 2001, the Company adopted Statement of Financial Accounting Standards (Statement) No. 142, "Goodwill and Other Intangible Assets."

/s/Ernst & Young LLP

Ernst & Young LLP

Minneapolis, Minnesota
August 13, 2004

G&K SERVICES, INC.
5995 Opus Parkway
Minnetonka, Minnesota 55343



NOTICE OF ANNUAL MEETING OF SHAREHOLDERS NOVEMBER 11, 2004

To the Shareholders of G&K Services, Inc.:

Please take notice that the Annual Meeting of Shareholders of G&K Services, Inc. (the "Company") will be held, pursuant to due call by the Board of Directors of the Company, at the Hilton Minneapolis and Towers, 1001 Marquette Avenue, Minneapolis, Minnesota, 55403, on Thursday, November 11, 2004, at 10:00 a.m. Central Standard Time, or at any adjournment or adjournments thereof, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect two "Class III" directors to serve for terms of three years;
2. To ratify the appointment of Ernst & Young LLP, Independent Registered Public Accounting Firm, as independent auditors of the Company for fiscal 2005; and
3. To transact any other business as may properly come before the meeting or any adjournments thereof.

Pursuant to action of the Board of Directors, shareholders of record on September 14, 2004 will be entitled to vote at the meeting or any adjournments thereof.

A proxy for the meeting is enclosed. You are requested to fill in and sign the proxy, which is solicited by the Board of Directors, and mail it promptly in the enclosed envelope.

By Order of the Board of Directors
G&K Services, Inc.

David F. Fisher
Vice President, General Counsel and Corporate Secretary

September 27, 2004

PROXY STATEMENT OF G&K SERVICES, INC.

**Annual Meeting of Shareholders to be Held
November 11, 2004**

VOTING BY PROXY AND REVOCATION OF PROXIES

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of G&K Services, Inc. (periodically referred to in this proxy statement as the “Company”) to be used at the annual meeting of our shareholders to be held Thursday, November 11, 2004 at 10:00 a.m. Central Standard Time, at Hilton Minneapolis and Towers, 1001 Marquette Avenue, Minneapolis, Minnesota, 55403, or at any adjournment or adjournments thereof, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect two “Class III” directors to serve for terms of three years;
2. To ratify the appointment of Ernst & Young LLP, Independent Registered Public Accounting Firm, as independent auditors of the Company for fiscal 2005; and
3. To transact any other business as may properly come before the meeting or any adjournments thereof.

The approximate date on which this proxy statement and the accompanying proxy were first sent or given to shareholders was September 27, 2004.

Each shareholder who signs and returns a proxy in the form enclosed with this proxy statement may revoke the same at any time prior to its use by giving notice of such revocation to the Company in writing, in open meeting or by executing and delivering a new proxy to the Corporate Secretary. Unless so revoked, the shares represented by each proxy will be voted at the annual meeting and at any adjournments of the annual meeting. Mere presence at the annual meeting by a shareholder who has signed a proxy does not, alone, revoke that proxy; revocation would have to be announced by the shareholder at the time of the meeting. All shares which are entitled to vote and are represented at the annual meeting by properly executed proxies received prior to or at the annual meeting, and not revoked, will be voted at the annual meeting and any adjournments of the annual meeting.

VOTING PROCEDURES

The Company has two classes of voting securities outstanding: Class A Common Stock, \$0.50 par value per share, and Class B Common Stock, \$0.50 par value per share, of which 19,452,651 shares of Class A Common Stock and 1,474,996 shares of Class B Common Stock, respectively, were outstanding as of the close of

business on September 14, 2004, the “Record Date,” for the annual meeting. Each share of Class A Common Stock is entitled to one vote, and each share of Class B Common Stock is entitled to 10 votes, on each matter put to a vote of shareholders. Our Class A and Class B Common Stock are collectively referred to in this proxy statement as the “Common Stock.” Only shareholders of record at the close of business on the Record Date for the annual meeting, will be entitled to vote at the annual meeting or any adjournments of the annual meeting. A quorum, consisting of a majority of the voting power of the holders of the outstanding shares of Common Stock entitled to vote at the annual meeting, must be present, either in person or represented by proxy, for each matter presented at the annual meeting before action may be taken on that matter.

All shares represented by proxies will be voted for the election of the director nominees named in this proxy statement and for ratification of Ernst & Young LLP’s appointment as our independent auditors for fiscal 2005 unless a contrary choice is specified. If any director nominee should withdraw or otherwise become unavailable for reasons not presently known, the proxies which would have otherwise been voted for that director nominee may be voted for a substitute director nominee selected by the Company’s Board of Directors.

Adoption of each proposal requires the affirmative vote of the holders of a majority of the voting power of the outstanding shares of Common Stock present and entitled to vote at the annual meeting.

A shareholder who abstains with respect to any proposal is considered to be present and entitled to vote on that proposal, and is in effect casting a negative vote; a shareholder (including a broker) who does not give authority to a proxy to vote, or withholds authority to vote, on any proposal shall not be considered present and entitled to vote on that proposal.

The Board of Directors unanimously recommends that you vote “FOR” the election of both director nominees named in this proxy statement and “FOR” the ratification of Ernst & Young LLP’s appointment as the Company’s independent accountant for fiscal 2005.

PROPOSAL NUMBER 1:

ELECTION OF CLASS III DIRECTORS

Pursuant to the Company’s articles of incorporation, the management and business affairs of the Company are vested in a Board of Directors to be comprised of not less than three and not more than 12 directors and the bylaws of the Company state that the number of directors shall be established by resolution of the Board of Directors. Presently, the Board of Directors consists of 10 directors. Pursuant to the Company’s articles of incorporation, these 10 directors are divided into three classes, designated as Class I, Class II and Class III, respectively, and are elected to serve for staggered three-year terms of office that expire in successive years. The respective current terms of office for the directors in Class I, Class II and Class III expire, respectively, at the 2005, 2006 and 2004 annual shareholders’ meetings.

Messrs. John S. Bronson and Wayne M. Fortun have been nominated by the Board of Directors to serve as our Class III directors for a three-year term commencing immediately following the annual meeting and expiring at our 2007 annual shareholders’ meeting, or until his successor is elected and qualified. If elected,

each nominee has consented to serve as a Class III director. Messrs. Fortun and Bronson currently serve as Class III directors. Messrs. Thomas R. Moberly and Donald W. Goldfus, who also currently serve as Class III directors, have each chosen not to stand for re-election at the annual meeting. Following the annual meeting, and assuming the election of Messrs. Bronson and Fortun, our Board of Directors will consist of eight directors. The Board of Directors is presently reviewing candidates to fill vacant positions. In the event that the Board of Directors makes an appointment to fill either of these vacant positions, the individual will fill the unexpired term of the position, which term expires in 2007.

Set forth below is information regarding the two individuals nominated for election to the Board of Directors of the Company as Class III directors, which includes information furnished by them as to their principal occupations for the last five years, certain other directorships held by them, and their ages as of the date of this Proxy Statement.

Name and Age of Director/Nominee	Principal Occupation, Business Experience Past Five Years and Directorships in Public Companies	Director Since
Class III Nominees:		
John S. Bronson (56)	Mr. Bronson is a director of the Company, and serves on its Compensation Committee. Mr. Bronson was Senior Vice President, Human Resources from 1999 to 2003 for Williams-Sonoma, Inc., a specialty retailer of home furnishings. Prior to Williams-Sonoma, Inc., Mr. Bronson held several senior human resource-related management positions with PEPSICO, from 1979 to 1999, most recently Executive Vice President, Human Resources Worldwide for Pepsi-Cola Worldwide.	2004
Wayne M. Fortun (55)	Mr. Fortun is a director of the Company, and serves as Chair of the Company’s Compensation Committee. Mr. Fortun has served as Hutchinson Technology’s President and Chief Operating Officer since 1983 and as its Chief Executive Officer since May 1996. Mr. Fortun serves as a director of Hutchinson Technology Inc., a world leader in precision manufacturing of suspension assemblies for disk drives. Mr. Fortun also serves as a director of C.H. Robinson Worldwide, Inc., a global provider of multimodal transportation services and logistics solutions.	1994

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Title	Since	Director Term Expires
Richard M. Fink	74	Chairman and Director (Class I)	1968	2005
Richard L. Marcantonio	54	Chief Executive Officer, President and Director (Class II)	2002	2006
Jeffrey L. Wright	42	Senior Vice President and Chief Financial Officer	1999	—
Jeffrey R. Kiesel	43	Senior Vice President, Field Operations	2003	—
David F. Fisher	54	Vice President, General Counsel, and Corporate Secretary	2004	—
Robert G. Wood	56	President, G&K Services Canada, Inc.	1998	—
Michael F. Woodard	47	Vice President and Controller	1996	—
Michael G. Allen	66	Director (Class I)	2001	2005
Paul Baszucki	64	Director (Class II)	1994	2006
John S. Bronson	56	Director (Class III)	2004	2004
Wayne M. Fortun	55	Director (Class III)	1994	2004
M. Lenny Pippin	57	Director (Class I)	2001	2005
Alice M. Richter	51	Director (Class II)	2003	2006
Directors Not Seeking Re-election:				
Thomas R. Moberly	56	Director (Class III)	1993	2004
Donald W. Goldfus	70	Director (Class III)	1989	2004

Richard M. Fink – Mr. Fink has been a director of the Company since 1968 and currently serves as Chair of the Company's Board of Directors. Mr. Fink also served as Chief Executive Officer of the Company until January 1997.

Richard L. Marcantonio – Mr. Marcantonio has served as a director of the Company since November 6, 2003 and as President and Chief Executive Officer since January 1, 2004, prior to which he was President and Chief Operating Officer of the Company since July 2002. Prior to joining the Company, Mr. Marcantonio served as President of the industrial and service sectors at Ecolab, Inc., a leading global developer and marketer of cleaning and maintenance products, from March 2002 until July 2002. Mr. Marcantonio served as Senior and/or Executive Vice President of Ecolab's industrial group from March 1997 until December 2000, and served as Executive Vice President of Ecolab's industrial and service sectors from January 2001 until March 2002. Prior to his employment at Ecolab, Mr. Marcantonio served in senior management, sales and marketing positions at Keebler Company, a subsidiary of United Biscuits (Holdings) plc. He also served as President and Chief Executive Officer of Specialty Brands, another subsidiary of United Biscuits (Holdings) plc.

Jeffrey L. Wright – Mr. Wright has served as the Company's Senior Vice President since January 2004 and Chief Financial Officer since 1999. He was the Company's Secretary from February 1999 until May 2004, and served as the Company's Treasurer from February 1999 until November 2001. Mr. Wright was with BMC Industries, Inc. from 1996 until the time he joined the Company, serving as Controller from 1996 to 1998 and Treasurer from 1998 to 1999. From 1993 to 1996, Mr. Wright was Treasurer for Employee Benefit Plans, Inc. From 1984 to 1993, Mr. Wright was employed with Arthur Andersen & Co.

Jeffrey R. Kiesel – Mr. Kiesel has served as the Company's Senior Vice President, Field Operations since July 14, 2003. Prior to joining the Company, Mr. Kiesel was the Chief Executive Officer from July 2001 to June 2003 for Vista3D, Inc., which specializes in 3-D visualization technology. Prior to Vista3D, Inc. he held several senior management positions with GE Capital Corporation, including President, GE Small Business Solutions from January 2000 to May 2001; President, GE Capital Fleet, Small Business from January 1999 to January 2000; and Senior Vice President, Sales and Marketing, GE Capital Fleet from March 1997 to January 1999.

David F. Fisher – Mr. Fisher has served as the Company's Vice President, General Counsel and Corporate Secretary since May 10, 2004. Prior to joining the Company, Mr. Fisher was the Commissioner of Administration for the State of Minnesota since March 1999. Prior to the State of Minnesota he served as Vice President, General Counsel and Corporate Secretary for ADC Telecommunications, Inc., a manufacturer and distributor of communications equipment, from July 1994 until March 1999 and as Vice President and Associate General Counsel of The Pillsbury Company, a food producer and distributor, from August 1980 until July 1994.

Robert G. Wood – Mr. Wood has served as President of G&K Services Canada, Inc. and affiliated entities since 1998 and as Regional Vice President since 1997. Mr. Wood joined the Company in 1995 as a General Manager and served as an Executive Vice President of the Company from May 2000 until July 2002.

Michael F. Woodard – Mr. Woodard has served as the Company's Controller since he joined the Company in September 1996, and was named Vice President in August 2004.

Michael G. Allen – Mr. Allen is a director of the Company, and serves as a member of the Company's Audit Committee. Mr. Allen founded The Michael Allen Company, a Connecticut-based strategy development company, and has served as that company's Founder Chairman since its inception in 1979. From 1974 to 1979, Mr. Allen served as Vice President of Corporate Strategy for General Electric.

Paul Baszucki – Mr. Baszucki is a director of the Company, and serves as Chair of the Company's Audit Committee. Mr. Baszucki also serves as Chairman of the Board of Directors of Norstan, Inc., a communications solutions and services company that delivers voice and data technologies and services, and remanufactured equipment to corporate end-users and public sector companies. He also serves as a director and member of the Audit Committee of WSI Industries, Inc., a precision contract machining company primarily servicing the aerospace/avionics industry and recreational vehicles markets. He has been a director of Norstan since 1975 and has served as Chairman of Norstan's Board of Directors since May 1997. He served as the Chief Executive Officer of Norstan from 1986 until May 1997, and again from December 1999 to October 2000. Mr. Baszucki has been a director of WSI Industries since 1988.

John S. Bronson – See information under "Election of Class III Directors" above.

Wayne M. Fortun – See information under "Election of Class III Directors" above.

M. Lenny Pippin – Mr. Pippin is a director of the Company, and serves as a member of the Company's Compensation and Corporate Governance Committees. Mr. Pippin has served as President and Chief Executive Officer of The Schwan Food Company, a branded frozen-food company, since November 1999. He serves as a director and member of the Audit Committee of American Tire Distributors, Inc, a nationwide supplier of aftermarket wheels, accessories and automotive service equipment to tire dealers, service repair shops, and automotive performance shops.

Alice M. Richter – Ms. Richter is a director of the Company, and serves as a member, and as the Financial Expert, of the Company's Audit Committee. Ms. Richter has been retired since June 2001. Prior to her retirement, Ms. Richter was a certified public accountant with KPMG LLP for 26 years. Ms. Richter joined KPMG's Minneapolis office in 1975 and was admitted to the KPMG partnership in 1987. During her tenure at KPMG, she served as the National Industry Director of KPMG's U.S. Food and Beverage practice and has also served as a member of the Board of Trustees of the KPMG Foundation from 1991 to 2001.

Directors Not Seeking Re-election:

Thomas R. Moberly – Mr. Moberly has been a director of the Company since 1998 and served as Chief Executive Officer of the Company from January 1999 until January 2004. Mr. Moberly also served as the Company's President from September 1997 until July 2002, and held several other management positions with the Company, including Chief Operating Officer from September 1997 to January 1999 and Executive Vice President from February 1993 to September 1997. Previously, Mr. Moberly was a Regional Manager of the Company.

Donald W. Goldfus – Mr. Goldfus is a director of the Company and serves as a member of the Company's Compensation and Corporate Governance Committees. Retired since June 1999, Mr. Goldfus was formerly the Chair of the Board of Directors of Apogee Enterprises, Inc., a company involved in the design and development of value-added glass products, services and systems, and continued to serve as a director of Apogee and a member of Apogee's Corporate Governance and Finance Committees until July 2004. Mr. Goldfus also served as Chief Executive Officer of Apogee from 1986 until January 1998.

EXECUTIVE COMPENSATION

The following table sets forth the cash and noncash compensation for each of the last three fiscal years awarded to or earned by (i) each individual who served as our Chief Executive Officer during fiscal 2004; and (ii) the four other most highly compensated executive officers of the Company who served as executive officers at the end of fiscal 2004 (the “Named Executive Officers”).

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation – Awards		All Other Compensation (\$) ⁽⁴⁾
		Salary (\$) ⁽¹⁾	Bonus (\$)	Other Annual Compensation (\$) ⁽²⁾	Restricted Stock Awards (\$) ⁽³⁾	Securities Underlying Options	
Richard M. Fink Chairman of the Board	2004	356,731	66,724	35,871	—	11,058	24,477
	2003	373,313	6,132	9,887	—	12,300	27,173
	2002	390,750	—	34,817	193,020	6,887	29,317
Richard L. Marcantonio ⁽⁵⁾ President and Chief Executive Officer	2004	535,579	158,106	176,706	—	17,220	36,301
	2003	469,231	150,000	21,828	638,250	110,000	14,453
Thomas R. Moberly ⁽⁶⁾ Former Chief Executive Officer	2004	385,666	78,852	89,710	—	23,505	22,686
	2003	525,002	17,655	16,742	—	21,000	31,606
	2002	475,000	—	19,281	413,706	8,050	29,761
Jeffrey R. Kiesel ⁽⁷⁾ Senior Vice President, Field Operations	2004	284,423	107,500	3,077	153,400	15,000	902
Jeffrey L. Wright Senior Vice President and Chief Financial Officer	2004	271,472	71,094	57,183	—	10,002	19,292
	2003	252,542	20,000	25,701	—	10,000	18,438
	2002	232,500	—	11,474	—	3,220	14,818

⁽¹⁾ Includes cash compensation deferred at the election of the executive officer under the terms of the Company's 401(k) Savings Incentive Plan and the Executive Deferred Compensation Plan.

⁽²⁾ Includes compensation relating to reimbursement for the payment of taxes resulting from the vesting of restricted stock awards, personal use of company car and country club dues.

⁽³⁾ Amounts shown in this column reflect the dollar value (net of any consideration paid by the Named Executive Officer) of awards of restricted Class A Common Stock shares as of the date such awards were granted, calculated by multiplying (i) the difference between (A) the closing market price of unrestricted Class A Common Stock of the registrant on the Nasdaq National Market on the date of grant, and (B) the consideration paid by the Named Executive Officer, by (ii) the number of shares awarded. As of July 3, 2004, the Named Executive Officers held the following as a result of grants under the 1989 Stock Option and Compensation Plan and/or the 1998 Stock Option and Compensation Plan: Mr. Fink held 3,600 restricted shares with a total market value (net of any consideration paid by Mr. Fink) of \$143,352; Mr. Marcantonio held 13,000 restricted shares with a total market value (net of any consideration paid by Mr. Marcantonio) of \$517,660; Mr. Moberly held 7,716 restricted shares with a total market value (net of any consideration paid by Mr. Moberly) of \$307,251; Mr. Kiesel held 5,000 restricted shares with a total market value (net of any consideration paid by Mr. Kiesel) of \$199,100; and Mr. Wright held 5,992 restricted shares at a market value (net of any consideration paid by Mr. Wright) of \$238,601. Restricted stock awards vest in equal annual installments of five to seven years beginning on the first anniversary of the date of grant. Regular dividends are paid on the restricted shares. The Company has agreed to make certain payments to the recipients of restricted stock to cover the taxes payable by the recipients upon the vesting of the shares. See footnote 2 above.

⁽⁴⁾ Represents matching contributions by the Company under the Company's 401(k) Savings Incentive Plan and the Executive Deferred Compensation Plan and payment by the Company of term life and long-term disability insurance premiums.

⁽⁵⁾ Mr. Marcantonio has served as Chief Executive Officer of the Company since January 1, 2004 and as President since July 15, 2002. Mr. Marcantonio also served as Chief Operating Officer from July 15, 2002 until January 1, 2004. Pursuant to an agreement with the Company, Mr. Marcantonio was entitled to receive a bonus of \$150,000 for fiscal 2003.

⁽⁶⁾ Mr. Moberly served as Chief Executive Officer from January 1999 until January 2004 and as President from September 1997 until July 2002.

⁽⁷⁾ Mr. Kiesel was appointed Senior Vice President, Field Operations as of July 14, 2003.

Option Grants In Last Fiscal Year

The following table sets forth the number of individual grants of Class A share stock options made during fiscal year 2004 to the Named Executive Officers:

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Shares Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share) ⁽¹⁾	Expiration Date	5% (\$) ⁽⁴⁾	10% (\$) ⁽⁴⁾
Richard M. Fink	11,058 ⁽²⁾	3.6	32.57	8/25/13	266,502	574,001
Richard L. Marcantonio	17,220 ⁽²⁾	5.7	32.57	8/25/13	352,719	893,859
Thomas R. Moberly	23,505 ⁽²⁾	7.7	32.57	8/25/13	481,455	1,220,102
Jeffrey R. Kiesel	15,000 ⁽³⁾	4.9	31.18	7/14/13	294,134	745,393
Jeffrey L. Wright	10,002 ⁽²⁾	3.3	32.57	8/25/13	204,872	519,186

⁽¹⁾ Amount represents the fair market value of the Company's Common Stock on the date of grant.

⁽²⁾ Options were issued on August 25, 2003 and vest in equal annual installments over three years commencing on the first anniversary of the grant date.

⁽³⁾ Option was issued on July 14, 2003 and vests in equal annual installments over three years commencing on the first anniversary of the grant date.

⁽⁴⁾ The hypothetical potential appreciation shown in these columns for the Named Executive Officer is required by rules of the Securities and Exchange Commission ("SEC"). These amounts represent neither the historical nor the anticipated future performance of the Company's Common Stock price appreciation.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth information as to the exercise of Class A share stock options, and the number and value of unexercised Class A share stock options, at fiscal year-end for each of the Named Executive Officers who owned such options during fiscal 2004:

Name	Number of Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at 7/3/04 Exercisable/Unexercisable	Value of Unexercised in-the-Money Options at 7/3/04 (\$)
Richard M. Fink ⁽¹⁾	—	—	31,165 / 26,145	286,793 / 208,858
Richard L. Marcantonio ⁽²⁾	—	—	36,666 / 90,554	315,429 / 764,326
Thomas R. Moberly ⁽³⁾	48,792	316,956	9,122 / 23,814	— / 182,164
Jeffrey R. Kiesel ⁽⁴⁾	—	—	— / 15,000	— / 137,100
Jeffrey L. Wright ⁽⁵⁾	—	—	25,012 / 19,889	199,825 / 148,215

⁽¹⁾ Options held as of July 3, 2004 include (i) 3,850 options granted on September 1, 1998 at an exercise price of \$46.00 per share; (ii) 4,259 options granted on September 1, 1999 at an exercise price of \$41.56 per share; (iii) 12,500 options granted on May 25, 2000 at an exercise price of \$25.00 per share; (iv) 6,456 options granted on September 1, 2000 at an exercise price of \$28.50 per share; (v) 6,887 options granted September 1, 2001 at an exercise price of \$27.95; (vi) 12,300 options granted on January 2, 2003 at an exercise price of \$35.69 per share; and (vii) 11,058 options granted on August 25, 2003 at an exercise price of \$32.57. The closing sale price of the Class A Common Stock on July 3, 2004 was \$40.32.

⁽²⁾ Options held as of July 3, 2004 include (i) 100,000 options granted on July 15, 2002 at an exercise price of \$31.32 per share; (ii) 10,000 options granted on January 2, 2003 at an exercise price of \$35.69 per share; and (iii) 17,220 options granted on August 25, 2003 at an exercise price of \$32.57. The closing sale price of the Class A Common Stock on July 3, 2004 was \$40.32.

⁽³⁾ Options held as of July 3, 2004 include (i) 2,160 options granted on January 2, 1998 at an exercise price of \$41.88 per share; (ii) 2,880 options granted on September 1, 1998 at an exercise price of \$46.00 per share; (iii) 4,391 options granted on September 1, 1999 at an exercise price of \$41.56 per share; and (iv) 23,505 options granted on August 25, 2003 at an exercise price of \$32.57. The closing sale price of the Class A Common Stock on July 3, 2004 was \$40.32.

⁽⁴⁾ Options held as of July 3, 2004 include (i) 15,000 options granted on July 14, 2003 at an exercise price of \$31.18 per share. The closing sale price of the Class A Common Stock on July 3, 2004 was \$40.32.

⁽⁵⁾ Options held as of July 3, 2004 include (i) 7,500 options granted on February 8, 1999 at an exercise price of \$53.34 per share; (ii) 1,540 options granted on September 1, 1999 at an exercise price of \$41.56 per share; (iii) 10,000 options granted on May 25, 2000 at an exercise price of \$25.00 per share; (iv) 2,639 options granted on September 1, 2000 at an exercise price of \$28.50 per share; (v) 3,220 options granted on September 1, 2001 at an exercise price of \$27.95 per share; (vi) 10,000 options granted on January 2, 2003 at an exercise price of \$35.69 per share; and (vii) 10,002 options granted on August 25, 2003 at an exercise price of \$32.57. The closing sale price of the Class A Common Stock on July 3, 2004 was \$40.32.

Pension Plan Table

Remuneration	Years of Service				
	15	20	25	30	35
\$125,000	\$ 31,250	\$ 41,667	\$ 52,083	\$ 62,500	\$ 62,500
150,000	37,500	50,000	62,500	75,000	75,000
175,000	43,750	58,333	72,917	87,500	87,500
200,000	50,000	66,667	83,333	100,000	100,000
225,000	56,250	75,000	93,750	112,500	112,500
250,000	62,500	83,333	104,167	125,000	125,000
300,000	75,000	100,000	125,000	150,000	150,000
350,000	87,500	116,667	145,833	175,000	175,000
400,000	100,000	133,333	166,667	200,000	200,000
450,000	112,500	150,000	187,500	225,000	225,000
500,000	125,000	166,667	208,333	250,000	250,000

The table above sets forth the estimated annual straight life annuity benefits payable upon an executive's retirement at age 65 under both the Company's Pension Plan and its Supplemental Executive Retirement Plan, for various compensation and years of service categories, without any reduction for Social Security benefits. These plans take into account the average annual salary and bonus shown in the Summary Compensation Table paid during the five consecutive calendar years in which such amounts were highest (within the past 10 years). The number of years of service credited for Messrs. Fink, Marcantonio, Moberly, Kiesel and Wright as of July 3, 2004 were 40 years, 3 years, 31 years, 1 year and 5 years, respectively.

Employment Agreements

Effective January 1, 2001, the Company entered into an Executive Employment Agreement for an indefinite term with Mr. Wright. On June 25, 2002, the Company entered into an Executive Employment Agreement with Richard L. Marcantonio that became effective as of July 15, 2002 and continues for an indefinite term. Under this agreement, Mr. Marcantonio initially served as the Company's President and Chief Operating Officer (or under such other title and position as the Company's Board of Directors shall determine), and currently serves as President and Chief Executive Officer. On July 14, 2003, the Company entered into an Executive Employment Agreement for an indefinite term with Jeffrey R. Kiesel (this agreement and the Company's agreements with each of Messrs. Wright and Marcantonio are each hereinafter referred to as an "Agreement"). Each Agreement will terminate upon the death, disability or retirement of the executive who is a party to the Agreement and provides that employment may be terminated at any time by the Company or by the executive upon 30 days notice. If the Company terminates the

Agreement without "Cause" or the executive terminates the Agreement for "Good Reason," and the terminated executive executes a written release form, the executive is then entitled to receive the compensation and benefits provided under his Agreement for a period of 11 months following termination, except that Messrs. Marcantonio and Kiesel will each be entitled to receive compensation and benefits for a period of 18 months if terminated within the first two years of employment. Mr. Marcantonio has been employed by the Company for longer than two years as of July 15, 2004. The Agreements provide for a limitation on any severance payment so as not to be considered an "Excess Parachute Payment" under section 280G of the Internal Revenue Code of 1986, as amended. Each Agreement also provides that if within one year of any "Change in Control" of the Company (as defined in each of the Agreements), either (1) the Company terminates the executive for any reason other than for Cause, or (2) the executive terminates his employment for "Good Reason", then the executive is entitled to:

1. continuation of compensation and benefits for 12 months following termination, except that Mr. Marcantonio will be entitled to continuation of compensation and benefits for 24 months and Mr. Kiesel will be entitled to continuation of compensation and benefits for 17 months;
2. reimbursement of all reasonable outplacement expenses up to \$12,000 for up to six months following termination; and
3. in certain cases, an acceleration of incentives (the acceleration of incentives for Messrs. Marcantonio and Wright are contained in separate change of control agreements).

The Agreements define “Cause” as, among other things: (1) the failure or refusal to perform duties, (2) indictment or conviction of a felony, (3) drunkenness or abuse of drugs, (4) material dishonesty, or (5) gross negligence or willful misconduct. The Agreements define “Good Reason” as, among other things: (1) an adverse involuntary change in the executive’s status or position as an executive officer of the Company, (2) a material adverse change in the executive’s compensation, (3) the Company requiring the executive to be based anywhere other than where the executive’s office is located as of the day before a Change in Control, or (4) purported termination by the Company of this Agreement or the employment of the executive.

Each of Messrs. Marcantonio, Wright and Kiesel has agreed that for a period of 18 months following the termination of employment with the Company, he will not among other things, (1) compete against the Company within specified geographic areas, (2) obtain any ownership interest in any competitor or become employed by any competitor, (3) encourage any employees of the Company to cease employment with the Company or to violate the terms of their employment contracts with the Company, or (4) attempt to take away any customers of the Company. Each has also agreed not to disclose any confidential Company information at any time before or after termination of his employment with the Company.

The Agreements define “Change in Control” as (1) any person or group gaining control of 30 percent or more of the voting shares of the Company, (2) a change in the majority of the Board of Directors in any two year period, (3) merger or consolidation of the Company into another corporation, or (4) the liquidation of the Company upon a change in control.

Director Compensation

During fiscal 2004, the Company paid each director who was not otherwise employed by the Company an annual fee of \$21,000, along with a \$2,000 fee for each meeting of the Board of Directors attended in person (\$500 for those attended telephonically) and \$1,000 for each committee meeting of the Board of Directors attended in person (\$500 for those attended telephonically). The Company also paid a \$3,000 retainer to the Chair of each committee of the Board of Directors.

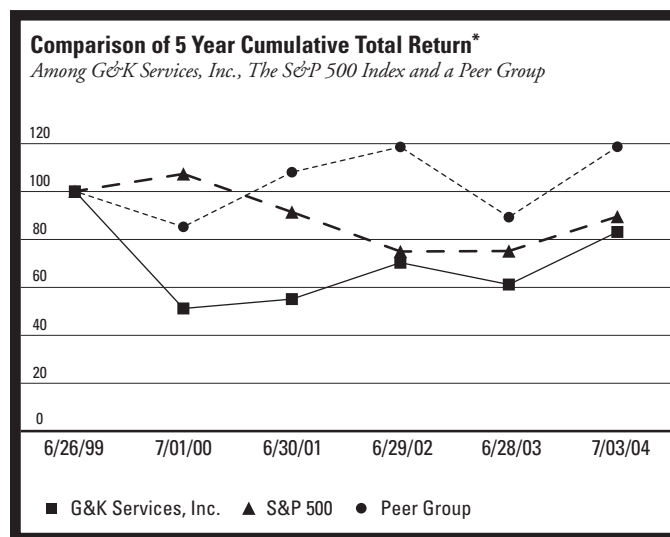
In addition, directors who are not otherwise employed by the Company participate in the 1996 Director Stock Option Plan (the “1996 Plan”) which provides for an annual grant to non-employee directors of options to purchase 1,000 shares at an option exercise price equal to the average of the closing prices of the Company’s Class A Common Stock during the 10 business

days preceding the date on which the option is granted. Each such option has a 10-year term and generally becomes exercisable on the first anniversary of the grant date. Members who were serving as directors upon the original adoption of the 1996 Plan received one-time grants of options to purchase 3,000 shares of Class A Common Stock upon such adoption and, thereafter, each new director has received a one-time grant of options to purchase 3,000 shares of Common Stock upon his or her initial election to the Board of Directors. Each of the 3,000 share options has a 10-year term and vests in three equal installments on each of the first, second and third anniversaries of the grant date.

Stock Performance Graph

The Securities and Exchange Commission requires that the Company include in this proxy statement a line-graph presentation comparing the cumulative, five-year return to the Company’s shareholders (based on appreciation of the market price of the Company’s Common Stock) on an indexed basis with (1) a broad equity market index and (2) either an appropriate published industry or line-of-business index, or a peer group index constructed by the Company. The following graph summarizes the cumulative five-year return on \$100 invested in (1) the Company’s Common Stock, (2) the Standard and Poor’s (“S&P”) 500 Stock Index, and (3) a nationally recognized group of companies in the uniform services industry (the “Peer Index”). The companies included in the Peer Index are Angelica Corporation, Cintas Corporation, G&K Services, Inc., UniFirst Corporation and ARAMARK Corporation.

The graph illustrates the cumulative values at the end of each succeeding fiscal quarter resulting from the change in the stock price, assuming dividend reinvestment.



*\$100 invested on 6/26/99 in stock or on 6/30/99 in index-including reinvestment of dividends.

Copyright © 2002 Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. All rights reserved. www.researchdatagroup.com/S&P.htm

PROPOSAL NUMBER 2:

TO RATIFY THE APPOINTMENT OF INDEPENDENT AUDITORS

Our Board of Directors and management are committed to the quality, integrity and transparency of the financial reports. Independent auditors play an important part in our system of financial control. In accordance with the duties set forth in its written charter, the audit committee of our Board of Directors has appointed Ernst & Young LLP as our independent auditors for the 2005 fiscal year. A representative of Ernst & Young LLP will attend this year's annual meeting and will be available to respond to appropriate questions from shareholders, and also will have the opportunity to make a statement if he or she desires to do so.

If the shareholders do not ratify the appointment of Ernst & Young LLP, the audit committee may reconsider its selection, but is not required to do so. Notwithstanding the proposed ratification of the appointment of Ernst & Young LLP by the shareholders, the audit committee, in its discretion, may direct the appointment of new independent auditors at any time during the year without notice to, or the consent of, the shareholders, if the audit committee determines that such a change would be in the Company's best interests and the best interests of its shareholders.

Fees billed to Company by Auditors:

Set forth below are the fees billed by Ernst & Young LLP for the fiscal years ended July 3, 2004 and June 28, 2003:

	Fiscal Year Ended	
	July 3, 2004	June 28, 2003
Audit Fees ⁽¹⁾	\$179,500	\$197,400
Audit Related Fees ⁽²⁾	107,956	126,995
Tax Fees ⁽³⁾	387,707	464,295
All Other Fees	—	—
Total	\$675,163	\$788,690

⁽¹⁾ Represents amounts related to the audit of the Company's annual consolidated financial statements and the review of the Company's consolidated financial statements included in the Company's quarterly reports on Form 10-Q.

⁽²⁾ Represents amounts reasonably related to the performance of the audit or review of the Company's consolidated financial statements which are not reported under the Audit Fees category.

⁽³⁾ Represents \$263,149 related to tax compliance, \$124,558 related to tax planning services and \$0 related to tax consulting.

The audit committee of the Board of Directors has reviewed the services described in footnotes (2) and (3) above provided by Ernst & Young LLP as well as the amounts billed for such services, and after consideration has determined that the receipt of these fees by Ernst & Young LLP is compatible with the provision of independent audit services. The audit committee has discussed these services and fees with Ernst & Young LLP and Company management to determine that they are appropriate under the rules and regulations concerning auditor independence promulgated by the U.S. Securities and Exchange Commission to implement the Sarbanes-Oxley Act of 2002, as well as under guidelines of the American Institute of Certified Public Accountants.

Pre-Approval Policy

Following adoption of the audit committee charter (a copy of which is attached as [Appendix A](#) to the proxy statement for the Company's 2003 annual shareholders' meeting) all services performed by Ernst & Young LLP have been pre-approved in accordance with the charter. The charter provides that all audit and non-audit accounting services that are permitted to be performed by the Company's independent accountant under applicable rules and regulations must be pre-approved by the audit committee or by designated members of the audit committee, other than with respect to de minimus exceptions permitted under section 202 of the Sarbanes-Oxley Act of 2002.

Prior to or as soon as practicable following the beginning of each fiscal year, a description of audit, audit-related, tax, and other services expected to be performed by the independent auditor in the following fiscal year is presented to the audit committee for approval. Following such approval, any requests for audit, audit-related, tax, and other services not presented and pre-approved must be submitted to the audit committee for specific pre-approval and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings. However, the authority to grant specific pre-approval between meetings, as necessary, may be delegated to one or more members of the audit committee who are independent directors. In the event such authority is so delegated, the full audit committee must be updated at the next regularly scheduled meeting with respect to any services that were granted specific pre-approval by delegation. During the fiscal year 2004 the audit committee has functioned in conformance with these procedures.

OTHER MATTERS

Board of Directors and Committees

Board of Directors

The Board of Directors held five meetings and two telephonic meetings, during fiscal 2004 and took action by written consent two times. The Company has an audit committee, a compensation committee and a corporate governance committee of the Board of Directors. No director attended fewer than 75 percent of the aggregate number of meetings of the Board of Directors and the committees of the Board on which such director(s) served during the 2004 fiscal year.

Corporate Governance Committee

The Company has established a corporate governance committee of the Board of Directors made up of two or more independent directors, at least one of whom also serves on the Company's compensation committee. The primary role of the corporate governance committee is to monitor the effectiveness of the Board in carrying out certain responsibilities, and to review annually the performance of the Company's Chief Executive Officer and the operation of the full Board of Directors (including its Chair and committees).

In addition, the corporate governance committee presents qualified director candidates to the full Board and considers qualified nominees recommended by shareholders. Qualified candidates will be considered without regard to race, color, religion, sex, ancestry, national origin or disability. The corporate governance committee will consider each candidate's general business and industry experience, his or her ability to act on behalf of shareholders, overall Board diversity, potential concerns regarding independence or conflicts of interest and other factors relevant in evaluating Board nominees. If the corporate governance committee approves a candidate for further review following an initial screening, the corporate governance committee will establish an interview process for the candidate. Generally, the candidate will meet with at least a majority of the members of the corporate governance committee, along with the Chair of the Board of Directors and the Company's Chief Executive Officer. Contemporaneously with the interview

process, the corporate governance committee will conduct a comprehensive conflicts-of-interest assessment of the candidate. The corporate governance committee will consider reports of the interviews and the conflicts-of-interest assessment to determine whether to recommend the candidate to the full Board of Directors. The corporate governance committee will also take into consideration the candidate's personal attributes, including, without limitation, personal integrity, loyalty to the Company and concern for its success and welfare, willingness to apply sound and independent business judgment, awareness of a director's vital part in the Company's good corporate citizenship and image, time available for meetings and consultation on Company matters, and willingness to assume broad, fiduciary responsibility.

Any recommendations for nominees to be considered for election to the Board of Directors at the Company's annual shareholders' meetings may be submitted to the corporate governance committee by the Company's shareholders. In order to make such a recommendation, a shareholder must submit the recommendation in writing to the Chair of the corporate governance committee, in care of the Company's Secretary at the Company's headquarters address, at least 120 days prior to the mailing date of the proxy statement for the previous year's annual shareholders' meeting. To enable the corporate governance committee to evaluate the candidate's qualifications, shareholder recommendations must include the following information:

- The name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated;
- A representation that the shareholder is a holder of record of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;
- A description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder;
- A resume detailing the educational, professional and other information necessary and appropriate to determine if the nominee is qualified to hold a Board position;

- Such other information regarding each nominee proposed would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the Board of Directors (including, without limitation, a listing of any other Board of Directors on which the proposed nominee is a member); and
- The written consent of each nominee to serve as a director of the Company if so elected.

The corporate governance committee, which presently consists of Chair Donald W. Goldfus and Mr. M. Lenny Pippin, held four meetings during fiscal 2004 and did not take action by written consent.

Audit Committee

The Company has established a three-member audit committee of the Board of Directors which assists the Board of Directors in fulfilling certain oversight responsibilities. The audit committee operates pursuant to a written charter adopted by the Board of Directors. As set forth in the charter, the primary responsibilities of the audit committee include: (i) serving as an independent and objective party to monitor the Company's financial reporting process and internal control system; (ii) reviewing and appraising the audit efforts of the Company's independent auditors and internal audit department; and (iii) providing an open avenue of communication among the independent auditors, financial and senior management, the internal audit department, and the Board of Directors. The charter also requires that the audit committee review and pre-approve the performance of all audit, audit-related, tax and non-audit accounting services to be performed by the Company's independent auditors, other than certain de minimus exceptions permitted by Section 202 of the Sarbanes-Oxley Act of 2002.

The audit committee, which presently consists of Chair Paul Baszucki, Mr. Michael G. Allen and Ms. Alice M. Richter, held four meetings during fiscal 2004. In addition, the audit committee met and held discussions with financial management prior to the release of earnings information for the Company's completed fiscal periods and certain other information, and prior to the filing of each quarterly report on Form 10-Q with the Securities and Exchange Commission.

The Board of Directors has determined that at least one member of the audit committee, Ms. Richter, is an "audit committee financial expert" as that term is defined in Item 401(h)(2) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended. In addition, each member of the audit committee (including Ms. Richter) is an "independent director,"

as such term is defined in Rule 4200(a)(15) of National Association of Securities Dealers' listing standards, and meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended. The Board of Directors has also determined that each of the audit committee members is able to read and understand fundamental financial statements and that at least one member of the audit committee has past employment experience in finance or accounting.

Compensation Committee

The Company's compensation committee, which presently consists of Chair Wayne M. Fortun and Messrs. Donald W. Goldfus, John S. Bronson, and M. Lenny Pippin, held five meetings during fiscal 2004 and took action by written consent once. All members of the compensation committee are independent directors within the meaning of Rule 4200(a)(15) the National Association of Securities Dealers' listing standards. The compensation committee reviews the Company's remuneration policies and practices and makes recommendations to the Board in connection with all compensation matters affecting the executive officers of the Company.

Ability of Shareholders to Communicate with the Company's Board of Directors

The Company has established means for shareholders and others to communicate with the Board of Directors. If a shareholder wishes to address a matter regarding the Company's financial statements, accounting practices or internal controls, the matter should be submitted in writing addressed to the Chair of the audit committee in care of the Corporate Secretary at the Company's headquarters address. If the matter relates to the Company's governance practices, business ethics or corporate conduct, it should be submitted in writing addressed to the Chair of the corporate governance committee in care of the Corporate Secretary at the Company's headquarters address. If a shareholder is unsure where to direct a communication, the shareholder may direct it in writing to the Chair of the Board of Directors, or to any one of the independent directors of the Company, in care of the Corporate Secretary at the Company's headquarters address. All of these shareholder communications will be forwarded by the Corporate Secretary to the addressee.

Report of the Audit Committee

The audit committee has reviewed the Company's audited consolidated financial statements for the last fiscal year, and has discussed them with management.

Specifically, the audit committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The audit committee has received and reviewed the written disclosures and the letter from the independent auditors required by independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors their independence.

The audit committee, based on the review and discussions described above, has recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

As reported:

PAUL BASZUCKI
MICHAEL G. ALLEN
ALICE M. RICHTER

Board Compensation Committee Report on Executive Compensation

Decisions on compensation of the Company's executive officers generally have been made by the compensation committee of the Board of Directors. Each member of the compensation committee is a non-employee director. The members of the compensation committee are Chairman Wayne M. Fortun and Messrs. Donald W. Goldfus, William M. Hope (until November 2003), M. Lenny Pippin and John S. Bronson (elected to committee May 20, 2004).

All decisions by the compensation committee relating to the compensation of the Company's executive officers are reviewed by the full Board. Pursuant to rules designed to enhance disclosure of the Company's policies toward executive compensation, set forth below is a report prepared by the compensation committee addressing the Company's compensation policies for the fiscal year ended July 3, 2004 as they affected the Company's executive officers.

The compensation committee's executive compensation policies are designed to provide competitive levels of compensation that integrate pay with the Company's annual objectives and long-term goals, reward above-average corporate performance, recognize individual initiative and achievements, and assist the Company in attracting and retaining qualified executives. Executive compensation is set at levels that the compensation committee believes to be competitive with those offered by employers of comparable size, growth and profitability in the Company's industry.

There are three elements in the Company's executive compensation program, each of which is based on individual and corporate performance: base salary compensation, annual incentive compensation and long-term incentive compensation.

Base salary compensation is based on the potential impact the individual may have on the Company, the skills and experience required by the job, comparisons with comparable companies and the performance and potential of the incumbent in the job.

For fiscal 2004, the Named Executive Officers of the Company, together with certain other vice presidents and regional vice presidents, were eligible to receive annual incentive compensation. The compensation committee established a targeted incentive opportunity for each executive officer expressed as a percentage of base salary. These percentages varied by executive officer, ranging from 35 percent to a high of 60 percent of base salary. The annual incentive program is comprised of two financial performance measures and key initiatives tied to individual performance established and measured by the Board of Directors for the Chief Executive Officer. The Chief Executive Officer directed the establishment and measurement of key initiatives for other executives. The two financial performance measures are earnings per share growth and total revenue growth and are weighted equally. For both the earnings per share and total revenue growth performance measures, achievement is based on meeting or exceeding operating plans approved by the Board of Directors of the Company. The compensation committee awarded annual incentive compensation to the Named Executive Officers for fiscal 2004 based on achievement against the above-mentioned performance criteria.

Long-term incentive compensation, pursuant to the Company's 1998 Stock Option and Compensation Plan, of the Chief Executive Officer, as well as other executive officers of the Company, is designed to integrate compensation with the Company's annual objectives and long-term goals, reward above-average corporate performance, recognize individual initiative and achievements, assist in the retention of executives and align the long-term interests of management with those of the Company's shareholders. The compensation committee makes recommendations to the Board regarding the granting of restricted stock awards and stock option grants to executives and key personnel. Awards vest and options become exercisable based upon criteria established by the Company.

Messrs. Thomas R. Moberly and Richard L. Marcantonio each served as Chief Executive Officer of the Company during fiscal 2004. The compensation of Messrs. Moberly and Marcantonio during fiscal 2004 was determined by applying a process and philosophy similar to that of other executive officers.

The annualized base salary of Mr. Moberly, who served as Chief Executive Officer of the Company from the beginning of fiscal 2004 until January 3, 2004, was \$550,000. Mr. Moberly was eligible for annual incentive compensation of 60 percent of his base salary, and did receive an incentive bonus for fiscal 2004, \$78,852. On August 25, 2003, Mr. Moberly was awarded an option to acquire 23,505 shares of the Company's Common Stock at an exercise price of \$32 (the fair market value of the Common Stock on the grant date), which vests in three equal annual installments beginning on the one-year anniversary of the grant. In addition, Mr. Moberly received a payment of \$80,892 during fiscal 2004 to cover taxes due on the value of previously granted shares of restricted stock that vested in fiscal 2003 and fiscal 2004.

Mr. Marcantonio has served as Chief Executive Officer of the Company from and after January 3, 2004. During this time, Mr. Marcantonio's annualized base salary was \$550,000. Mr. Marcantonio was eligible for annual incentive compensation of 55 percent of his base salary while serving as Chief Operating Officer and 60 percent of his base salary while serving as Chief Executive Officer, and did receive an incentive bonus for fiscal 2004, \$158,106. On August 25, 2003, Mr. Marcantonio was awarded an option to acquire 17,220 shares of the Company's

Common Stock at an exercise price of \$32.57 (the fair market value of the Common Stock on the grant date), which vests in three equal annual installments beginning on the one-year anniversary of the grant. Pursuant to the terms of Mr. Marcantonio's employment agreement, the Company made a \$400,000 interest-free loan to Mr. Marcantonio on July 26, 2002. The principal amount of this loan is payable in five annual installments of \$80,000 beginning on the first anniversary of the date of the loan, except that the Company has agreed to forgive half of each installment so long as Mr. Marcantonio continues to be employed by the Company. The installment payments are further reduced by the amount of any income tax resulting from such forgiveness and the interest-free nature of the loan. During fiscal 2004, the Company forgave \$40,000 of this loan and made an additional "gross-up" payment of \$17,720 to Mr. Marcantonio to offset the income tax effect of the forgiven portion of the loan. In addition, Mr. Marcantonio received a payment of \$87,582 during fiscal 2004 to cover taxes due on the value of previously granted shares of restricted stock that vested in fiscal 2003 and fiscal 2004.

The compensation committee does not anticipate that any of the compensation payable to executive officers of the Company in the coming year will exceed the limits and deductibilities set forth in section 162(m) of the Internal Revenue Code of 1986, as amended. The compensation committee has not established a policy regarding compensation in excess of these limits, but will continue to monitor this issue.

As reported:

WAYNE M. FORTUN
DONALD W. GOLDFUS
M. LENNY PIPPIN
JOHN S. BRONSON

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The following table sets forth, as of the Record Date for the annual meeting, certain information with regard to the beneficial ownership of our Common Stock and the voting power resulting from the ownership of such stock by (i) all persons known by the Company to be the owner, of record or beneficially, of more than 5 percent of the Company's outstanding Common Stock, (ii) each of the Company's directors and each of the nominees for election to the Company's Board of Directors, (iii) each Named Executive Officer, and (iv) all Named Executive Officers and directors as a group, without regard to whether such persons are also reporting persons for purposes of Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Unless otherwise indicated, the address of each of the following persons is 5995 Opus Parkway, Minnetonka, Minnesota 55343.

Name of Beneficial Owner ⁽¹⁾	Class A Common Stock ⁽²⁾		Class B Common Stock		Percent of Voting Power ⁽³⁾
	Number of Shares	Percent of Class	Number of Shares	Percent of Class	
Richard M. Fink	193,821 ⁽⁴⁾	*	993,695	67.4%	29.6%
Richard L. Marcantonio	95,740 ⁽⁵⁾	*	—	—	*
Thomas R. Moberly	33,898 ⁽⁶⁾	*	—	—	*
Jeffrey R. Kiesel	11,200 ⁽⁷⁾	*	—	—	*
Jeffrey L. Wright	46,084 ⁽⁸⁾	*	—	—	*
Michael G. Allen	6,000 ⁽⁹⁾	*	—	—	*
Paul Baszucki	11,000 ⁽¹⁰⁾	*	—	—	*
John S. Bronson	—	*	—	—	*
Wayne M. Fortun	15,235 ⁽¹¹⁾	*	—	—	*
Donald W. Goldfus	14,750 ⁽¹²⁾	*	—	—	*
M. Lenny Pippin	5,000 ⁽¹³⁾	*	—	—	*
Alice M. Richter	1,000 ⁽¹⁴⁾	*	—	—	*
All named executive officers and directors as a group (12 persons)	433,728 ⁽¹⁵⁾	2.2%	993,695	67.4%	30.1%
T. Rowe Price Associates, Inc. ⁽¹⁶⁾					
100 East Pratt Street					
Baltimore, MD 21202	2,149,900	11.1%	—	—	6.3%
Fiduciary Management, Inc. ⁽¹⁶⁾					
225 East Mason Street, Suite 700					
Milwaukee, WI 53202	1,327,847	6.8%	—	—	3.9%

* Less than 1%.

⁽¹⁾ Unless otherwise noted, each person or group identified possesses sole voting and investment power with respect to the shares shown opposite the name of such person or group.

⁽²⁾ Does not include shares of Class A Common Stock which may be acquired by holders of Class B Common Stock upon conversion of their shares of Class B Common Stock, at any time, on the basis of one share of Class A Common Stock for each share of Class B Common Stock converted.

⁽³⁾ Holders of Class B Common Stock are entitled to 10 votes for each share on all matters submitted to a vote of shareholders. Holders of Class A Common Stock are entitled to one vote per share on all matters submitted to a vote of shareholders.

⁽⁴⁾ Includes 41,738 shares subject to stock options that are exercisable within the next 60 days, 78,226 shares held by a trust for the benefit of one of Mr. Fink's children of which Mr. Fink serves as co-trustee, 14,106 shares owned by a private foundation with respect to which Mr. Fink shares voting power and 7,109 shares held by Mr. Fink's spouse.

⁽⁵⁾ Includes 75,740 shares subject to stock options that are exercisable within the next 60 days.

⁽⁶⁾ Includes 9,391 shares subject to stock options that are exercisable within the next 60 days, 11,400 shares held by Mr. Moberly jointly with his spouse, a total of 726 shares held by Mr. Moberly as custodian for his children and 1,000 shares held by Mr. Moberly's spouse.

⁽⁷⁾ Includes 5,000 shares subject to stock options that are exercisable within the next 60 days.

⁽⁸⁾ Includes 31,566 shares subject to stock options that are exercisable within the next 60 days.

⁽⁹⁾ Includes 5,000 shares subject to stock options that are exercisable within the next 60 days.

⁽¹⁰⁾ Includes 10,000 shares subject to stock options that are exercisable within the next 60 days.

⁽¹¹⁾ Includes 10,000 shares subject to stock options that are exercisable within the next 60 days.

⁽¹²⁾ Includes 10,000 shares subject to stock options that are exercisable within the next 60 days.

⁽¹³⁾ Includes 5,000 shares subject to stock options that are exercisable within the next 60 days.

⁽¹⁴⁾ Includes 1,000 shares subject to stock options that are exercisable within the next 60 days.

⁽¹⁵⁾ Includes 204,435 shares subject to stock options that are exercisable within the next 60 days.

⁽¹⁶⁾ Based solely upon the most recent report filed with the SEC pursuant to Rule 13f-1 of the Securities Exchange Act of 1934, as amended.

The foregoing footnotes are provided for informational purposes only and each person disclaims beneficial ownership of shares owned by any member of his or her family, or held in trust for any other person, including family members, or held by a family limited partnership or foundation.

On June 14, 1985, Richard M. Fink, Chair of the Board of Directors of the Company and certain other persons who are no longer holders of Class B Common Stock entered into a Stockholder Agreement with the Company. This Stockholder Agreement presently covers 1,407,423 shares of Class B Common Stock, representing approximately 95.4 percent of the outstanding shares of the Class B Common Stock. The Stockholder Agreement provides for restrictions on the transferability of the Class B Common Stock, in addition to certain restrictions contained in the Company's Restated Articles of Incorporation. The shares of Class B Common Stock were acquired pursuant to an exchange offer made by the Company in May 1985. The shares of Class B Common Stock owned by Mr. Fink represent substantial voting control of the Company.

Certain Transactions

The Company and Norstan, Inc., a corporation of which Mr. Paul Baszucki serves as Chair of the Board of Directors, have entered into a Services Agreement for certain services rendered by Norstan, Inc. in the ordinary course of its business. In fiscal 2004, the Company paid an aggregate of \$95,038 to Norstan, Inc. in exchange for technology-related consulting and other professional services pursuant to this agreement.

The Company is a party to an agreement with Hutchinson Technology Inc., a corporation of which Mr. Wayne M. Fortun serves as President and Chief Executive Officer. Under this agreement, Hutchinson Technology paid the Company \$737,882 during fiscal 2004 in exchange for goods and services.

The Company is a party to an agreement with The Schwan Food Company, a corporation of which Mr. M. Lenny Pippin serves as President and Chief Executive Officer. Under this agreement, Schwan's paid the Company \$441,207 during fiscal 2004 in exchange for goods and services.

The value of each transaction noted above represents less than one percent of the total annual revenues of each entity. In the opinion of the Company's Board of Directors, the Company's relationships and arrangements with Norstan, Hutchinson Technology and The Schwan Food Company do not interfere with the exercise of the independent judgment of Messrs. Baszucki, Fortun and Pippin in carrying out their respective responsibilities as a director.

In making this determination, the Board of Directors has considered the monetary value of each of these agreements, the nature and extent of the goods and services involved, and the fact that each were entered into at arms length and in the ordinary course of business.

On June 25, 2002, the Company entered into an Executive Employment Agreement with Richard L. Marcantonio that became effective on July 15, 2002 and under which Mr. Marcantonio currently serves as the Company's President and Chief Executive Officer. Pursuant to this agreement, the Company agreed to extend a \$400,000 interest-free loan to Mr. Marcantonio to help offset certain expenses related to the transition from Mr. Marcantonio's former employment. As contemplated by the Executive Employment Agreement, the Company entered into a loan transaction with Mr. Marcantonio on July 26, 2002. Under the terms of the loan, the principal amount is payable in five annual installments of \$80,000 beginning on the first anniversary of the date of the loan, except that the Company shall forgive \$40,000 of each installment so long as Mr. Marcantonio continues to be employed by the Company. The installment payments will further be reduced by the amount of any income tax imposed resulting from the above-referenced forgiveness or the interest-free nature of the loan. Mr. Marcantonio has pledged certain securities to the Company to secure his repayment obligations. Respective installments of \$80,000 became due and payable on each of July 26, 2003 and July 26, 2004, and \$40,000 of each installment was forgiven by the Company. Mr. Marcantonio is current in all repayment obligations that have come due under this loan. Mr. Marcantonio also benefited from additional \$17,720 "gross-up" payments made by the Company to offset the income tax effect of the forgiven portions of each loan installment. To date, the outstanding principal balance of the loan is \$240,000.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC and the Nasdaq National Market. Officers, directors and greater-than-ten-percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Mr. Fink reported a gift made during fiscal 2003 on a Form 5 filed on September 24, 2003; Messrs. Fink, Marcantonio, Moberly and Wright each reported an August 25, 2003 stock option grant on a Form 4 filed August 29, 2004, and Mr. Wood reported this same stock option grant on a Form 4 filed September 4, 2003; Mr. Moberly reported a November 7, 2003 stock option exercise and sale of shares on a Form 4 filed November 12, 2003; Mr. Bronson reported a March 10, 2004 stock option grant on a Form 4 filed April 29, 2004. Except as set forth above, based solely on review of the copies of such forms furnished to the Company, or written representations that no Forms 5 were required, the Company believes that during the fiscal year ended July 3, 2004, its officers, directors and greater-than-ten-percent beneficial owners complied with all applicable Section 16(a) filing requirements.

Proposals of Shareholders

Any shareholder who desires to submit a proposal for action by the shareholders at the next annual shareholders' meeting must submit that proposal in writing to the Corporate Secretary of the Company at the Company's corporate headquarters by May 30, 2005 to have the proposal included in our proxy statement for that meeting. Due to the complexity of the respective rights of the shareholders and the Company in this area, any shareholder desiring to propose such an action is advised to consult with his or her legal counsel with respect to such rights. The Company suggests that any such proposal be submitted to the Company by certified mail, return receipt requested.

Discretionary Proxy Voting Authority/Untimely Shareholder Proposals

Rule 14a-4 (the "Rule") promulgated under the Securities and Exchange Act of 1934 governs the Company's use of its discretionary proxy voting authority with respect to a shareholder proposal that the shareholder has not sought to include in the Company's proxy statement. The Rule provides that if a proponent of a proposal fails to notify the Company at least 45 days prior to the month and day of mailing of the prior year's proxy statement, management proxies will be allowed to use their discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter.

With respect to the Company's 2005 annual shareholders' meeting, if the Company is not provided notice of a shareholder proposal, which the shareholder has not previously sought to include in the Company's proxy statement, by August 13, 2005, the management proxies will be allowed to use their discretionary authority as outlined above.

SOLICITATION

The Company will bear the cost of preparing, assembling and mailing the proxy, proxy statement, annual report and other material which may be sent to the shareholders in connection with this solicitation. Brokerage houses and other custodians, nominees and fiduciaries may be requested to forward soliciting material to the beneficial owners of stock, in which case they will be reimbursed by the Company for their expenses in doing so. Proxies are being solicited primarily by mail, but, in addition officers and regular employees of the Company may solicit proxies personally, by telephone, by special letter, or via the Internet.

The Board of Directors does not intend to present to the meeting any other matter not referred to above and does not presently know of any matters that may be presented to the meeting by others. However, if other matters come before the meeting, it is the intent of the persons named in the enclosed proxy to vote the proxy in accordance with their best judgment.

By Order of the Board of Directors
G&K Services, Inc.



David F. Fisher
Vice President, General Counsel and Corporate Secretary

EXECUTIVE MANAGEMENT TEAM

RICHARD M. FINK

Chairman of the Board

RICHARD L. MARCANTONIO

President and
Chief Executive Officer

SALLY J. BREDEHOFT

Senior Vice President,
Human Resources

PETER B. S. ELLIS

Senior Vice President,
Marketing and Business Development

DAVID F. FISHER

Vice President, General Counsel
and Corporate Secretary

JEFFREY R. KIESEL

Senior Vice President,
Field Operations

HOLLY A. LAMOND

Chief Information Officer

DAMIAN J. LUNA

Senior Vice President, Sales

RICHARD J. STUTZ

Senior Vice President,
Operations and Sourcing

JEFFREY L. WRIGHT

Senior Vice President and
Chief Financial Officer

BOARD OF DIRECTORS

RICHARD M. FINK

Chairman of the Board

RICHARD L. MARCANTONIO

President and
Chief Executive Officer

MICHAEL G. ALLEN

Founder Chairman
Michael Allen Company

JOHN S. BRONSON

Former Senior Vice President,
Human Resources
Williams-Sonoma, Inc.

PAUL BASZUCKI

Chairman of the Board
Norstan, Inc.

WAYNE M. FORTUN

President, Chief Executive Officer
and Chief Operating Officer
Hutchinson Technology, Inc.

DONALD W. GOLDFUS

Retired, Chairman of the Board
Apogee Enterprises, Inc.

THOMAS R. MOBERLY

Retired, Chief Executive Officer
G&K Services, Inc.

M. LENNY PIPPIN

President and
Chief Executive Officer
Schwan Food Company

ALICE M. RICHTER

Retired, Partner
KPMG LLP

CORPORATE INFORMATION

CORPORATE ADDRESS

G&K Services, Inc.
5995 Opus Parkway
Minnetonka, Minnesota 55343
(952) 912-5500
www.gkservices.com

COMMON STOCK

The common stock of
G&K Services, Inc., trades
on the Nasdaq National Market
under the symbol GKSRA.

ANNUAL MEETING

Our annual shareholders'
meeting will be held at 10:00 a.m.,
Thursday, November 11, 2004,
at the Hilton Minneapolis and
Towers, 1001 Marquette Avenue
South, Minneapolis, Minnesota.
All shareholders and members
of the investment community
are invited to attend and take
part in the discussion of
company affairs.

INDEPENDENT AUDITORS

Ernst & Young LLP
Minneapolis, Minnesota

TRANSFER AGENT AND REGISTRAR

Wells Fargo Bank Minnesota, N.A.
St. Paul, Minnesota
(800) 468-9716

INVESTOR INQUIRIES

To receive an Annual Report
on Form 10-K or additional
financial information, contact
Glenn Stolt, Vice President and
Treasurer, or JD Bergquist Wood,
Investor Relations, at the corpor-
ate address, phone number or
web site.



G&K Services, Inc.

5995 Opus Parkway

Minnetonka, Minnesota 55343

(952) 912-5500

www.gkservices.com