

Time-tested Confidence





In 1902, G&K was a small Minneapolis dye house owned by two brothers, both recent immigrants. A century later, G&K has gone through a number of transformations in response to a host of economic, technological and social changes. G&K is now the third largest operation in our industry and serves most of the major markets in North America.

I cannot imagine that those original partners, one of them my grandfather, could have envisioned what their venture has become today. I am convinced now, more than ever, that the future holds even greater opportunities for G&K to continue and accelerate our growth. If we remain open to continuing change, providing increased value to our customers, and supporting our people-centric work culture, there is no limit to our possibilities.

Richard M. Fink
Chairman of the Board

G&K Services is a North American market leader in corporate identity apparel programs and facility services. Celebrating 100 years in business this year, G&K is well-known for its high level of commitment to customer-tailored corporate identity programs and world-class customer service standards.

The market-leading G&K business line-up includes:

G&K Rental Services Rental-lease corporate identity apparel programs, including uniforms, corporate casual and executive apparel.

G&K Teamwear™ Direct sale, custom logo-embroidered apparel programs tailored to meet clients' corporate identity needs.

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

G&K Firststep® Facilities Services A comprehensive facility services portfolio ranging from safety, branded and ergonomic floor products to restroom maintenance systems.

Marking 100 Years of Service Excellence





Building on a

100-Year Legacy

Thomas R. Moberly (left) and Richard M. Fink marked G&K Services' 100 years in business by opening The Nasdaq Market May 9, 2002.

To Our Shareholders

The opportunity to celebrate 100 years of business is both humbling and immensely energizing. On a personal level, we are humbled by our good fortune to be standing watch as G&K Services arrived at such a meaningful milestone. More important, as we begin our second century, we are inspired to build on the legacy of our first 100 years.

This will be made possible by 140,000 G&K Services customers across the United States and Canada, who challenge us to maintain and expand the value they receive from each and every one of our 8,500 employees. It will also be made possible by our shareholders who, during our 33 years as a public company, have trusted us with their investment and support.

We hope we have earned that trust: G&K Services went public in 1969 with a market capitalization of \$12 million. Our market value today exceeds \$700 million. We pledge that our efforts will continue to focus on the investment of our shareholders and the satisfaction of our customers.

Our success, in the future as in the past, will be achieved through the skills and commitment of our employees. Without 100 years of their hard work, we wouldn't be where we are now, nor would we have the same future. The century-long story of G&K Services is constructed from employee-driven innovations and inspirational moments too numerous to count. Their past contributions have been truly remarkable, and their future efforts will drive our business to even greater accomplishments in the years ahead.

Financial Highlights

(Dollars in thousands, except per share data)

	June 29, 2002	June 30, 2001	% Change
Operating Results			
Revenues	\$625,906	\$603,579	3.7%
Income from operations	76,861	73,593	4.4
Pretax income	63,252	56,354	12.2
Net income	38,267	33,783	13.3
Per Share Data			
Earnings	1.85	1.65	12.1%
Dividends	0.07	0.07	0.0
Book value	16.46	14.73	11.8
Average common shares outstanding	20,660	20,457	1.0
Financial Position			
Working capital	\$ 95,823	\$ 49,602	93.2%
Total assets	681,699	619,963	10.0
Long-term debt	214,977	148,951	44.3
Stockholders' equity	340,158	301,267	12.9
Free cash flow	50,523	50,815	(0.6)
Operating Ratios			
Current ratio	2.1	1.4	
Debt as percent of total capitalization	39.7%	40.9%	
Return on average equity	11.9	11.8	
Pretax margin	10.1	9.3	
Effective tax rate	39.5	40.1	

Protecting Momentum, Trusting Experience

Confidence is one outcome associated with longevity and maturity. As a company focused aggressively on generating long-term growth, G&K Services remains confident that the current economic cycle didn't justify drastic changes in our strategic course.

After the historically low unemployment levels of the late 1990s, the past two years of significantly weaker employment conditions have clearly challenged our sales momentum. When it's tough for our customers, it's tough for us. But we've been through this before. In the past two years we have remained focused on both organic growth and growth through acquisition. We have introduced new products, vastly improved our operating efficiency through a multi-year productivity improvement plan, strengthened our management team and broadened our national distribution footprint.

Key developments in this process include:

- > **The addition of Richard L. Marcantonio as president and chief operating officer.** Rick joined the company July 15, 2002. He is a seasoned executive whose leadership qualities, management experience and knowledge of the business services sector will add tremendous value to realizing the long-term vision for G&K Services. Most recently, as president of the Industrial and Service sectors for Ecolab Inc., Rick was responsible for six operating divisions.
- > **Geographic and market share expansion continues.** G&K Services completed four acquisitions, adding market share in existing territory or enhancing coverage in areas that are critical to offering competitive national account solutions. G&K now provides service in approximately 75 percent of the largest North American markets.

> **Infrastructure development taking hold.**

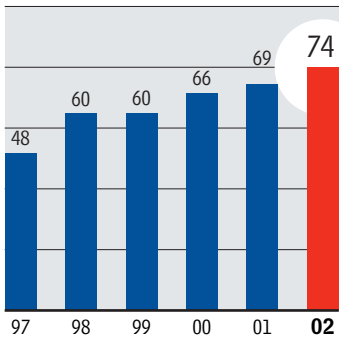
G&K Services completed the third year of a five-year program to establish its regional organizations as strong, optimized growth engines. One critical element: Enabling regional vice presidents to lead their organizations while being able to focus on executing corporate-designed business development. The effort includes a significant addition of new, growth-minded management talent.

Clearly, accomplishments related to long-term planning and execution are only one part of our efforts. We're also fully committed to succeeding today, and are tightly managing every variable under our control.

Fiscal 2002 Financial Results

In fiscal 2002, G&K Services posted record revenues of \$625.9 million, marking the 33rd straight year of increased revenue since the company went public in 1969. Top-line growth was clearly a challenge in this difficult economy, as many customers reduced employment levels and others closed down their operations entirely. Nevertheless we were still able to increase revenue. We continue to pursue multiple avenues to fuel revenue expansion. These include improved new account sales, increased product penetration into existing accounts, expanded product offerings, continued national account growth, and acquisitions.

Number of Top 100 North American Markets Served



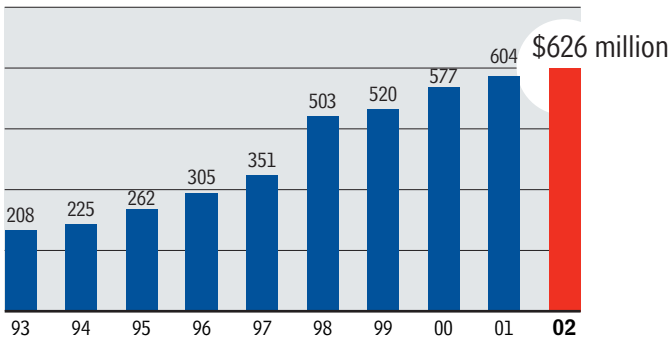
Earnings per share for fiscal 2002 were \$1.85, up 12 percent over the \$1.65 earned in fiscal 2001. Earnings growth was driven by reduced merchandise cost, improved plant productivity, reduced interest costs and reduced amortization expense. We continue to focus on reducing high cost areas that are not growth related.

Our cash flow in fiscal 2002 was again outstanding. G&K generated \$50.5 million of free cash flow (cash from operations less capital expenditures) or \$2.45 of free cash flow per diluted share. Our free cash flow per share substantially outpaced our earnings per share of \$1.85, and is an industry-leading financial measurement for G&K.

Loyalty to a Long-Term Perspective

The economic slow down in fiscal 2002 that reduced employment levels and revenues in our customer accounts and created downward pressure on prices made it difficult to produce strong sales growth. In response to these pressures we re-emphasized G&K's historic quality and service-focused approach to the market. It continued to be effective producing increased revenues under difficult conditions. At the same time we rededicated ourselves to improving operating efficiencies to keep our costs – and our customers' costs – as low as possible.

Revenues



We also delayed a number of capital projects originally designed to support a higher growth rate, choosing instead to leverage recently completed facilities more aggressively. Looking forward, we can see a variety of new and exciting opportunities as we move into our second century of growth:

> **Expanding the uniform service market.**

Organizations without apparel programs represent a huge, untapped market. Our industry has accessed only a small percentage of this new-business segment, which is in our favor. It's a G&K Services strength to find these opportunities and convert them into new business.

> **Expansion through acquisitions.** Growth through strategic acquisitions is a continuing opportunity for G&K Services. As demonstrated by four purchases last year, we are able to improve our competitive position by adding operations that either increase share in existing markets, or give us entry into large, high-priority markets, increasing our credibility as a national supplier.

> **Growth within our existing accounts.** No one can claim that "business as usual" gets the job done, and we expect to mine even more business-building value from our distribution system, our marketing organization and our operational infrastructure.

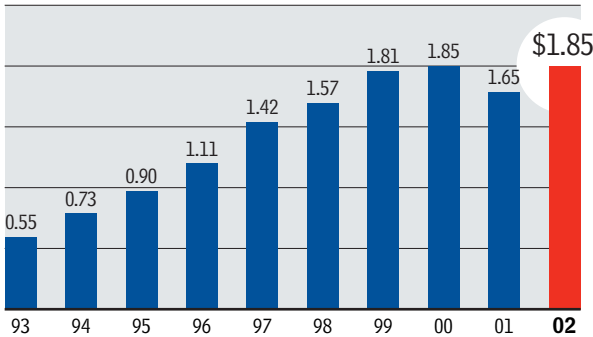
Introducing new products and services, and adding to those we already provide, offers significant growth opportunities within existing customers.

The G&K Services journey to-date is a product of many hands and many diverse talents at all levels. This includes important leadership contributions by our board of directors. Specifically, we want to express our profound appreciation to friend and strategic advisor Bernard "Bud" Sweet. Bud retired from our board at the close of fiscal 2001 after 26 years of service, wisdom and dedication. He will be missed.

In fiscal 2002, Michael G. Allen and M. Lenny Pippin joined the G&K board. Michael is the retired, founder chairman of the Michael Allen Company, a strategy development firm. Lenny is the president and chief executive officer of Schwan's Sales Enterprises, Inc., a frozen foods manufacturer and distributor in the United States and Europe. We welcome and value the addition of these two proven leaders.

Fiscal 2002 was a year of genuine challenge for all of us at G&K Services. But with 100 years of experience, challenge is a familiar scenario. We're moving forward with an even stronger company that's eager and prepared to do business as a leader in our industry.

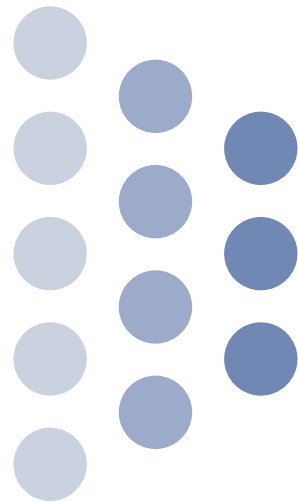
Earnings per Diluted Share



Richard M. Fink
Chairman of the Board

Thomas R. Moberly
Chief Executive Officer

It's All About the Customer



Pay attention. Commerce in the United States evolves so rapidly that we don't immediately recognize the consistencies between doing business today and conducting trade 100 years ago. It's a challenge to connect bits-and-bytes with horse-and-buggy. Even so, consistent themes appear and reappear throughout the G&K Services story, which this year begins its 100th year.

G&K has always been about adding value where it was most needed. Initially, that meant helping people run their households. The G&K "Blue Bundle"—laundry service by the

pound — was the answer to a family's bulky, hard-to-wash items like work clothes. When World War II created working moms, G&K launched a crib linen and diaper service. Soon, G&K evolved into a company that helped commercial clients run their businesses. Early on it was image-conscious hotels and department stores engaging the company for fresh table linens and smartly pressed velvet window draperies. Then, in the 1960s, G&K Services moved permanently into garment leasing.

Stay strategic. Competition pushes every product or service toward commodity status. Or at least it attempts to. Brand and image are strong antidotes against that effort. So is the impression delivered by a workforce. Employees will always be important to a customer determined to succeed at brand-building and image-making by leveraging “the front line.” G&K Services is building a business around the intersection of these two competitive strategies.

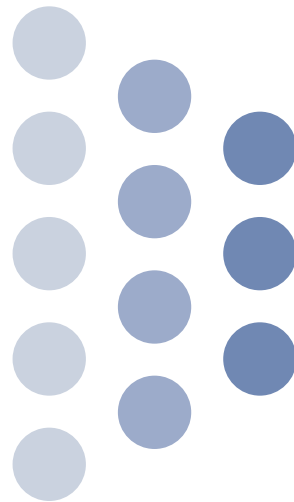
Executing on this premise is fairly straightforward. G&K Services was built on this principle, and remains dedicated to it. The goal: understand each customer’s expertise, add it to ours, and create new solutions that help make the customer’s business stand out in its marketplace.



Focus



We're a 100 Service Organization



Stay true. When it comes to looking after customers who buy services, every detail matters. Putting people first is a business commitment that's permanently in style. In 1935, G&K developed the “handi-fold,” a new method for folding laundered, pressed shirts. The benefit was simple, but it was tangible – and personal. Shirts packaged the handi-fold way occupied two inches less space in a customer's drawer or suitcase.

Meet customers where they live? The G&K route sales rep, second only to the distinctive red truck in terms of the company's visibility, emerged when we initiated door-to-door service around 1904. The first route force used a fleet of horse-drawn delivery wagons. Then, when the automobile began dramatically changing mainstream consumer habits, G&K Services introduced the drive-in laundry.

A photograph of a woman and a young woman in a greenhouse. The woman, wearing a red vest, is holding a plant and looking at it with the young woman, who is wearing a light blue shirt. They are standing next to a wooden table with a small plant on it. The greenhouse has a glass roof and is filled with various plants and flowers. A large glass lantern is visible in the foreground on the left.

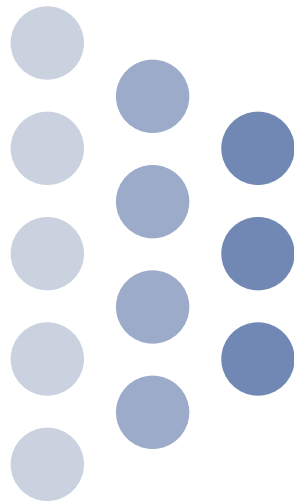
Stand for something. Differentiation is a powerful strategic opportunity for our customers, so the caliber of our service must be worthy of their branding and image-making operations. We work on creating alignments and relationships, not transactional business. Our objective is an association that extends beyond the standard three-to-five-year contract, to the kind that builds a 100-year-old business.

The customer loyalty critical to delivering continually improving financial results for shareholders is not automatic. Not in a business that, if you're in it to win, becomes more complex and more demanding every day. Having grown to 8,500 employees, the people-centered focus we use with customers also applies internally. G&K invests heavily in ongoing employee skills development. And we seek out external talent that complements our growth tactics.

● ● Execute

100

The Goal is Growth



Envision it. Determination. Calculated risk. Acquisitions and integrations. New customer segments. Technologies and systems that fundamentally change operations. G&K's history includes all of these. Underlying every forward-looking activity is a bias toward initiatives and expansive thinking aimed at growth.

When television provided a new venue for reaching out to the marketplace, G&K Services sponsored the much-respected *Masterpiece Theater* productions. During breaks, in what

were early infomercials, G&K CEO I.D. Fink delivered lively tutorials on laundering. G&K Services increased revenues 300 percent during that 13-year period, beginning in 1950. The ongoing, post-war industrial expansion directed the company away from retail laundry to commercial textile leasing. Then, in the early 1970s, G&K Services launched the North American geographic expansion still underway today.

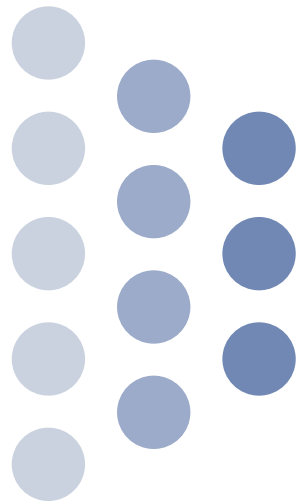
Create it. In the current business parlance, it's called *the footprint*. The picture of an organization's geographic presence and market coverage. In the case of G&K Services, it's also the measure of plant capacity and our potential to grow profitably. Both characteristics are critical in winning the confidence of large, national accounts. Multi-location, high-volume customers have apparel and facilities needs that encourage G&K Services to continue expanding its footprint.

As a public company for more than 30 years, G&K Services has been acquiring and integrating key-market operations. Each year, as we've pursued share in the 100 largest North American markets, we've expanded our geographic presence. We're faster. And integrations have become increasingly seamless, with minimal disruptions to the rest of the organization.



● ● Perform

100 The Future is an Investment



Look forward. In the mid-1960s, already with nearly 65 years of retail expertise, G&K made the decisive transition from a mix of retail and commercial services to exclusively commercial laundering and leasing. It was the right move for the future. Investing in that potential required a demanding leap forward. In comparison to retail operations, expanding into commercial leasing was complex and systems-intensive.

The focus on building a national company means steadily growing and enhancing the G&K production and distribution infrastructure. Leading-edge plant automation is the

centerpiece. G&K installed its first AccutrakSM garment tracking and operations measurement system in 1989. Since establishing the first AutosortSM system in 1994, the company has expanded automated garment sorting to over 30 percent of our plant network. The first automatic washroom system, which optimizes a wide range of labor and material inputs, went online in 1996, and now is in place at about 25 percent of our plant network. The first color print system for automated emblem design and printing was added in 1992. Today, the ability is a fixture in all G&K plants.

Raise the standard. With a business model centered upon being a single-source supplier – especially for our existing base – G&K Services emphasizes deep account insight, precise inventory control, and cost-saving automation. As a result, there's nothing futuristic about the need to leverage systems like enterprise resource planning, customer relationship management and human resources planning. These and other tools are critical to our business right now.

In an industry where revenues are tied to employment levels, recent weakness in the economic cycle could have been an invitation to short-term cost-cutting that would hurt our prospects in the future. G&K has achieved uninterrupted revenue growth during 33 years since going public. Through tough periods and through boom times. Achieving strong revenue growth is a product of investing in future-focused solutions – from software to plant technology – that equip G&K Services to continually increase the value of its offerings. Today, and 100 years hence.



●● Aspire

Eleven-Year Summary

G&K SERVICES, INC. AND SUBSIDIARIES

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Per Share (diluted)											
Revenues	\$ 30.30	\$ 29.50	\$ 28.18	\$ 25.35	\$ 24.57	\$ 17.18	\$ 14.98	\$ 12.92	\$ 11.13	\$ 10.25	\$ 9.62
Assets	33.00	30.31	29.04	26.40	26.00	15.27	13.85	12.47	10.14	9.95	9.89
Equity	16.46	14.73	13.25	11.49	9.69	8.27	6.91	5.83	4.98	4.44	4.07
Earnings	1.85	1.65	1.85	1.81	1.57	1.42	1.11	0.90	0.73	0.55	0.42
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	41.60	30.25	54.00	56.25	47.31	37.75	32.00	19.50	17.00	13.00	13.33
Low	21.86	17.00	14.75	39.75	33.00	23.50	18.75	13.00	11.69	8.83	8.67
Income Data (000s)											
Revenues	\$625,906	\$603,579	\$577,392	\$519,966	\$502,593	\$350,914	\$305,414	\$262,481	\$225,229	\$207,904	\$194,716
Operating Income	76,861	73,593	79,721	78,411	74,595	54,745	45,180	37,340	31,132	25,016	22,578
Interest Expense	(13,609)	(17,239)	(16,702)	(17,213)	(21,848)	(6,846)	(7,964)	(7,076)	(5,814)	(7,249)	(8,461)
Pretax Income	63,252	56,354	63,019	61,198	52,747	47,899	37,216	30,264	25,318	19,113	14,117
Income Taxes	24,985	22,571	25,207	24,169	20,689	18,897	14,496	11,978	10,527	7,990	5,535
Net Income	38,267	33,783	37,812	37,029	32,058	29,002	22,720	18,286	14,791	11,123	8,582
Average Diluted Shares Outstanding	20,660	20,457	20,487	20,509	20,454	20,426	20,394	20,317	20,233	20,290	20,238
Balance Sheet (000s)											
Current Assets	\$185,810	\$188,671	\$176,302	\$162,806	\$153,413	\$113,128	\$ 99,650	\$ 87,319	\$ 63,530	\$ 58,982	\$ 52,302
Net Fixed Assets	230,530	225,965	216,434	198,435	187,685	149,721	132,898	114,450	89,584	85,875	85,435
Total Assets	681,699	619,963	594,952	541,432	531,842	311,965	282,520	253,333	205,064	201,822	200,084
Current Liabilities	89,987	139,069	126,631	89,638	80,065	72,261	49,813	42,450	34,179	36,388	33,855
Long-Term Debt	214,977	148,951	167,345	193,952	234,843	54,284	75,143	76,519	54,676	59,803	68,421
Stockholders' Equity	340,158	301,267	271,522	235,633	198,120	168,987	140,976	118,529	100,857	90,158	82,439
Cash Flow Data (000s)											
Cash from Operations	\$ 79,679	\$ 84,930	\$ 83,314	\$ 59,381	\$ 74,452	\$ 44,092	\$ 41,884	\$ 21,733	\$ 28,054	\$ 23,090	\$ 25,112
Property, Plant and Equipment Additions, Net	(29,156)	(34,115)	(43,699)	(37,974)	(37,398)	(35,536)	(36,237)	(36,545)	(17,541)	(13,252)	(15,292)
Ratio Analysis (%)											
Operating Margin	12.3%	12.2%	13.8%	15.1%	14.8%	15.6%	14.8%	14.2%	13.8%	12.0%	11.6%
Pretax Margin	10.1	9.3	10.9	11.8	10.5	13.7	12.2	11.5	11.2	9.2	7.3
Effective Tax Rate	39.5	40.1	40.0	39.5	39.2	39.5	39.0	39.6	41.6	41.8	39.2
Net Margin	6.1	5.6	6.5	7.1	6.4	8.3	7.4	7.0	6.6	5.4	4.4
Return on Assets ⁽¹⁾	6.2	5.7	7.0	7.0	10.3	10.3	9.0	8.9	7.3	5.6	4.2
Return on Average Equity	11.9	11.8	14.9	17.1	17.5	18.7	17.5	16.7	15.5	12.9	10.8
Ten-Year Highlights											
Compound Annual Revenue Growth	12.4%										
Compound Annual Net Income Growth	16.1%										

⁽¹⁾ Based on beginning amounts

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 1, 2000 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 corporate identity apparel and facility services programs to a wide variety of North American industrial, service and high-technology companies. We rent uniforms and other related 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 \$6.0 billion, while the direct sales market, targeted by us, is approximately \$4.5-\$5.0 billion in size.

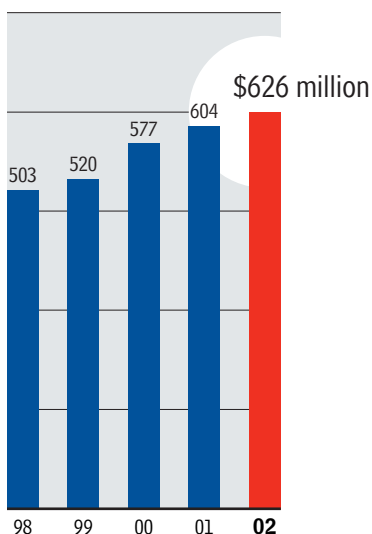
In fiscal 2002, we achieved 3.7% revenue growth and a 13.3% increase in net income from fiscal 2001. Return on average equity increased slightly to 11.9% from 11.8% in the prior year. Revenue growth has continued to be impacted by weak economic conditions that negatively impacted existing customer employment levels and customer turnover.

Fiscal 2002 results also include the impact of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) under which goodwill and intangible assets with indefinite lives are no longer amortized. This change resulted in an increase in net income of approximately \$3.0 million for the year.

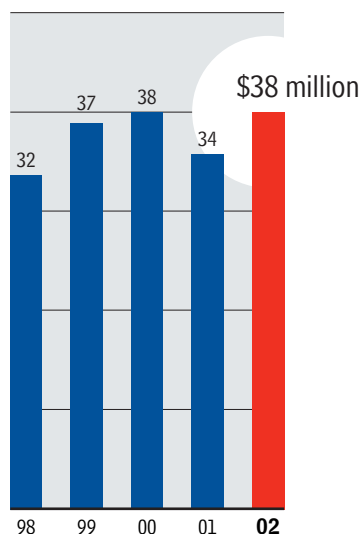
We made several small acquisitions in each of the past three fiscal years. All acquisitions were accounted for using the purchase method. The pro forma effect of these acquisitions, had they been acquired at the beginning of the fiscal year, were not material. The total purchase consideration, including related acquisition costs of these transactions, was approximately \$69.7 million, \$20.3 million and \$38.3 million in fiscal 2002, 2001 and 2000, respectively. The total purchase price exceeded the estimated fair values of assets acquired by approximately \$52.1 million in fiscal 2002, \$9.0 million in fiscal 2001 and \$19.1 million in fiscal 2000.

For the latest five-year period, revenues grew at a rate of 12.3%, compounded annually. This result includes the weak economic conditions over the last two to three years that have negatively impacted the retention of our customer base and ability to attract new customers. The impact of the economy on revenue has been partially offset by our focus on new product promotions, continued success in signing national accounts and acquisitions.

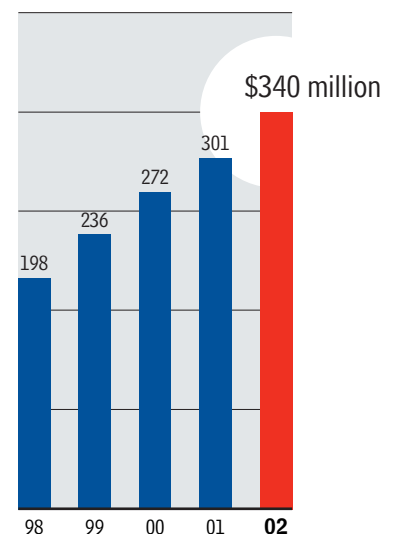
Revenues



Net Income



Stockholders' Equity



Our five-year growth rate for net income was 5.7%, compounded annually. Net income was negatively impacted in both fiscal 2002 and fiscal 2001 by the difficult economy, higher energy costs and higher employee benefit costs. In addition, we continue to focus on investments and process improvements that support future success. These investments include new technologies focused on enhancing revenue growth and improving human resource management. Better merchandise control and lower processing costs have positively contributed to the bottom line, while garment manufacturing facilities have enhanced product quality and decreased merchandise costs.

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 potentially result in materially different results under

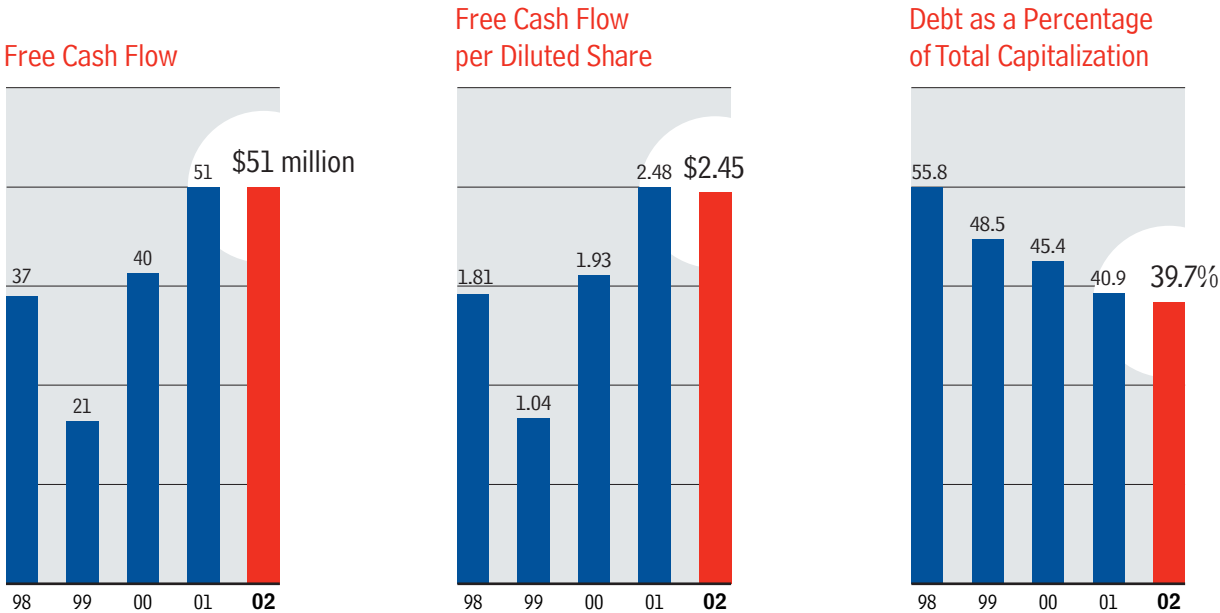
different assumptions and conditions. See Note 1 to the consolidated financial statements for additional discussion of the application of these and other accounting policies.

Revenue Recognition and Allowance for Doubtful Accounts

We recognize revenue from rental operations in the period in which the services are provided. Direct sale revenue is recognized in the period in which the product is shipped. Estimates are used in determining the collectability 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. 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. Estimated lives of rental merchandise in service range from nine months to three years. In establishing estimated lives for merchandise in service, management considers manufacturer expectations, 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

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142. We adopted SFAS 142 at the beginning of fiscal 2002 and as a result will 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. There have been no impairments of goodwill in fiscal 2002, 2001 or 2000. Our evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling. 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 2002, 2001 or 2000.

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 value 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 actuarial analysis provided by a third party. During 2002, we changed certain assumptions utilized in evaluating our 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 or the estimates and judgment used by management could have a material impact on the amount and timing of expense for any period.

Results of Operations

The percentage relationships to net sales of certain income and expense items for the three fiscal years ended June 29, 2002, June 30, 2001 and July 1, 2000, and the percentage changes in these income and expense items between years are presented in the following table:

	Percentage of Net Sales Years Ended			Percentage Change Between Years	
	FY 02	FY 01	FY 00	FY 02 vs. FY 01	FY 01 vs. FY 00
Revenues	100.0%	100.0%	100.0%	3.7%	4.5%
Expenses:					
Cost of rental and direct sales	58.6	58.9	57.8	3.2	6.7
Selling and administrative	23.4	22.4	21.7	8.1	7.9
Depreciation	4.7	4.8	5.1	2.8	(2.4)
Amortization of intangibles	1.0	1.7	1.6	(39.9)	8.9
Income from operations	12.3	12.2	13.8	4.4	(7.7)
Interest expense	2.2	2.9	2.9	(21.1)	3.2
Income before income taxes	10.1	9.3	10.9	12.2	(10.6)
Provision for income taxes	4.0	3.7	4.4	10.7	(10.5)
Net income	6.1%	5.6%	6.5%	13.3%	(10.7)%

Fiscal 2002 Compared to Fiscal 2001

Revenues. Total revenues in fiscal 2002 rose 3.7% to \$625.9 million from \$603.6 million in fiscal 2001. Rental revenue rose \$21.3 million in fiscal 2002, a 3.6% increase over fiscal 2001. Higher unemployment levels and overall weak economic conditions resulting in continued net reductions of customer employees in uniform have negatively impacted revenue growth rates. These conditions were partially offset through the addition of new customers, penetrating existing customers with a broader mix of product and service offerings and acquisitions.

Direct sale revenue was \$21.5 million in fiscal 2002, a 5.3% increase over \$20.4 million in fiscal 2001. The increase in revenue was primarily due to several large customer shipments that occurred primarily in the first half of the fiscal year.

Cost of Rental and Direct Sale. Cost of rental operations increased 3.3% to \$351.4 million in fiscal 2002 from \$340.1 million in fiscal 2001. Gross margin from rental sales improved to 41.9% in fiscal 2002 from 41.7% in the prior year. The combination of improved operational productivity, lower merchandise expense and reduced energy costs have contributed to improved rental gross margin. We continue to be negatively impacted by increased employee benefit costs and the compounding impact of revenue lost within our existing customer base over the past two years.

Cost of direct sales decreased slightly to \$15.7 million in fiscal 2002 from \$15.8 million in fiscal 2001. Gross margin from direct sales increased in fiscal 2002 to 27.0% from 22.8% in fiscal 2001. This improvement is largely due to improved merchandise costs and a continued focus on fulfillment operations efficiency.

Selling and Administrative. Selling and administrative expenses increased 8.1% to \$146.3 million in fiscal 2002 from \$135.3 million in fiscal 2001. As a percentage of total revenues, selling and administrative expenses increased to 23.4% in fiscal 2002 from 22.4% in fiscal 2001. Sales and marketing expenses aimed at new account growth, new product development and product penetration drove the majority of the increase. Also contributing to the increase were additional bad debt expenses associated with the slow economy.

Depreciation. Depreciation expense increased 2.8% to \$29.6 million in fiscal 2002 from \$28.8 million in fiscal 2001. As a percentage of total revenues, depreciation expense decreased to 4.7% in fiscal 2002 compared to 4.8% in fiscal 2001. Capital expenditures for fiscal 2002, excluding acquisition of businesses, was \$29.2 million compared to \$34.1 million in fiscal 2001.

Amortization. Amortization expense decreased to \$6.1 million in fiscal 2002 from \$10.1 million in fiscal 2001. As a percent of total revenues, amortization expense decreased to 1.0% in fiscal 2002 compared to 1.7% in fiscal 2001. The reduction was driven by the adoption of SFAS 142, under which goodwill and intangible assets with indefinite lives are no longer amortized. The adoption of SFAS 142 reduced amortization expense by 0.7% of a percent of revenues.

Interest Expense. Interest expense was \$13.6 million in fiscal 2002, down from \$17.2 million in fiscal 2001. The decrease in interest expense is due primarily to lower effective interest rates.

Provision for Income Taxes. Our effective tax rate for fiscal 2002 was 39.5% compared to 40.1% in fiscal 2001. The decrease was due largely to decreases in Canadian statutory income tax rates.

Fiscal 2001 Compared to Fiscal 2000

Revenues. Total revenues in fiscal 2001 rose 4.5% to \$603.6 million from \$577.4 million in fiscal 2000 (6.6% after excluding the extra week of revenue in fiscal 2000). Rental revenue rose \$26.5 million in fiscal 2001, a 4.8% increase over fiscal 2000 (6.9% after excluding the extra week of revenue in fiscal 2000). The rental growth was influenced by several factors including our focus on new product promotions and programs to address rising operating costs, continued success in signing national accounts, improvement in sales productivity and acquisitions.

Direct sale revenue was \$20.4 million, consistent with fiscal 2000 (after excluding the extra week of revenue in fiscal 2000). Direct sale revenue remained constant as we focused early in the fiscal year on improving efficiency and productivity of our direct sale operations.

Cost of Rental and Direct Sale. Cost of rental operations increased 7.6% to \$340.1 million in fiscal 2001 from \$316.1 million in fiscal 2000. As a percent of rental revenue, these costs increased to 58.3% in fiscal 2001 compared to 56.8% in fiscal 2000. The increase reflects higher gasoline and natural gas prices, increased employee benefit costs and the margin impact on lost revenue as a result of economic conditions during the last half of the fiscal year. These increases were partially offset by the benefit of revenue generated by new customers and product promotions.

Cost of direct sales, as a percent of direct sale revenue, decreased to 77.2% in fiscal 2001 from 84.0% in fiscal 2000. The improvement in gross margin was driven by improved productivity in the fulfillment operation.

Selling and Administrative. Selling and administrative expenses increased 7.9% to \$135.3 million in fiscal 2001 from \$125.4 million in fiscal 2000. As a percentage of total revenues, selling and administrative expenses increased to 22.4% in fiscal 2001 from 21.7% in fiscal 2000. The increase as a percent of revenue was driven by information systems initiatives focused on enhancing revenue growth and improving human resources management. These increases were partially offset by cost reductions in the direct sale operations.

Depreciation. Depreciation expense decreased 2.4% to \$28.8 million in fiscal 2001 from \$29.5 million in fiscal 2000. As a percentage of total revenues, depreciation expense decreased to 4.8% in fiscal 2001 compared to 5.1% in fiscal 2000. Capital expenditures for fiscal 2001, excluding acquisition of businesses, was \$34.1 million compared to \$43.7 million in fiscal 2000. Additional depreciation on fixed asset additions supporting company initiatives and revenue growth were offset by equipment leasing programs used for fleet and computer equipment and certain equipment purchased in fiscal 1998 from the National Linen Services acquisition that were fully depreciated in fiscal 2001.

Amortization. Amortization expense increased to \$10.1 million in fiscal 2001 from \$9.3 million in fiscal 2000. As a percent of total revenues, amortization expense increased to 1.7% in fiscal 2001 compared to 1.6% in fiscal 2000. The increase in amortization expense was due to the goodwill and other intangibles associated with acquisitions made during fiscal years 2001 and 2000.

Interest Expense. Interest expense was \$17.2 million in fiscal 2001, up from \$16.7 million in fiscal 2000. The increase in interest expense was due primarily to higher average interest rates in fiscal 2001.

Provision for Income Taxes. Our effective tax rate increased to 40.1% in fiscal 2001 from 40.0% in fiscal 2000.

Liquidity, Capital Resources and Financial Condition

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

Operating Activities. Net cash provided from operating activities was \$79.7 million in fiscal 2002, \$84.9 million in fiscal 2001 and \$83.3 million in fiscal 2000. The decrease in net operating cash flow in fiscal 2002 was due largely to the timing of collections from customers and reductions of trade and accrued payables, excluding the effects of acquisitions.

Working capital at June 29, 2002 was \$95.8 million, a \$46.2 million increase from \$49.6 million at June 30, 2001. This increase is largely due to reclassification of amounts outstanding under our revolving credit facilities from current maturities to long-term debt in connection with the new term loan and revolving credit facility agreement entered into on June 25, 2002.

Investing Activities. Net cash used for investing activities was \$100.1 million in fiscal 2002, \$55.5 million in fiscal 2001 and \$84.6 million in fiscal 2000. In fiscal 2002, cash was largely used for acquisitions. The reductions in capital expenditures in fiscal 2002 and fiscal 2001 reflect continued focus on ensuring appropriate financial return on capital resources.

Financing Activities. Financing activities provided cash of \$15.2 million in fiscal 2002, used cash of \$20.5 million in fiscal 2001 and provided cash of \$1.5 million in fiscal 2000. Cash provided in fiscal 2002 was used primarily in acquisitions of businesses. Cash used in fiscal 2001 was primarily related to repayment of long-term debt. We paid dividends of \$1.4 million in each of the fiscal years 2002, 2001 and 2000.

During the fourth quarter of fiscal 2002, we entered into a \$325.0 million term loan and revolving credit facility expiring July 2, 2007 to repay the existing facilities that were to expire June 30, 2002. The facility provides for a \$75.0 million term loan and a \$250.0 million revolving credit facility. As of June 29, 2002, borrowings outstanding under the term loan were \$75.0 million and under the revolving credit facility were \$92.8 million at rates ranging from 3.09% to 3.21%. 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 \$25.0 million in letters of credit. As of June 29, 2002, letters of credit outstanding against the revolver were \$11.2 million.

In fiscal 2001, we completed a \$50.0 million, 8.4% private placement debt transaction with certain institutional investors. The 10-year notes have a seven-year average life with a final maturity on July 20, 2010. We used the net proceeds from the sale of the notes to reduce amounts outstanding under our term loan and revolving credit facility 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, issuance of stock and dividends. At June 29, 2002, 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 June 29, 2002 for the fiscal years ending June (in millions):

	2003	2004	2005	2006	2007	2008 and Thereafter	Total
Variable rate term loan and revolving credit facility	\$ 5,625	\$13,125	\$15,000	\$18,750	\$22,500	\$ 92,800	\$167,800
Fixed rate term loan	—	—	7,143	7,143	7,143	28,571	50,000
Other debt arrangements, including capital leases	2,295	1,341	1,344	66	29	—	5,075
Operating leases	9,640	6,477	4,905	3,485	2,432	1,894	28,833
Total contractual cash obligations	\$17,560	\$20,943	\$28,392	\$29,444	\$32,104	\$123,265	\$251,708

Also, at June 29, 2002, we had stand-by letters of credit totaling \$11.2 million that have been issued and are outstanding, primarily in connection with our property and casualty insurance programs. No amounts have been drawn upon these letters of credit.

At June 29, 2002, we had available cash on hand of \$10.0 million and approximately \$146.0 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 2003 and to significantly reduce the amounts outstanding on 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 2003 will be approximately \$30.0 million to \$35.0 million.

The amount of cash flow generated from operations is subject to a number of risks and uncertainties. In fiscal 2003, 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 available capacity under our revolving credit facility will be adequate to finance any such acquisitions.

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.

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. While we are unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on our consolidated financial statements taken as a whole.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We do not believe that SFAS 143 will have a material impact on our consolidated financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 establishes a single accounting model, based on the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121), for long-lived assets to be disposed of by sale. SFAS 144 also resolves several significant implementation issues related to SFAS 121, such as eliminating the requirement to allocate goodwill to long-lived assets to be tested for impairment and establishing criteria to define whether a long-lived asset is held for sale. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. We do not believe that SFAS 144 will have a material impact on our consolidated financial statements.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. It nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 requires that a liability be recognized for costs associated with an exit or disposal activity only when the liability is incurred. SFAS 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We do not believe that SFAS 146 will have a material impact on our consolidated financial statements.

Outlook

The economic conditions in the United States are mixed. Based on current trends, we expect fiscal 2003 revenue to be in the range of \$645.0 million to \$655.0 million. The compounding impact of revenue lost within our existing customer base over the past two years will continue to pressure near-term earnings. Diluted earnings per share is expected to be in the range of \$2.00 to \$2.10 for the full year ending June 28, 2003, with higher earnings growth rates in the last half of the fiscal year driven by our customers' improved employment levels.

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; 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 corporate identity apparel and facility services industry; and the availability of capital to finance planned growth. Additional information concerning potential factors that could affect future financial results is included in our Annual Report on Form 10-K for the Fiscal Year Ended June 29, 2002.

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 100 basis point increase in interest rates under these borrowings would have increased our interest expense for fiscal 2002 by approximately \$1.3 million. This estimated exposure considers the mitigating effects of interest rate swap agreements outstanding at June 29, 2002 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
2003	\$ —	—%	\$ 5,625	3.21%
2004	—	—	13,125	4.16
2005	7,143	8.40	15,000	5.31
2006	7,143	8.40	18,750	6.00
2007	7,143	8.40	22,500	6.52
Thereafter	28,571	8.40	92,800	6.74
Total	\$50,000	8.40%	\$167,800	6.18%
Fair Value	\$56,797	—	\$167,800	—

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
2003	\$10,000	7.04%	1.96%
2004	30,000	6.31	2.91
2005 and thereafter	—	—	—
Total	\$40,000	6.49%	2.67%
Fair Value	\$42,041	—	—

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 2002. Notional amounts outstanding under foreign currency contracts at June 29, 2002 were \$4.8 million, all of which will mature during fiscal 2003. No amounts were outstanding under such contracts at June 30, 2001 or July 1, 2000. The fair values of the foreign currency contracts were not materially different as of June 29, 2002.

Consolidated Statements of Operations

G&K SERVICES, INC. AND SUBSIDIARIES

For the Fiscal Years Ended (In thousands, except per share data)	June 29, 2002	June 30, 2001	July 1, 2000
Revenues			
Rental operations	\$604,436	\$583,183	\$556,646
Direct sales	21,470	20,396	20,746
Total revenues	625,906	603,579	577,392
Operating Expenses			
Cost of rental operations	351,425	340,053	316,131
Cost of direct sales	15,672	15,751	17,435
Selling and administrative	146,295	135,326	125,374
Depreciation	29,596	28,779	29,481
Amortization of intangibles	6,057	10,077	9,250
Total operating expenses	549,045	529,986	497,671
Income from Operations	76,861	73,593	79,721
Interest expense	13,609	17,239	16,702
Income before Income Taxes	63,252	56,354	63,019
Provision for income taxes	24,985	22,571	25,207
Net Income	\$ 38,267	\$ 33,783	\$ 37,812
Basic weighted average number of shares outstanding	20,505	20,446	20,456
Basic Earnings per Common Share	\$ 1.87	\$ 1.65	\$ 1.85
Diluted weighted average number of shares outstanding	20,660	20,457	20,487
Diluted Earnings per Common Share	\$ 1.85	\$ 1.65	\$ 1.85

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)

June 29, 2002

June 30, 2001

Assets

Current Assets

Cash and cash equivalents	\$ 9,986	\$ 15,317
Accounts receivable, less allowance for doubtful accounts of \$3,326 and \$2,613	66,555	66,911
Inventories	91,733	90,085
Prepaid expenses	17,536	16,358
Total current assets	185,810	188,671

Property, Plant and Equipment

Land	32,451	30,658
Buildings and improvements	120,422	110,468
Machinery and equipment	237,898	222,946
Automobiles and trucks	39,446	39,058
Less accumulated depreciation	(199,687)	(177,165)
Total property, plant and equipment	230,530	225,965

Other Assets

Goodwill, net	200,140	148,080
Customer lists, net	41,556	35,676
Restrictive covenants, net	3,795	4,214
Other, principally retirement plan assets	19,868	17,357
Total other assets	265,359	205,327
	\$ 681,699	\$ 619,963

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

(In thousands, except share data)

June 29, 2002

June 30, 2001

Liabilities and Stockholders' Equity**Current Liabilities**

Accounts payable	\$ 17,361	\$ 18,622
Accrued expenses		
Salaries and employee benefits	29,398	24,441
Other	22,628	23,825
Deferred income taxes	11,157	12,961
Current maturities of long-term debt	9,443	59,220
Total current liabilities	89,987	139,069

Long-Term Debt, net of Current Maturities	214,977	148,951
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Deferred Income Taxes	21,570	16,168
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Other Noncurrent Liabilities	15,007	14,508
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Commitments and Contingencies (Notes 8 and 9)**Stockholders' Equity**

Common stock, \$0.50 par		
Class A, 400,000,000 shares authorized, 19,232,223		
and 19,164,746 shares issued and outstanding	9,616	9,582
Class B, 30,000,000 shares authorized, 1,474,996		
and 1,474,996 shares issued and outstanding	738	738
Additional paid-in capital	31,120	29,117
Retained earnings	315,794	278,972
Deferred compensation	(4,272)	(4,402)
Accumulated other comprehensive loss	(12,838)	(12,740)
Total stockholders' equity	340,158	301,267
	\$ 681,699	\$ 619,963

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		Stockholders' Equity
						Net Unrealized Gain/(Loss) on Financial Instruments	Cumulative Translation Adjustments	
Balance June 26, 1999	\$9,521	\$738	\$26,086	\$210,253	\$(2,601)	\$ 865	\$ (9,229)	\$235,633
Net income	—	—	—	37,812	—	—	—	37,812
Foreign currency translation	—	—	—	—	—	—	(533)	(533)
Unrealized holding gains, net of income tax	—	—	—	—	—	171	—	171
Less: reclassification adjustment for gains included in net income, net of income tax	—	—	—	—	—	(865)	—	(865)
Comprehensive income								36,585
Issuance of common stock under stock plans (19 shares)	10	—	593	—	(386)	—	—	217
Amortization of deferred compensation	—	—	—	—	523	—	—	523
Cash dividends (\$0.07 per share)	—	—	—	(1,436)	—	—	—	(1,436)
Balance July 1, 2000	9,531	738	26,679	246,629	(2,464)	171	(9,762)	271,522
Net income	—	—	—	33,783	—	—	—	33,783
Foreign currency translation	—	—	—	—	—	—	(1,590)	(1,590)
Unrealized holding losses, net of income tax	—	—	—	—	—	(1,559)	—	(1,559)
Comprehensive income								30,634
Issuance of common stock under stock plans (104 shares)	51	—	2,438	—	(2,431)	—	—	58
Amortization of deferred compensation	—	—	—	—	493	—	—	493
Cash dividends (\$0.07 per share)	—	—	—	(1,440)	—	—	—	(1,440)
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 (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

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

Consolidated Statements of Cash Flows

G&K SERVICES, INC. AND SUBSIDIARIES

For the Fiscal Years Ended (In thousands)	June 29, 2002	June 30, 2001	July 1, 2000
Operating Activities:			
Net income	\$ 38,267	\$ 33,783	\$ 37,812
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	35,653	38,856	38,731
Deferred income taxes	(312)	(421)	3,995
Amortization of deferred compensation – restricted stock	937	493	523
Changes in current operating items, exclusive of acquisitions –			
Accounts receivable and prepaid expenses	2,153	(3,017)	(4,450)
Inventories	2,798	1,189	(4,174)
Accounts payable and other accrued expenses	856	12,962	10,485
Other, net	(673)	1,085	392
Net cash provided by operating activities	79,679	84,930	83,314
Investing Activities:			
Property, plant and equipment additions, net	(29,156)	(34,115)	(43,699)
Acquisition of business assets	(69,730)	(20,335)	(38,304)
Purchases of investments, net	(1,203)	(1,049)	(2,611)
Net cash used for investing activities	(100,089)	(55,499)	(84,614)
Financing Activities:			
Proceeds from debt financing	125,918	77,200	90,433
Repayments of debt financing	(110,322)	(96,275)	(87,760)
Cash dividends paid	(1,445)	(1,440)	(1,436)
Sale of common stock	1,040	58	217
Net cash provided by (used for) financing activities	15,191	(20,457)	1,454
Increase (Decrease) in Cash and Cash Equivalents	(5,219)	8,974	154
Effect of Exchange Rates on Cash	(112)	(77)	(31)
Cash and Cash Equivalents:			
Beginning of year	15,317	6,420	6,297
End of year	\$ 9,986	\$ 15,317	\$ 6,420
Supplemental Cash Flow Information:			
Cash paid for –			
Interest	\$ 12,965	\$ 14,343	\$ 15,521
Income taxes	\$ 32,681	\$ 17,940	\$ 16,921

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 corporate identity apparel and facility services programs to a wide variety of industrial, service and high-technology companies. The Company's programs provide rental-lease or purchase options as well as non-apparel items such as floor mats, dustmops and cloths, 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.

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 June 29, 2002 (52 weeks), June 30, 2001 (52 weeks) and July 1, 2000 (53 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.

Inventories

New goods inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Rental merchandise in service is stated at cost less amortization, which is not in excess of market. The components of inventories as of June 29, 2002 and June 30, 2001 are as follows:

	2002	2001
New goods	\$24,472	\$23,311
Rental merchandise in service	67,261	66,774
	\$91,733	\$90,085

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.

Intangible Assets Arising from Acquisitions

The cost of acquisitions in excess of the fair value of the underlying net assets is recorded as goodwill. Restrictive covenants and acquired customer lists 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. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. There have been no impairments of goodwill in fiscal 2002, 2001 or 2000.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for potential impairment in compliance with Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121), whenever events and circumstances indicate an asset might be impaired. There have been no write-downs of any long-lived assets in fiscal 2002, 2001 or 2000.

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 from operations.

Revenue Recognition

The Company recognizes revenue from rental operations in the period in which the services are provided. 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 third party actuarial analysis. Management's estimates consider historical claims experience, escalating medical cost trends and the expected timing of claim payments. During 2002, the Company changed certain assumptions utilized in evaluating its 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

The Company accounts for income taxes using the liability method. Deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at currently enacted tax rates.

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 similar 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	June 29, 2002	June 30, 2001	July 1, 2000
Weighted average number of common shares outstanding used in computation of basic earnings per share	20,505,000	20,446,000	20,456,000
Weighted average effect of nonvested restricted stock grants and assumed exercise of options	155,000	11,000	31,000
Shares used in computation of diluted earnings per share	20,660,000	20,457,000	20,487,000

Potential common shares of 464,000, 846,000 and 118,000 related to the Company's outstanding stock options and restricted stock grants were excluded from the computation of diluted earnings per share for 2002, 2001 and 2000, respectively, as inclusion of these shares would have been antidilutive.

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. Ultimate results could differ from those estimates.

Comprehensive Income

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

Financial Instruments

Effective March 26, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). 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). The initial adoption resulted in the recording of \$138 increase in other comprehensive income in fiscal 2000.

Concurrent with the adoption of SFAS 133, the Company changed its designation of the investments associated with its deferred compensation plan to trading securities and recognized \$1,725 of previously unrealized gains in fiscal 2000.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not believe that SFAS 143 will have a material impact on its consolidated financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 establishes a single accounting model, based on the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS 121), for long-lived assets to be disposed of by sale. SFAS 144 also resolves several significant implementation issues related to SFAS 121, such as eliminating the requirement to allocate goodwill to long-lived assets to be tested for impairment and establishing criteria to define whether a long-lived asset is held for sale. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company does not believe that SFAS 144 will have a material impact on its consolidated financial statements.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. It nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 requires that a liability be recognized for costs associated with an exit or disposal activity only when the liability is incurred. SFAS 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not believe that SFAS 146 will have a material impact on its consolidated financial statements.

Note 2

Acquisitions

During each of the fiscal years 2002, 2001 and 2000, 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 were as follows:

Fiscal Years	2002	2001	2000
Total purchase price and related acquisition costs	\$69,730	\$20,335	\$38,304
Goodwill	52,073	9,008	19,138

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. There have been no impairments of goodwill. In addition, the remaining useful lives of amortizable intangible assets were reviewed and deemed appropriate.

Upon adoption of SFAS 142, the Company discontinued the amortization of goodwill. The following table presents a reconciliation of net income and earnings per share adjusted for the exclusion of goodwill, net of tax:

Fiscal Years	2002	2001	2000
Reported net income	\$38,267	\$33,783	\$37,812
Add: Goodwill amortization, net of tax	–	2,919	2,622
Adjusted net income	\$38,267	\$36,702	\$40,434
Reported basic earnings per share	\$1.87	\$1.65	\$1.85
Add: Goodwill amortization, net of tax	–	0.14	0.13
Adjusted basic earnings per share	\$1.87	\$1.79	\$1.98
Reported diluted earnings per share	\$1.85	\$1.65	\$1.85
Add: Goodwill amortization, net of tax	–	0.14	0.13
Adjusted diluted earnings per share	\$1.85	\$1.79	\$1.98

The changes in the carrying amount of goodwill for the fiscal year ended June 29, 2002, by operating segment, are as follows:

	United States	Canada	Total
Balance as of June 30, 2001	\$122,080	\$26,000	\$148,080
Goodwill acquired during the period	51,627	446	52,073
Other, primarily foreign currency translation	–	(13)	(13)
Balance as of June 29, 2002	\$173,707	\$26,433	\$200,140

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

As of June 29, 2002	Carrying Amount	Accumulated Amortization	Net
Customer lists	\$66,470	\$24,914	\$41,556
Restrictive covenants	7,979	4,184	3,795
Total	\$74,449	\$29,098	\$45,351

As of June 30, 2001	Carrying Amount	Accumulated Amortization	Net
Customer lists	\$55,226	\$19,550	\$35,676
Restrictive covenants	7,693	3,479	4,214
Total	\$62,919	\$23,029	\$39,890

Total amortization expense was \$6,057 in 2002 and in 2001 was \$10,077, of which \$4,873 was goodwill amortization. Estimated amortization expense for each of the five succeeding fiscal years based on intangible assets as of June 29, 2002 is as follows:

2003	\$6,422
2004	6,422
2005	6,354
2006	6,050
2007	5,928

Note 4

Long-Term Debt

Debt as of June 29, 2002 and June 30, 2001 includes the following:

	2002	2001
Borrowings under unsecured term loan and unsecured revolving credit facility at rates ranging from 3.09% to 3.21% at June 29, 2002	\$167,800	\$ –
Borrowings under unsecured term loan and unsecured revolving credit facility at rates ranging from 4.25% to 4.88% at June 30, 2001, repaid during 2002	–	139,341
Borrowings under unsecured fixed rate term loan at 8.40%	50,000	50,000
Borrowings under unsecured discretionary credit facility at the rate of 4.51% at June 30, 2001, repaid during 2002	–	11,000
Other debt arrangements including capital leases	6,620	7,830
	224,420	208,171
Less current maturities	(9,443)	(59,220)
Total long-term debt	\$214,977	\$148,951

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 2003 through 2007 of \$5,625, \$13,125, \$15,000, \$18,750 and \$22,500, respectively and (ii) a \$250,000 revolving credit facility expiring on July 2, 2007. As of June 29, 2002, borrowings outstanding under the term loan were \$75,000 and under the revolving credit facility were \$92,800. The unused portion of the revolver may be used for general corporate purposes, acquisitions, working capital needs and to provide up to \$25,000 in letters of credit. As of June 29, 2002, letters of credit outstanding against the revolver were \$11,159.

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 June 29, 2002 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.

In fiscal 2001, the Company completed a \$50,000, 8.4% private placement debt transaction 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 amounts outstanding under its term loan and revolving credit facility 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. The debt arrangements also provide for certain limits related to additional indebtedness, investments, issuance of stock and dividends. As of June 29, 2002, 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 and under the discretionary credit facility approximates the carrying value as of June 29, 2002 and June 30, 2001. The fair value of the fixed rate term loan is \$56,797 as of June 29, 2002.

Payments due on long-term debt during each of the five years subsequent to June 29, 2002 are as follows:

2003	\$ 9,443
2004	14,545
2005	23,429
2006	25,959
2007	29,672
2008 and thereafter	121,372

Future minimum lease payments under capital leases for fiscal years 2003 through 2005 are \$2,244, \$1,282 and \$1,282.

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 June 29, 2002, the Company had interest rate swap contracts to pay fixed rates of interest (average rate of 6.49%) and receive variable rates of interest based on three-month London Interbank Offered Rate (LIBOR) on \$40,000 notional amount of indebtedness. The \$40,000 notional amount of outstanding contracts will mature \$10,000 during fiscal 2003 and \$30,000 during fiscal 2004. At June 30, 2001, the Company had interest rate swap contracts on \$40,000 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 \$1,265 and \$1,388 at June 29, 2002 and June 30, 2001, 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 2002. Notional amounts outstanding under foreign currency contracts at June 29, 2002 were \$4,813, all of which will mature during fiscal 2003. No amounts were outstanding under such contracts at June 30, 2001 or July 1, 2000. The fair values of the foreign currency contracts were not significant as of June 29, 2002.

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. Substantially all 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 1,500,000 stock awards can be granted under the Employee Plans and 329,641 awards were available for grant as of June 29, 2002.

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 26, 1999	258,675	25,000	\$16.00 - 53.34	\$31.98
Granted	452,183	6,000	25.00 - 45.50	34.23
Exercised	—	—	—	—
Canceled	(66,985)	—	41.56 - 49.63	44.31
Outstanding at July 1, 2000	643,873	31,000	\$16.00 - 53.34	\$33.51
Granted	330,494	8,000	21.50 - 28.50	28.38
Exercised	(433)	—	16.50	16.50
Canceled	(87,950)	—	16.50 - 46.00	39.42
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
Exercisable at June 29, 2002	272,841	26,000	\$16.50 - 53.34	\$36.09

The following schedule summarizes the information related to stock options outstanding at June 29, 2002:

Range of Exercise Price	Options Outstanding		Options Exercisable		
	Number Outstanding	Average Remaining Option Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$16.50 - 25.00	171,263	7.8	\$24.75	108,763	\$16.65
25.01 - 37.00	681,347	8.6	28.39	38,706	28.73
37.01 - 53.34	318,310	7.5	43.55	151,372	44.11
	1,170,920	8.2	\$31.98	298,841	\$36.09

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 the fiscal years 2002, 2001 and 2000 the Company granted 33,580, 115,448 and 28,388 shares of restricted stock, respectively. The weighted average grant date fair value per share of restricted stock granted during fiscal years 2002, 2001 and 2000 was \$32.67, \$28.19 and \$31.87, respectively. The Company records compensation expense 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, \$493 and \$523 in fiscal years 2002, 2001 and 2000, respectively.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the accompanying consolidated statements of operations except for restricted shares issued under the Employee Plans. 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 to the following pro forma amounts:

Fiscal Years	2002	2001	2000
Net income:			
As reported	\$38,267	\$33,783	\$37,812
Pro forma	36,139	31,839	36,621
Basic net income per share:			
As reported	\$ 1.87	\$ 1.65	\$ 1.85
Pro forma	1.76	1.56	1.79
Diluted net income per share:			
As reported	\$ 1.85	\$ 1.65	\$ 1.85
Pro forma	1.75	1.56	1.79

Because the SFAS 123 method of accounting has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. The weighted average fair value of options granted in fiscal years 2002, 2001 and 2000 was \$11.73, \$12.05 and \$13.06, respectively. The weighted average exercise price was \$28.02, \$28.37 and \$33.74 for fiscal years 2002, 2001 and 2000, 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 4.45% for 2002, 5.90% for 2001 and 6.23% for 2000; expected dividends of \$0.07 per share; expected lives of five years for 2002, 2001 and 2000; and expected volatility of 41.42% for 2002 grants, 40.00% for 2001 grants and 34.48% for 2000 grants.

Note 7

Income Taxes

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

Fiscal Years	2002	2001	2000
Current:			
Federal	\$14,727	\$12,737	\$11,366
State and local	2,075	1,588	1,310
Foreign	8,495	8,766	8,409
	25,297	23,091	21,085
Deferred	(312)	(520)	4,122
	\$24,985	\$22,571	\$25,207

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

Fiscal Years	2002	2001	2000
Federal taxes at the statutory rate	\$22,138	\$19,724	\$22,057
State taxes, net of federal tax benefit	1,495	1,044	1,071
Foreign taxes	1,001	922	1,332
Permanent differences and other, net	351	881	747
Total provision	\$24,985	\$22,571	\$25,207
Effective rate	39.5%	40.0%	40.0%

Significant components of the Company's deferred tax assets and deferred tax liabilities as of June 29, 2002 and June 30, 2001 are as follows:

	2002	2001
Deferred tax liabilities:		
Inventory	\$(20,186)	\$(19,741)
Depreciation	(17,938)	(14,442)
Intangibles	(12,289)	(1,906)
Other	(2,846)	(1,400)
Total deferred tax liabilities	(53,259)	(37,489)
Deferred tax assets:		
Accruals, reserves and other	20,532	8,360
Net deferred tax liability	\$(32,727)	\$(29,129)

The Company has foreign tax credit carryforwards of \$587, which expire in fiscal 2007. 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.

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 \$1,062 in 2002, \$916 in 2001 and \$909 in 2000 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 \$1,229 in 2002, \$713 in 2001 and \$608 in 2000.

Executive Retirement Plans

The Company has a nonqualified Supplemental Executive Retirement Plan (SERP) and a nonqualified Executive Deferred Compensation Plan (DEFCO) to provide designated executives and professional employees with retirement, death and disability benefits.

Annual benefits under the 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 is included in other assets in the accompanying consolidated balance sheets.

Under the DEFCO plan, the Company matches a portion of the designated employees' contributions. The Company's matching contributions under the DEFCO plan were \$397 in 2002, \$350 in 2001 and \$327 in 2000. The accumulated

benefit obligation of \$6,680 as of June 29, 2002 and \$6,913 as of June 30, 2001 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 June 29, 2002 and June 30, 2001, the estimated fair value of the investments was \$6,680 and \$6,913, and the cost of the investments was \$8,233 and \$7,481, respectively.

The changes in benefit obligation and plan assets consisted of the following for the years ended June 29, 2002 and June 30, 2001:

	Pension Plan		Supplemental Executive Retirement Plan	
	2002	2001	2002	2001
Change in benefit obligation:				
Projected benefit obligation, beginning of year	\$24,936	\$20,691	\$ 7,510	\$6,694
Service cost	2,141	2,027	259	336
Interest cost	1,653	1,584	441	511
Actuarial (gain) loss	(2,610)	1,314	(1,446)	180
Benefits paid	(585)	(680)	(219)	(211)
Projected benefit obligation, end of year	\$25,535	\$24,936	\$ 6,545	\$7,510
Change in plan assets:				
Fair value of plan assets, beginning of year	\$21,673	\$23,214	\$ -	\$ -
Actual return (loss) on plan assets	(2,437)	(861)	-	-
Employer contributions	-	-	219	211
Benefits paid	(585)	(680)	(219)	(211)
Fair value of plan assets, end of year	\$18,651	\$21,673	\$ -	\$ -
Net cash surrender value of life insurance contracts			\$ 7,516	\$5,890

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 June 29, 2002 and June 30, 2001, with market values of \$2,373 and \$1,722, respectively. The plan received no dividends on the Company's Class B common stock during fiscal years 2002 or 2001.

The funded status of the Company's plans were as follows as of June 29, 2002 and June 30, 2001:

	Pension Plan		Supplemental Executive Retirement Plan	
	2002	2001	2002	2001
Funded status	\$(6,884)	\$(3,263)	\$(6,545)	\$(7,510)
Unrecognized transition amount	-	-	-	-
Unrecognized actuarial (gain) loss	461	(1,238)	645	1,884
Unrecognized prior service cost	369	422	433	498
Intangible asset	-	-	119	409
Accrued pension liability	\$(6,054)	\$(4,079)	\$(5,348)	\$(4,719)

The following average assumptions were used to account for the plans for the years ended June 29, 2002 and June 30, 2001:

	Pension Plan		Supplemental Executive Retirement Plan	
	2002	2001	2002	2001
Discount rate	7.50%	7.50%	7.50%	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

The components of net periodic pension cost are as follows for the years ended June 29, 2002, June 30, 2001 and July 1, 2000:

	Pension Plan			Supplemental Executive Retirement Plan		
	2002	2001	2000	2002	2001	2000
Service cost	\$ 2,141	\$ 2,027	\$ 1,753	\$259	\$ 336	\$177
Interest cost	1,653	1,584	1,373	441	511	377
Expected return on assets	(1,711)	(1,837)	(1,742)	-	-	-
Net transition asset	-	-	(133)	-	-	-
Prior service cost	53	53	53	65	65	65
(Gain) loss	(161)	(326)	(473)	4	138	34
Net periodic pension cost	\$ 1,975	\$ 1,501	\$ 831	\$769	\$1,050	\$653

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. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements taken as a whole.

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 June 29, 2002:

	Operating Leases
2003	\$ 9,640
2004	6,477
2005	4,905
2006	3,485
2007	2,432
2008 and thereafter	1,894
Total minimum lease payments	\$28,833

Total rent expense for operating leases, including those with terms of less than one year was \$15,462 in 2002, \$13,564 in 2001 and \$11,274 in 2000.

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 corporate identity apparel and facility services industry, which includes garment rental and non-apparel items such as floor mats, dust mops and cloths, 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
2002:				
Revenues	\$549,450	\$76,456	\$ -	\$625,906
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

2001:				
Revenues	\$526,589	\$76,990	\$ -	\$603,579
Income from operations	56,327	18,856	(1,590)	73,593
Interest expense	16,853	1,976	(1,590)	17,239
Total assets	612,945	79,990	(72,972)	619,963
Capital expenditures	30,795	3,320	-	34,115
Depreciation and amortization expense	34,284	4,572	-	38,856
Income tax expense	14,699	7,872	-	22,571

2000:				
Revenues	\$504,234	\$73,158	\$ -	\$577,392
Income from operations	61,175	19,969	(1,423)	79,721
Interest expense	16,130	1,995	(1,423)	16,702
Total assets	586,875	72,385	(64,308)	594,952
Capital expenditures	41,886	1,813	-	43,699
Depreciation and amortization expense	34,352	4,379	-	38,731
Income tax expense	17,786	7,421	-	25,207

Report of Ernst & Young LLP, Independent Auditors

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

We have audited the accompanying consolidated balance sheet of G&K Services, Inc. as of June 29, 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. 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 audit. The consolidated financial statements of G&K Services, Inc. as of June 30, 2001 and July 1, 2000, and for the two years then ended, were audited by other auditors who have ceased operations and whose reports dated August 10, 2001 and August 11, 2000, respectively, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of G&K Services, Inc. as of June 29, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

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

As discussed above, the consolidated financial statements of G&K Services, Inc. as of June 30, 2001 and July 1, 2000, and for the two years then ended, were audited by other auditors who have ceased operations. As described in Note 3, these consolidated financial statements have been revised to include the transitional disclosures required by Statement No. 142 which was adopted as of July 1, 2001. We have audited the disclosures in Note 3 and, in our opinion, the disclosures for fiscal years 2001 and 2000 in Note 3 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the fiscal years 2001 and 2000 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the fiscal year 2001 and 2000 consolidated financial statements taken as a whole.

Ernst & Young LLP
Minneapolis, Minnesota
August 9, 2002

Quarterly Financial Data (UNAUDITED)

G&K SERVICES, INC. AND SUBSIDIARIES

(In thousands, except share data)

	First	Second	Third	Fourth
2002				
Revenues	\$157,098	\$155,661	\$155,071	\$158,076
Gross Profit	64,375	64,203	64,625	65,606
Income from Operations	19,062	19,057	19,239	19,503
Net Income	9,215	9,538	9,756	9,758
Basic Earnings per Share	0.45	0.47	0.48	0.48
Diluted Earnings per Share	0.45	0.46	0.47	0.47
Dividends per Share	0.0175	0.0175	0.0175	0.0175

2001				
Revenues	\$146,145	\$150,835	\$151,487	\$155,112
Gross Profit	61,463	60,448	62,299	63,565
Income from Operations	20,787	17,744	17,522	17,540
Net Income	9,817	7,995	7,987	7,984
Basic Earnings per Share	0.48	0.39	0.39	0.39
Diluted Earnings per Share	0.48	0.39	0.39	0.39
Dividends per Share	0.0175	0.0175	0.0175	0.0175

Stock Price by Quarter

	High	Low
Fiscal 2002		
1st Quarter	\$30.450	\$21.860
2nd Quarter	33.970	24.000
3rd Quarter	40.995	31.560
4th Quarter	41.600	29.580

Fiscal 2001		
1st Quarter	\$30.125	\$24.250
2nd Quarter	29.000	23.625
3rd Quarter	30.250	18.875
4th Quarter	27.500	17.000

Corporate Information

Directors

Richard M. Fink
Chairman of the Board

Thomas R. Moberly
Chief Executive Officer

Michael G. Allen*
Retired, Founder Chairman
Michael Allen Company
Greenwich, Connecticut

Paul Baszucki*
Chairman of the Board
Norstan, Inc.
Minnetonka, Minnesota

Wayne M. Fortun**
President, Chief Executive Officer
and Chief Operating Officer
Hutchinson Technology, Inc.
Hutchinson, Minnesota

Donald W. Goldfus**
Retired, Former Chairman
of the Board
Apogee Enterprises, Inc.
Minneapolis, Minnesota

William M. Hope**
Former Chief Executive Officer
G&K Services, Inc.

M. Lenny Pippin**
President and
Chief Executive Officer
Schwan's Sales Enterprises, Inc.
Marshall, Minnesota

D. R. Verdoorn*
Chairman of the Board
C.H. Robinson Worldwide, Inc.
Minneapolis, Minnesota

* Audit Committee Member

** Compensation Committee Member

Executive Officers

Richard M. Fink
Chairman of the Board

Thomas R. Moberly
Chief Executive Officer

Richard L. Marcantonio
President and
Chief Operating Officer

Robert G. Wood
President, G&K Canada

Jeffrey L. Wright
Chief Financial Officer
and Secretary

Operating and Staff Officers

Jeffrey L. Boese
Regional Vice President

Sally J. Bredehoft
Vice President,
Human Resources

Giuseppe Brumale
Regional Vice President

Robert D. Burch
Regional Vice President

David B. Carter
Vice President,
Manufacturing and Distribution

Grover W. Ferguson
Vice President,
Acquisitions

W. Eric Fosse
Regional Vice President

Lauren J. Harstad
Regional Vice President

Patricia A. Kleinman
Vice President,
National Accounts
and Direct Sales

Timothy W. Kuck
Regional Vice President

David V. Luby
Vice President,
Sales

Nick T. Maris
Senior Vice President,
Sales and Marketing

Randall F. Motley
Regional Vice President

William S. Otto
Vice President,
Information Systems

John M. Schmerler
Vice President,
Corporate Development

Glenn L. Stolt
Treasurer

Richard J. Stutz
Vice President,
Operations

Kathryn Y. Trickey
Vice President,
Customer Development

Michael F. Woodard
Controller

Corporate Address

G&K Services, Inc.
5995 Opus Parkway, Suite 500
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 7, 2002, 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

Corporate Counsel

Maslon Edelman Borman & Brand, LLP
Minneapolis, Minnesota

Investor Inquiries

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



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