G&K Services, Inc. *2003 Annual Report*

Smart Business

Financial Highlights

(Dollars in thousands, except per share data)	June 28, 2003	June 29, 2002	% Change
Operating Results			
Revenues	**$705,588**	$677,591	4.1%
Income from operations	**68,919**	76,861	(10.3)
Pretax income	**55,228**	63,252	(12.7)
Net income	**33,689**	38,267	(12.0)
Per Share Data			
Earnings	**1.63**	1.85	(11.9)%
Dividends	**0.07**	0.07	0.0
Book value	**18.38**	16.46	11.6
Average common shares outstanding	**20,691**	20,660	0.2
Financial Position			
Working capital	**$ 75,248**	$ 95,823	(21.5)%
Total assets	**778,806**	681,699	14.2
Long-term debt	**236,731**	214,977	10.1
Stockholders' equity	**380,269**	340,158	11.8
Free cash flow[1]	**65,510**	50,523	29.7
Operating Ratios			
Current ratio	**1.6**	2.1	
Debt as a percentage of total capitalization	**39.8%**	39.7%	
Return on average equity	**9.4%**	11.9%	
Pretax margin	**7.8%**	9.3%	
Effective tax rate	**39.0%**	39.5%	

[1] Free cash flow is defined throughout this document as cash provided by operating activities less capital expenditures.

G&K Services is a North American market leader in corporate identity apparel programs and facility services. 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 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.

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Smart Business

Operational Achievement. In a period of contracting labor markets, budget constraints and a high degree of economic and geopolitical uncertainty, in 2003 G&K focused on operational efficiency as never before. Key among these initiatives:

• Operating smarter. Strengthening our management; driving productivity. • Selling smarter. Technology; customer and territory management; organizational focus. • Running smarter. Increasing operational efficiencies; consolidation where necessary. • Working smarter. Improving route density; better customer service and route sales.

The result: Stabilizing margins, strong cash flow and a company positioned for continued growth and improved profitability.

2003 Achievements

- Achieved record free cash flow of more than $65 million.
- Completed four acquisitions, which increased our service territory and expanded our market share.
- Expanded our geographic footprint into two new top 100 North American markets, bringing G&K's total to 76.
- Improved sales productivity by more than 20 percent.
- Strengthened our senior management team.
- Rationalized plant operations by closing six processing plants and one manufacturing facility.
- Reduced expense levels company wide.
- Improved our organic growth rate through increased sales- and route-productivity.

Managing Smarter

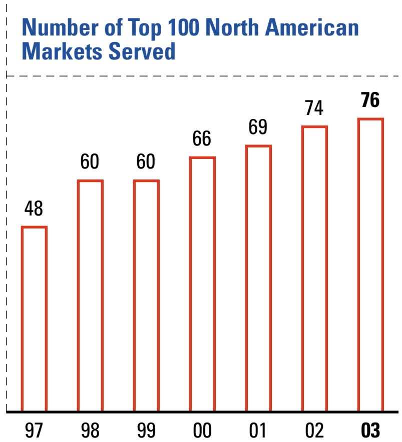
Richard L. Marcantonio	Jeffrey L. Wright	Thomas R. Moberly	Richard M. Fink
President and Chief Operating Officer	*Chief Financial Officer and Secretary*	*Chief Executive Officer*	*Chairman of the Board*

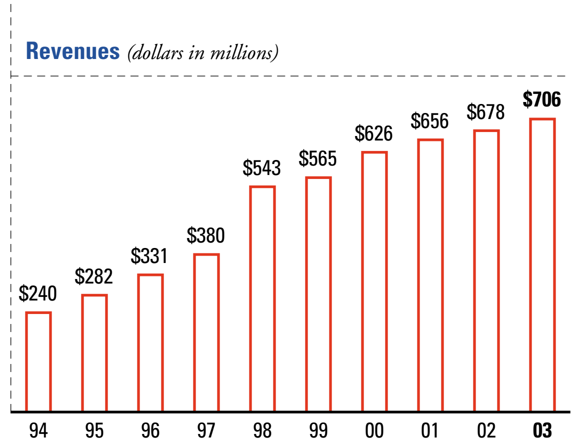
To our shareholders – Taken together, the past three years have been among the most difficult operating periods in memory at G&K. Job losses have weighed heavily on our entire industry, draining energy from our operations, affecting route density, productivity, return on invested capital and, ultimately, profitability. What made the most recent fiscal year so tough was the fact that it was the *third* such year, following on the heels of two years in which G&K worked hard to improve every aspect of our business to meet the demands of the current business environment.

The poor employment market is not justification for reduced performance, but the primary reason we are redoubling our efforts to continually improve our business. Accordingly, the focus of this annual report is all about being smarter in the way we run our business. That's what times such as these demand. We did not have the luxury of telling ourselves that we were running our business as well as could be expected. We had to continue to react to the conditions with which we were faced – and we did. We are now a better company because of it.

In fiscal 2003, G&K's 101st year in business, we renewed our commitment to the resiliency of this business, focusing on our strengths and successes while at the same time building a company for the future – with added management strength, enhanced productivity, better technology and improved training. We made the difficult but necessary decisions to both invest where necessary and to rationalize our operations where prudent. For example, we continued to hold our capital expenditures in the $30 million range, down significantly from previous years' spending levels. At the same time we also launched a program that resulted in our decision to close one of our manufacturing plants and six laundry processing facilities. We have reduced our company-wide employee count by roughly 6 percent in the past year, but also strengthened our management team.

We made significant progress in building our business. Strong working capital management helped us boost our free cash flow to the highest level in the history of the company – $65 million, up 30 percent over last year. Indeed, we continue to lead the industry in free cash flow per share, a strength that has enabled us to continue to invest in both plant and equipment and in the sort of strategic acquisitions that have allowed us





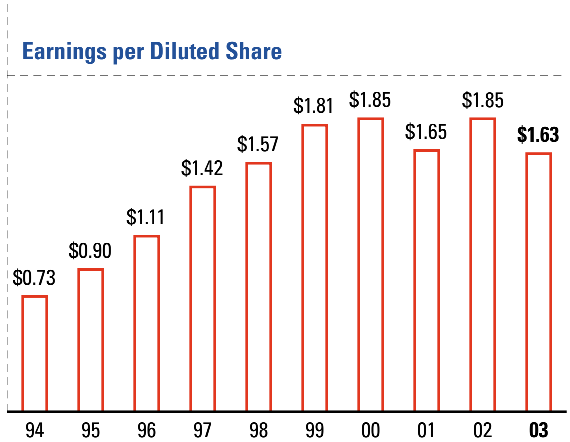
to expand our geographical footprint throughout the United States and Canada. We made four acquisitions during the year, expanding our presence in Nevada, Mississippi, Kentucky, Tennessee, North Carolina and South Carolina. We expect to continue growing our business incrementally through strategic acquisitions in fiscal 2004.

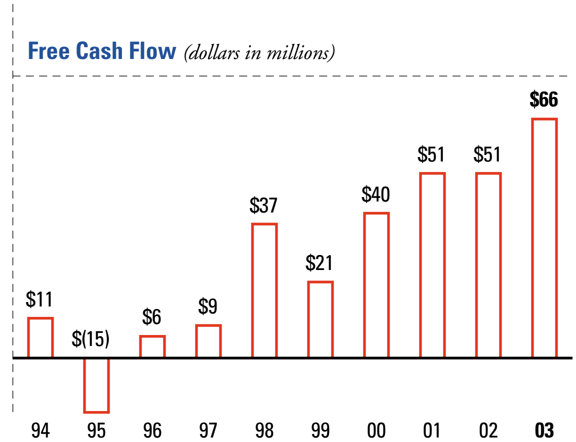
The past fiscal year wasn't without its disappointments, however. Both earnings and revenues were challenged by the weak economy. Additionally, the company experienced increased employee benefit costs as well as higher energy costs, with natural gas prices *and* gasoline prices again spiking during the year, forcing up operating costs. With a weak economy come higher bad debt expense and pressure from customers to reduce prices. We were reluctant to grant pricing concessions, and occasionally walked away from business that was either unprofitable or not in the best interests to the long-term growth of the company. This constrained our top line growth, but ultimately we believe it was the right decision. We remain focused on leveraging the acquisitions we have made and reacting more quickly to unforeseen events in the marketplace, energy costs in particular.

Longer term, we are optimistic about the economy but at the same time mindful of the need to continue to improve our operations. We have initiated major programs to better integrate our reporting systems, more effectively automate our manufacturing and processing facilities, and improve our productivity in the field. The company has instituted programs to further improve the performance of our field organizations, increasing accountability, communication and the depth of the organizational structure.

Financially, we plan to drive a more rapid improvement in our operating income margins and return to a positive level of organic growth in both revenue and earnings. And most important, we hope to improve our return on invested capital. Over the past decade, G&K has spent more than $350 million on property, plant and equipment. With the help of a modestly improving economy, we believe that these investments, properly leveraged, can drive the company's return on assets – and hence, profitability – back to historical growth rates.

G&K continued in 2003 to broaden its product offerings. In 2004, we have a tremendous opportunity with our product line to increase sales to existing, as well as new customers. Increased customer penetration with more of the products our customers need – deepening the strong relationships we have within our





client base – is a top priority of the company in the coming fiscal year. We also hope to use the expertise we've built in various industries more effectively, providing more sophisticated service to customers in these vertical markets.

Over the past several years, we have been working on strengthening our board of directors. This includes the addition of Michael Allen and Lenny Pippin, two seasoned executives, to our board in 2002. This year, the G&K board of directors formed a corporate governance committee. The committee will consist only of independent directors. The charter of the corporate governance committee is, among other things, to:

- Administer an annual performance review of the chief executive officer
- Administer an annual review of the operation of the board of directors and its committees
- Present qualified director candidates to the board of directors

We are very fortunate to have an active, independent board, who care deeply about the long-term success of G&K.

In late August, we announced the retirement of Tom Moberly, as chief executive officer, due to health reasons. Tom provided invaluable service to G&K over the past 29 years and is a role model for the values to which G&K is committed. Rick Marcantonio, president and chief operating officer, will work with Tom and transition his duties as chief executive officer effective January 1, 2004. Rick has already made a significant impact on G&K, and we believe G&K has an exciting future with his leadership.

We began this letter discussing the difficult business climate we've experienced in the past three years. We end it on a note of optimism. We have worked very hard over the past year to improve productivity at all levels in the organization. Our management team is strong and ready to capture improved revenue growth and profitability in the coming year. To our loyal shareholders and our hard-working employees, we look forward to better times ahead.

Sincerely,

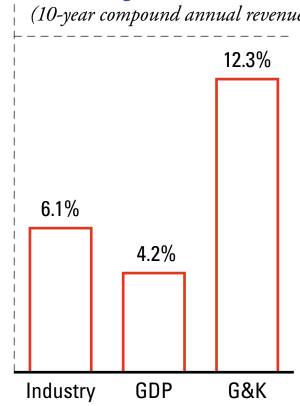
Richard M. Fink *Chairman of the Board*

Thomas R. Moberly *Chief Executive Officer*

From common sense to cash flow

All companies – even big ones – need to stay nimble to remain successful. We made substantial progress last year in our effort to react to tough economic conditions while at the same time build for the future. The result: stabilizing selling and administrative expenses as a percent of revenue, the strongest cash flow in our industry, and most importantly, a company positioned for continued growth and improved profitability.

Growth Against Benchmarks*
(10-year compound annual revenue growth)



*Note: Data provided is the latest available; industry data reported as of 2001 from the U.S. Census Bureau, GDP data reported as of 2002 from the Bureau of Economic Analysis.

Operating Smarter

"G&K Services has always been a growth company, but with the economy as weak as it has been, we've had to acknowledge that our company can't grow for growth's sake. To adjust to these conditions, we've significantly increased our employee productivity and lowered our overall employee count – stabilizing our general expenses.

"At the same time we've been looking to the future – building bench strength, aggressively introducing new technology to improve our efficiency, reporting and analytics. We think this will allow us to capitalize on the future and further develop a clear competitive advantage in our industry." – Dick Stutz *Vice President, Operations*

From tactics to technology

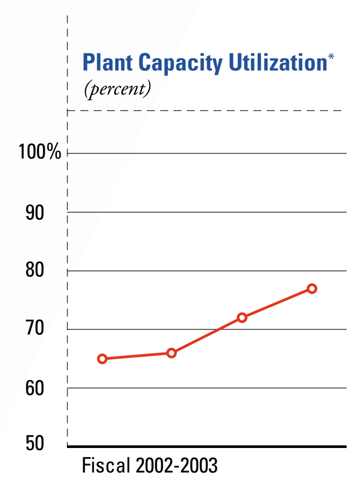
In fiscal 2003, G&K thoroughly re-examined its sales process, putting new customer relationship management software in place to help guide our sales process and best leverage our resources. Sales programs are much more tightly coordinated by size of customer and territory, and our sales organization is more effectively focused on the opportunities we see.

Selling Smarter

"As we further expand our national footprint, we've recognized that we need to apply the most sophisticated tools available to make sure we are reaching potential and existing customers as effectively as possible. We've been rolling out a customized 'customer relationship management' software package that helps us better manage the sales opportunities our territory and national sales forces pursue. We've also added significantly to our sales training process and refined our sales organization – all to better respond to the marketplace." – Starla Blancett *Director of Sales, Southeast Region*

From the top down and the bottom up

At the heart of G&K's operating plan is a concentrated effort to increase our return on invested capital. Since 1999, we've invested more than $175 million in new plants and equipment – about $30 million in fiscal 2003 alone. We've also undertaken an ambitious program to consolidate and rationalize our network of production plants and distribution centers, over the past year closing six processing plants and one manufacturing facility, which increased plant utilization by 6 percent. In addition to future growth, these activities will support higher utilization, resulting in more profitable growth and higher return on investment.



*Note: Excludes impact of acquisitions.

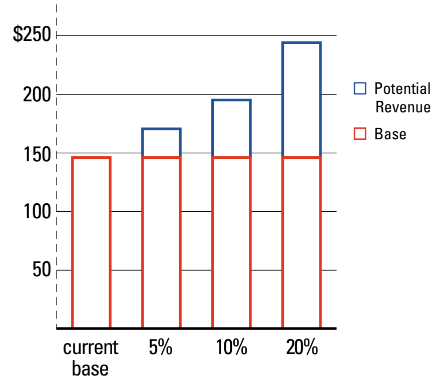
Running Smarter

"In the past 12 months, I've been part of one of the most thorough examinations of our physical plant and equipment that I can recall. We've looked at every system, process and function inside our plants and distribution system in an effort to make our operations the most efficient and cost-effective in the industry. As a result, in my plant alone, we've realized new savings of more than $650,000 on an annualized basis." – Joe Crain *Plant Manager, St. Cloud, Minnesota*

From the inside up and the outside in

G&K has paid close attention to its coast-to-coast sales and route network, making considerable progress in fiscal 2003 to improve and refine our sales network, route density and system efficiency. This effort – and we still have more work to do – has produced a noticeable improvement in our route sales, garment replacement levels and customer service. In particular, product penetration within existing customers will support revenue growth and enhance customer relationships.

Potential Increased Revenue* from Select Ancillary Products
(dollars in millions)



*Note: Chart represents incremental revenue potential by increasing product penetration within existing customers.

Working Smarter

"We have a term in our industry called 'windshield time,' which is the amount of time a route salesperson spends driving from one stop to the next. The more windshield time I have, the less time I have with my customers.

"This year, we took a hard look at our district, redrawing all of our routes and looking for other ways we can reach our customers more efficiently. Because of that effort, I'm able to spend more time with my customers – and that means better service and a better idea of what our customers need and how we can help. So as our customers grow, so do we."

– Josh Rauh *Super-Route Sales Rep, St. Paul, Minnesota*

Eleven-Year Summary

G&K Services, Inc. and Subsidiaries

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Per Share (diluted)											
Revenues[2]	**$ 34.10**	$ 32.80	$ 32.09	$ 30.55	$ 27.56	$ 26.55	$ 18.61	$ 16.24	$ 13.88	$ 11.84	$ 10.86
Assets	**37.64**	33.00	30.31	29.04	26.40	26.00	15.27	13.85	12.47	10.14	9.95
Equity	**18.38**	16.46	14.73	13.25	11.49	9.69	8.27	6.91	5.83	4.98	4.44
Earnings	**1.63**	1.85	1.65	1.85	1.81	1.57	1.42	1.11	0.90	0.73	0.55
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	**37.00**	41.60	30.25	54.00	56.25	47.31	37.75	32.00	19.50	17.00	13.00
Low	**21.57**	21.86	17.00	14.75	39.75	33.00	23.50	18.75	13.00	11.69	8.83
Income Data (000s)											
Revenues[2]	**$705,588**	$677,591	$656,381	$625,855	$565,245	$543,091	$380,102	$331,229	$282,048	$239,610	$220,378
Operating Income	**68,919**	76,861	73,593	79,721	78,411	74,595	54,745	45,180	37,340	31,132	25,016
Interest Expense	**(13,691)**	(13,609)	(17,239)	(16,702)	(17,213)	(21,848)	(6,846)	(7,964)	(7,076)	(5,814)	(7,249)
Pretax Income	**55,228**	63,252	56,354	63,019	61,198	52,747	47,899	37,216	30,264	25,318	19,113
Income Taxes	**21,539**	24,985	22,571	25,207	24,169	20,689	18,897	14,496	11,978	10,527	7,990
Net Income	**33,689**	38,267	33,783	37,812	37,029	32,058	29,002	22,720	18,286	14,791	11,123
Average Diluted Shares Outstanding	**20,691**	20,660	20,457	20,487	20,509	20,454	20,426	20,394	20,317	20,233	20,290
Balance Sheet (000s)											
Current Assets	**$192,044**	$185,810	$188,671	$176,302	$162,806	$153,413	$113,128	$ 99,650	$ 87,319	$ 63,530	$ 58,982
Net Fixed Assets	**250,757**	230,530	225,965	216,434	198,435	187,685	149,721	132,898	114,450	89,584	85,875
Total Assets	**778,806**	681,699	619,963	594,952	541,432	531,842	311,965	282,520	253,333	205,064	201,822
Current Liabilities	**116,796**	89,987	139,069	126,631	89,638	80,065	72,261	49,813	42,450	34,179	36,388
Long-Term Debt	**236,731**	214,977	148,951	167,345	193,952	234,843	54,284	75,143	76,519	54,676	59,803
Stockholders' Equity	**380,269**	340,158	301,267	271,522	235,633	198,120	168,987	140,976	118,529	100,857	90,158
Cash Flow Data (000s)											
Cash from Operations	**$ 96,913**	$ 79,679	$ 84,930	$ 83,314	$ 59,381	$ 74,452	$ 44,092	$ 41,884	$ 21,733	$ 28,054	$ 23,090
Property, Plant and Equipment Additions, Net	**(31,403)**	(29,156)	(34,115)	(43,699)	(37,974)	(37,398)	(35,536)	(36,237)	(36,545)	(17,541)	(13,252)
Ratio Analysis (%)											
Operating Margin[2]	**9.8%**	11.3%	11.2%	12.7%	13.9%	13.7%	14.4%	13.6%	13.2%	13.0%	11.4%
Pretax Margin[2]	**7.8**	9.3	8.6	10.1	10.8	9.7	12.6	11.2	10.7	10.6	8.7
Effective Tax Rate	**39.0**	39.5	40.1	40.0	39.5	39.2	39.5	39.0	39.6	41.6	41.8
Net Margin[2]	**4.8**	5.6	5.1	6.0	6.6	5.9	7.6	6.9	6.5	6.2	5.0
Return on Assets[1]	**4.9**	6.2	5.7	7.0	7.0	10.3	10.3	9.0	8.9	7.3	5.6
Return on Average Equity	**9.4**	11.9	11.8	14.9	17.1	17.5	18.7	17.5	16.7	15.5	12.9

Ten-Year Highlights

Compound Annual Revenue Growth	12.3%
Compound Annual Net Income Growth	11.7%

(1) Based on beginning amounts

(2) Beginning in the third quarter of fiscal 2003, we made a change in the classification of billings to customers for lost or abused merchandise to a preferred classification of including such billings in revenue. Accordingly, for all periods presented, lost or abused garment billings have been reclassified from a reduction of cost of rental operations to rental operations revenue. This reclassification did not impact current or historical net income or stockholders' equity.

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.

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 $6.3 billion, while the direct sales market, targeted by us, is approximately $4.5-$5.0 billion in size.

In fiscal 2003, revenue grew by 4.1% over fiscal 2002 while net income declined by 12.0%. Revenue growth has continued to be impacted by weak economic conditions and declining employment levels within our existing customer base. In addition to reduced margins related to lost wearers within our existing customer base, net income was also impacted by higher energy costs, increased employee benefit costs, expenses related to plant closures and employee reductions. During this period of economic weakness, we were able to generate record levels of cash flow through solid earnings, effective working capital management and prudent capital spending.

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 $88.7 million, $69.7 million and $20.3 million in fiscal 2003, 2002 and 2001, respectively. The total purchase price exceeded the estimated fair values of assets acquired and liabilities assumed by $63.2 million in fiscal 2003, $52.1 million in fiscal 2002 and $9.0 million in fiscal 2001.

While revenue growth and net income continued to be negatively impacted by the difficult economy, higher energy costs and higher employee benefit costs, we aggressively pursued increased sales productivity, operational initiatives and cost reduction opportunities. These actions have put us in a position of strength for the future while mitigating the impact of the poor economy on our financial results.

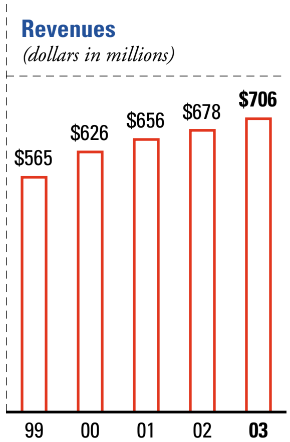
Critical Accounting Policies

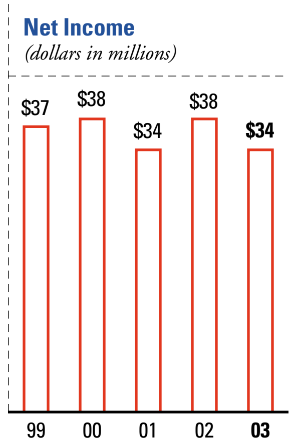
The discussion of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. As such, management is required to make certain estimates, judgments and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

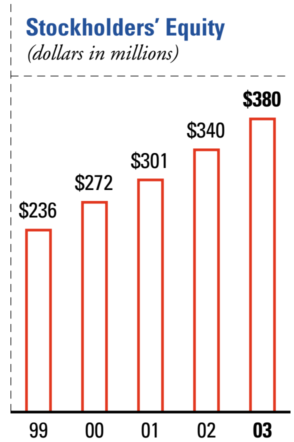
Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. See Note 1 to the consolidated financial statements for additional discussion of the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

Revenue Recognition and Allowance for Doubtful Accounts

Our rental operations business is largely based on written service agreements whereby we agree to collect, launder and deliver uniforms and other related products. The service agreements provide for weekly billing upon completion of the laundering process and delivery to the customer. Accordingly, we recognize revenue from rental operations in the period in which the services are provided. Direct sale revenue is recognized in the period in which the product is shipped. Beginning in the third quarter of fiscal 2003, we made a change in the classification of billings to customers for lost or abused merchandise to a preferred classification of including such billings in revenue. Accordingly, all prior period billings for lost or abused garments have been reclassified from a reduction of cost of rental operations to rental operations revenue. Billings reclassified totaled $55.6 million in fiscal 2003, $51.7 million in fiscal 2002 and $52.8 million in fiscal 2001. This reclassification did not impact current or historical net income or stockholders' equity.







Estimates are used in determining the collectibility of billed accounts receivable. Management analyzes specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances when evaluating the adequacy of the allowance for doubtful accounts. Significant management judgments and estimates are used in connection with establishing the allowance in any accounting period. Material differences may result in the amount and timing of bad debt expense recognition for any given period if management makes different judgments or utilizes different estimates.

Inventories

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

Goodwill, Intangibles and Other Long-Lived Assets

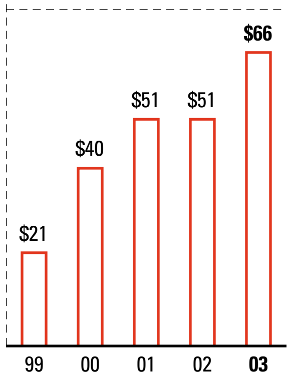
We adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") at the beginning of fiscal 2002 and as a result no longer amortize goodwill. SFAS 142 also requires that companies test goodwill for impairment on an annual basis and when events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which goodwill is assigned below its carrying amount. Our evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling. Management completes its annual impairment test in the fourth quarter of each fiscal year and there have been no impairments of goodwill or definite-lived intangible assets in fiscal 2003, 2002 or 2001. 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 2003, 2002 or 2001.

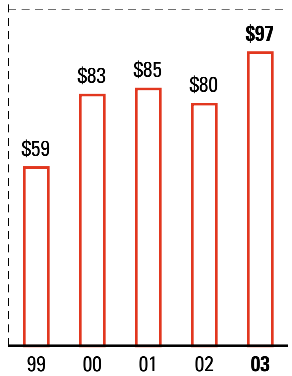
Insurance

We self-insure for certain obligations related to health and workers' compensation programs. We purchase stop-loss insurance policies to protect us from catastrophic losses. Estimates are used in determining the potential liability associated with reported claims and for losses that have occurred, but have not been reported. Management estimates consider historical claims experience, escalating medical cost trends, expected timing of claim payments and an actuarial analysis provided by a third party. During fiscal 2002, we changed certain assumptions utilized in evaluating our 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

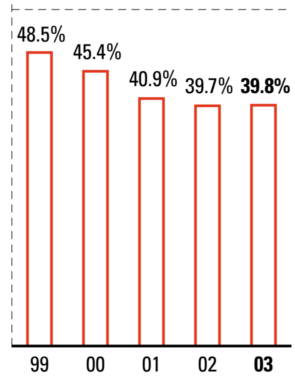
Free Cash Flow* *(dollars in millions)*



Cash Flows from Operating Activities *(dollars in millions)*



Debt as a Percentage of Total Capitalization *(percent)*



of medical care, our ability to settle claims and 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 revenues of certain income and expense items for the three fiscal years ended June 28, 2003, June 29, 2002 and June 30, 2001, and the percentage changes in these income and expense items between years are presented in the following table:

	Percentage of Revenues Years Ended			Percentage Change Between Years	
	FY 03	FY 02	FY 01	FY 03 vs. FY 02	FY 02 vs. FY 01
Revenues:					
Rental operations	**96.6%**	96.8%	96.9%	**3.9%**	3.2%
Direct sales	**3.4**	3.2	3.1	**11.3**	5.3
Total revenues	**100.0**	100.0	100.0	**4.1**	3.2
Operating expenses:					
Cost of rental operations	**62.6**	61.4	61.8	**5.8**	2.6
Cost of direct sales	**75.1**	73.0	77.2	**14.5**	(0.5)
Total cost of sales	**63.0**	61.8	62.3	**6.1**	2.5
Selling and administrative	**21.9**	21.6	20.6	**5.6**	8.1
Depreciation	**4.3**	4.4	4.4	**2.7**	2.8
Amortization of intangibles	**1.0**	0.9	1.5	**20.3**	(39.9)
Income from operations	**9.8**	11.3	11.2	**(10.3)**	4.4
Interest expense	**2.0**	2.0	2.6	**0.6**	(21.1)
Income before income taxes	**7.8**	9.3	8.6	**(12.7)**	12.2
Provision for income taxes	**3.0**	3.7	3.5	**(13.8)**	10.7
Net income	**4.8%**	5.6%	5.1%	**(12.0)%**	13.3%

Fiscal 2003 Compared to Fiscal 2002

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

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

Cost of Rental and Direct Sale. Cost of rental operations increased 5.8% to $426.6 million in fiscal 2003 from $403.1 million in fiscal 2002. Gross margin from rental sales decreased to 37.4% in fiscal 2003 from 38.6% in the prior year. Rental gross margin declines were largely the result of increasing energy and employee benefit costs, expenses related to plant closures and employee reductions as well as continued lost margin from lower employment levels within our existing customer base.

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

*Free cash flow is defined as cash provided by operating activities less capital expenditures.

Selling and Administrative. Selling and administrative expenses increased 5.6% to $154.5 million in fiscal 2003 from $146.3 million in fiscal 2002. As a percentage of total revenues, selling and administrative expenses increased to 21.9% in fiscal 2003 from 21.6% in fiscal 2002. Expenses related to uncollectible accounts receivable, severance costs, sales and marketing expenses and increasing property and casualty insurance costs drove the majority of the increase in selling and administrative expenses as a percent of total revenue.

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

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

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

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

Fiscal 2002 Compared to Fiscal 2001

Revenues. Total revenues in fiscal 2002 rose 3.2% to $677.6 million from $656.4 million in fiscal 2001. Rental revenue rose $20.1 million in fiscal 2002, a 3.2% increase over fiscal 2001. Higher unemployment levels and overall weak economic conditions resulting in continued net reductions of customer employees in uniform 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 fiscal 2002.

Cost of Rental and Direct Sale. Cost of rental operations increased 2.6% to $403.1 million in fiscal 2002 from $392.9 million in fiscal 2001. Gross margin from rental sales improved to 38.6% in fiscal 2002 from 38.2% in the prior year. The combinations of improved operational productivity, lower merchandise expense and reduced energy costs contributed to the 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 was 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 21.6% in fiscal 2002 from 20.6% 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 remained constant at 4.4% in both fiscal years 2002 and 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 0.9% in fiscal 2002 compared to 1.5% 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 total revenues in fiscal 2002.

Interest Expense. Interest expense was $13.6 million in fiscal 2002, down from $17.2 million in fiscal 2001. The decrease in interest expense was 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 reduction was due largely to decreases in Canadian statutory income tax rates.

Liquidity, Capital Resources and Financial Condition

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

Operating Activities. Net cash provided from operating activities was $96.9 million in fiscal 2003, $79.7 million in fiscal 2002 and $84.9 million in fiscal 2001. Solid earnings along with effective working capital management has been a large reason for the high levels of operating cash flow over each of the past three fiscal years. We have paid particular attention to the timely collection of accounts receivable while exploring options for payments related to trade and accrued payables.

Working capital at June 28, 2003 was $75.2 million, a $20.6 million decrease from $95.8 million at June 29, 2002. This decrease is largely due to increases in employment-related liabilities including pension and workers' compensation.

Investing Activities. Net cash used for investing activities was $121.5 million in fiscal 2003, $100.1 million in fiscal 2002 and $55.5 million in fiscal 2001. In fiscal 2003, 2002 and 2001 cash was largely used for acquisitions and property, plant and equipment additions.

Financing Activities. Financing activities provided cash of $26.0 million in fiscal 2003, $15.2 million in fiscal 2002 and used cash of $20.5 million in fiscal 2001. Cash provided in both fiscal 2003 and 2002 was from debt proceeds used primarily for acquisitions of businesses. Cash used in fiscal 2001 was primarily related to repayment of long-term debt. We paid dividends of $1.5 million in fiscal 2003 and $1.4 million in each of fiscal 2002 and 2001.

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 expired June 30, 2002. The facility provides for a $75.0 million term loan and a $250.0 million revolving credit facility. As of June 28, 2003, borrowings outstanding under the term loan were $67.5 million and under the revolving credit facility were $129.1 million at rates ranging from 2.48% to 4.25%. 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 28, 2003, letters of credit outstanding against the revolver were $15.3 million.

The credit facilities and the fixed rate notes contain various restrictive covenants that among other matters require us to maintain a minimum fixed charge coverage ratio, minimum stockholders' equity and a maximum leverage ratio, all as defined. These debt arrangements also provide for certain limits related to additional indebtedness, investments and dividends. At June 28, 2003, 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 28, 2003 for the next five fiscal years and thereafter (in thousands):

	2004	2005	2006	2007	2008	2009 and Thereafter	Total
Variable rate term loan and revolving credit facility	$11,250	$15,000	$18,750	$22,500	$129,100	$ –	$196,600
Fixed rate term loan	–	7,143	7,143	7,143	7,143	21,428	50,000
Other debt arrangements, including capital leases	3,180	1,286	66	29	–	–	4,561
Operating leases	11,740	10,024	7,621	6,123	4,731	2,120	42,359
Total contractual cash obligations	$26,170	$33,453	$33,580	$35,795	$140,974	$23,548	$293,520

Also, at June 28, 2003, we had stand-by letters of credit totaling $15.3 million issued and outstanding, primarily in connection with our property and casualty insurance programs. No amounts have been drawn upon these letters of credit.

At June 28, 2003, we had available cash on hand of $11.5 million and approximately $105.0 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 2004 and to significantly reduce the amounts outstanding under the revolving credit facility; however, we may utilize borrowings under the revolving credit facility to supplement our cash requirements from time to time. We estimate that capital expenditures in fiscal 2004 will be approximately $28.0 million to $32.0 million.

The amount of cash flow generated from operations is subject to a number of risks and uncertainties. In fiscal 2004, we may actively seek and consider acquisitions of business assets; the consummation of any acquisition could affect our liquidity profile and level of outstanding debt. We believe that our earnings and cash flow from operations, existing credit facilities and our ability to obtain additional debt or equity capital, if necessary, will be adequate to finance suitable acquisition opportunities.

Pension Obligations

We account for our defined benefit pension plan using Statement of Financial Accounting Standards No. 87, “Employer’s Accounting for Pensions” (“SFAS 87”). Under SFAS 87, pension expense is recognized on an accrual basis over employees’ approximate service periods. Pension expense calculated under SFAS 87 is generally independent of funding decisions or requirements. We recognized expense for our defined benefit pension plan of $3.1 million, $2.0 million and $1.5 million in fiscal 2003, 2002 and 2001, respectively. At June 28, 2003, the fair value of our pension plan assets totaled $16.8 million. Lower investment returns, benefit payments and declining discount rates have resulted in additional minimum pension liability of $2.9 million (net of tax of $1.7 million) as of June 28, 2003. We anticipate making a cash contribution of approximately $2.8 million in fiscal 2004.

The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. Pension expense increases as the expected rate of return on pension plan assets decreases. At June 28, 2003, we estimate that the pension plan assets will generate a long-term rate of return of 8.0%. This rate is consistent with the assumed rate used at both June 29, 2002 and June 30, 2001 and was developed by evaluating input from our actuary as well as long-term inflation assumptions. The expected long-term rate of return on plan assets at June 28, 2003 is based on an allocation of U.S. equities and U.S. fixed income securities. Decreasing the expected long-term rate of return by 0.5% (from 8.0% to 7.5%) would increase our estimated 2004 pension expense by approximately $0.1 million. Pension liability and future pension expense increase as the discount rate is reduced. We discounted future pension obligations using a rate of 6.0% at June 28, 2003 and 7.5% at both June 29, 2002 and June 30, 2001. The discount rate is determined based on the current rates earned on high quality long-term bonds. Decreasing the discount rate by 0.5% (from 6.0% to 5.5%) would increase our accumulated benefit obligation at June 28, 2003 by approximately $3.4 million and increase the estimated fiscal 2004 pension expense by approximately $1.0 million.

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

Impact of Inflation

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

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

Litigation

We are involved in a variety of legal actions relating to personal injury, customer contracts, employment, trade practices, environmental and other legal matters that arise in the normal course of business. These legal actions include lawsuits that challenge the practice of charging for certain environmental services on invoices, and being named, along with other defendants, as a potentially responsible party at certain waste disposal sites where ground water contamination has been detected or is suspected. 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 December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosures in both annual and interim financial statements about the method used to account for stock-based employee compensation and the effect of the method used on reported results. We will continue to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as the method used to account for stock-based compensation, where applicable. We adopted the disclosure requirements of SFAS 148 beginning with the third quarter ended March 29, 2003.

Cautionary Statement Regarding Forward-Looking Statements

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

Some of the factors that could cause actual results or events to vary from stated expectations include, but are not limited to, the following: unforeseen operating risks; the effects of overall economic conditions and employment levels; fluctuations in costs of insurance and energy; acquisition integration costs; the performance of acquired businesses; preservation of positive labor relationships; competition, including pricing, within the 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 28, 2003.

Quantitative and Qualitative Disclosure About Market Risk

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

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates. We use financial instruments, including fixed and variable rate debt, as well as interest rate swaps to manage interest rate risk. Interest rate swap agreements are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Assuming the current level of borrowings, a one percentage point increase in interest rates under these borrowings would have increased our interest expense for fiscal 2003 by approximately $1.5 million. This estimated exposure considers the mitigating effects of interest rate swap agreements outstanding at June 28, 2003 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.

	Fixed Rate		Variable Rate	
Maturity Date	Amount	Rate	Amount	Rate
2004	$ –	–%	$ 11,250	3.00%
2005	7,143	8.40	15,000	4.24
2006	7,143	8.40	18,750	5.67
2007	7,143	8.40	22,500	6.64
2008	7,143	8.40	129,100	7.31
Thereafter	21,428	8.40	–	–
Total	$50,000	8.40%	$196,600	6.60%
Fair Value	$57,698	–	$196,600	–

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
2004	$40,000	4.82%	1.44%
2005	25,000	2.89	2.43
Thereafter	20,000	2.85	3.07
Total	$85,000	3.38%	2.39%
Fair Value	$86,985	–	–

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 2003. Notional amounts outstanding under foreign currency contracts at June 28, 2003 were $2.7 million, all of which will mature during fiscal 2004. Notional amounts outstanding under foreign currency contracts at June 29, 2002 were $4.8 million, all of which matured during fiscal 2003. No amounts were outstanding under such contracts at June 30, 2001. Foreign currency contracts were recorded at fair value as of June 28, 2003.

Consolidated Statements of Operations

G&K Services, Inc. and Subsidiaries

For the Fiscal Years Ended (In thousands, except per share data)	**June 28, 2003**	June 29, 2002	June 30, 2001
Revenues			
Rental operations	**$681,693**	$656,121	$635,985
Direct sales	**23,895**	21,470	20,396
Total revenues	**705,588**	677,591	656,381
Operating Expenses			
Cost of rental operations	**426,564**	403,110	392,855
Cost of direct sales	**17,939**	15,672	15,751
Selling and administrative	**154,471**	146,295	135,326
Depreciation	**30,406**	29,596	28,779
Amortization of intangibles	**7,289**	6,057	10,077
Total operating expenses	**636,669**	600,730	582,788
Income from Operations	**68,919**	76,861	73,593
Interest expense	**13,691**	13,609	17,239
Income before Income Taxes	**55,228**	63,252	56,354
Provision for income taxes	**21,539**	24,985	22,571
Net Income	**$ 33,689**	$ 38,267	$ 33,783
Basic weighted average number of shares outstanding	**20,585**	20,505	20,446
Basic Earnings per Common Share	**$ 1.64**	$ 1.87	$ 1.65
Diluted weighted average number of shares outstanding	**20,691**	20,660	20,457
Diluted Earnings per Common Share	**$ 1.63**	$ 1.85	$ 1.65
Dividends per Share	**$ 0.07**	$ 0.07	$ 0.07

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

Consolidated Balance Sheets

G&K Services, Inc. and Subsidiaries

(In thousands, except share data)	**June 28, 2003**	June 29, 2002
Assets		
Current Assets		
Cash and cash equivalents	**$ 11,504**	$ 9,986
Accounts receivable, less allowance for doubtful accounts of $3,687 and $3,326	**69,839**	66,555
Inventories	**95,853**	91,733
Prepaid expenses	**14,848**	17,536
Total current assets	**192,044**	185,810
Property, Plant and Equipment		
Land	**35,543**	32,451
Buildings and improvements	**133,078**	120,422
Machinery and equipment	**258,319**	237,898
Automobiles and trucks	**39,888**	39,446
Less accumulated depreciation	**(216,071)**	(199,687)
Total property, plant and equipment	**250,757**	230,530
Other Assets		
Goodwill, net	**266,140**	200,140
Customer contracts and related customer relationships, net	**44,934**	41,556
Non-competition agreements, net	**4,666**	3,795
Other, principally retirement plan assets	**20,265**	19,868
Total other assets	**336,005**	265,359
	$ 778,806	$ 681,699
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 20,228**	$ 17,361
Accrued expenses		
Salaries and employee benefits	**41,459**	29,398
Other	**27,220**	22,628
Deferred income taxes	**13,459**	11,157
Current maturities of long-term debt	**14,430**	9,443
Total current liabilities	**116,796**	89,987
Long-Term Debt, net of Current Maturities	**236,731**	214,977
Deferred Income Taxes	**28,667**	21,570
Other Noncurrent Liabilities	**16,343**	15,007
Commitments and Contingencies (Notes 8 and 9)		
Stockholders' Equity		
Common stock, $0.50 par value		
Class A, 400,000,000 shares authorized, 19,253,986 and 19,232,223 shares issued and outstanding	**9,627**	9,616
Class B, 30,000,000 shares authorized, 1,474,996 and 1,474,996 shares issued and outstanding	**738**	738
Additional paid-in capital	**31,768**	31,120
Retained earnings	**348,028**	315,794
Deferred compensation	**(3,226)**	(4,272)
Accumulated other comprehensive loss	**(6,666)**	(12,838)
Total stockholders' equity	**380,269**	340,158
	$ 778,806	$ 681,699

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

Consolidated Statements of Stockholders' Equity and Comprehensive Income

G&K Services, Inc. and Subsidiaries

(In thousands, except per share data)	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss): Net Unrealized Gain/(Loss) on Financial Instruments	Accumulated Other Comprehensive Income (Loss): Minimum Pension Liability	Accumulated Other Comprehensive Income (Loss): Cumulative Translation Adjustments	Stock-holders' Equity
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, net (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, net (67 shares)	34	–	1,813	–	(807)	–	–	–	1,040
Tax benefit of employee stock options	–	–	190	–	–	–	–	–	190
Amortization of deferred compensation	–	–	–	–	937	–	–	–	937
Cash dividends ($0.07 per share)	–	–	–	(1,445)	–	–	–	–	(1,445)
Balance June 29, 2002	9,616	738	31,120	315,794	(4,272)	(1,265)	–	(11,573)	340,158
Net income	**–**	**–**	**–**	**33,689**	**–**	**–**	**–**	**–**	**33,689**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,368**	**9,368**
Unrealized holding gains, net of income tax	**–**	**–**	**–**	**–**	**–**	**34**	**–**	**–**	**34**
Minimum pension liability, net of income tax	**–**	**–**	**–**	**–**	**–**	**–**	**(3,230)**	**–**	**(3,230)**
Comprehensive income									**39,861**
Issuance of common stock under stock plans, net (22 shares)	**11**	**–**	**588**	**–**	**56**	**–**	**–**	**–**	**655**
Tax benefit of employee stock options	**–**	**–**	**60**	**–**	**–**	**–**	**–**	**–**	**60**
Amortization of deferred compensation	**–**	**–**	**–**	**–**	**990**	**–**	**–**	**–**	**990**
Cash dividends ($0.07 per share)	**–**	**–**	**–**	**(1,455)**	**–**	**–**	**–**	**–**	**(1,455)**
Balance June 28, 2003	**$9,627**	**$738**	**$31,768**	**$348,028**	**$(3,226)**	**$(1,231)**	**$(3,230)**	**$ (2,205)**	**$380,269**

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 28, 2003**	June 29, 2002	June 30, 2001
Operating Activities:			
Net income	**$ 33,689**	$ 38,267	$ 33,783
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	**37,695**	35,653	38,856
Deferred income taxes	**4,636**	(312)	(421)
Amortization of deferred compensation – restricted stock	**990**	937	493
Changes in current operating items, exclusive of acquisitions –			
Accounts receivable and prepaid expenses	**4,105**	2,153	(3,017)
Inventories	**1,692**	2,798	1,189
Accounts payable and other accrued expenses	**11,071**	856	12,962
Other, net	**3,035**	(673)	1,085
Net cash provided by operating activities	**96,913**	79,679	84,930
Investing Activities:			
Property, plant and equipment additions, net	**(31,403)**	(29,156)	(34,115)
Acquisition of business assets	**(88,744)**	(69,730)	(20,335)
Purchases of investments, net	**(1,395)**	(1,203)	(1,049)
Net cash used for investing activities	**(121,542)**	(100,089)	(55,499)
Financing Activities:			
Proceeds from debt financing	**178,464**	125,918	77,200
Repayments of debt financing	**(151,667)**	(110,322)	(96,275)
Cash dividends paid	**(1,455)**	(1,445)	(1,440)
Sale of common stock	**655**	1,040	58
Net cash provided by (used for) financing activities	**25,997**	15,191	(20,457)
Increase (Decrease) in Cash and Cash Equivalents	**1,368**	(5,219)	8,974
Effect of Exchange Rates on Cash	**150**	(112)	(77)
Cash and Cash Equivalents:			
Beginning of year	**9,986**	15,317	6,420
End of year	**$ 11,504**	$ 9,986	$ 15,317
Supplemental Cash Flow Information:			
Cash paid for –			
Interest	**$ 12,641**	$ 12,965	$ 14,343
Income taxes	**$ 15,267**	$ 32,681	$ 17,940

The accompanying notes are an integral part of these 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, dust mops, wiping towels, selected linen items and several restroom products. The Company also manufactures certain uniform garments that it uses to support its garment rental programs.

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 28, 2003, June 29, 2002 and June 30, 2001, of which all were 52 weeks.

Cash and Cash Equivalents

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

Inventories

Inventories consist of new goods and rental merchandise in service. Estimates are used in determining the likelihood that new goods on hand can be sold to customers or used in rental operations. Historical inventory usage and current revenue trends are considered in estimating both obsolete and excess inventories. New goods are stated at lower of first-in, first-out (FIFO) cost or market, net of any reserve for obsolete or excess inventory. Merchandise placed in service to support rental operations is amortized into cost of rental operations over the estimated useful lives of the underlying inventory items, primarily on a straight-line basis, which results in a matching of the cost of the merchandise with the weekly rental revenue generated by merchandise. Estimated lives of rental merchandise in service range from nine months to three years. In establishing estimated lives for merchandise in service, management considers historical experience and the intended use of the merchandise. The components of inventories as of June 28, 2003 and June 29, 2002 are as follows:

	2003	2002
New goods	**$27,123**	$24,472
Rental merchandise in service	**68,730**	67,261
	$95,853	$91,733

Property, Plant and Equipment

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

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

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

Goodwill, Intangible and Long-Lived Assets

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

The carrying value of goodwill is evaluated on an annual basis and when events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit to which goodwill is assigned below its carrying amount. When evaluating whether goodwill is impaired, the fair value of the reporting unit to which goodwill is assigned is compared to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of the goodwill with its carrying amount. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. Management completes its annual goodwill impairment test in the fourth quarter of each fiscal year and there have been no impairments of goodwill in fiscal 2003, 2002 or 2001.

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

Retirement Plan Assets

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

Foreign Currency

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities are recorded as a component of stockholders' equity. Gains and losses from foreign currency transactions are included in results of operations and were not material in fiscal 2003, 2002 or 2001.

Revenue Recognition

The Company's rental operations business is largely based on written service agreements whereby it agrees to collect, launder and deliver uniforms and other related products. The service agreements provide for weekly billing upon completion of the laundering process and delivery to the customer. Accordingly, the Company recognizes revenue from rental operations in the period in which the services are provided. Direct sale revenue is recognized in the period in which the product is shipped. Beginning in the third quarter of fiscal 2003, the Company made a change in the classification of billings to customers for lost or abused merchandise to a preferred classification of including such billings in revenue. Accordingly, all prior period billings for lost or abused garments have been reclassified from a reduction of cost of rental operations to rental operations revenue. Billings reclassified totaled $55,586 in fiscal 2003, $51,685 in fiscal 2002 and $52,802 in fiscal 2001. This reclassification did not impact current or historical net income or stockholders' equity.

Insurance

The Company self-insures for certain obligations related to health and workers' compensation programs. The Company purchases stop-loss insurance policies to protect it from catastrophic losses. The Company periodically evaluates its liabilities under such programs based on a third party actuarial analysis. Management's estimates consider historical claims experience, escalating medical cost trends and the expected timing of claim payments. During fiscal 2002, the Company changed certain assumptions utilized in evaluating its 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 similarly to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and other dilutive securities, including nonvested restricted stock, using the treasury stock method.

For the Fiscal Years Ended	June 28, 2003	June 29, 2002	June 30, 2001
Weighted average number of common shares outstanding used in computation of basic earnings per share	**20,585,000**	20,505,000	20,446,000
Weighted average effect of nonvested restricted stock grants and assumed exercise of options	**106,000**	155,000	11,000
Shares used in computation of diluted earnings per share	**20,691,000**	20,660,000	20,457,000

Potential common shares of 562,000, 464,000 and 846,000 related to the Company's outstanding stock options and restricted stock grants were excluded from the computation of diluted earnings per share for fiscal 2003, 2002 and 2001, respectively, as inclusion of these shares would have been antidilutive.

Stock-Based Compensation

The Company maintains Stock Option and Compensation Plans (the "Employee Plans"), which are more fully described in Note 6. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its stock option plans. Accordingly, only compensation cost related to restricted stock issued under the Employee Plans has been recognized in the accompanying consolidated statements of operations. Compensation cost related to the restricted shares was $990, $937 and $493 in fiscal 2003, 2002 and 2001, respectively. Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company's net income and net income per common share would have been adjusted as follows:

Fiscal Years	2003	2002	2001
Net income:			
As reported	**$33,689**	$38,267	$33,783
Pro forma	**31,846**	36,139	31,839
Basic net income per share:			
As reported	**$1.64**	$1.87	$1.65
Pro forma	**1.55**	1.76	1.56
Diluted net income per share:			
As reported	**$1.63**	$1.85	$1.65
Pro forma	**1.54**	1.75	1.56

The weighted average fair value of options granted in fiscal 2003, 2002 and 2001 was $12.28, $11.73 and $12.05, respectively. The weighted average exercise price was $33.66, $28.02 and $28.37 for fiscal 2003, 2002 and 2001, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: risk-free interest rates of 3.27% for fiscal 2003, 4.45% for fiscal 2002 and 5.90% for fiscal 2001; expected dividends of $0.07 per share; expected lives of five years for fiscal 2003, 2002 and 2001; and expected volatility of 36.56% for fiscal 2003 grants, 41.42% for fiscal 2002 grants and 40.00% for fiscal 2001 grants.

Use of Estimates

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

Comprehensive Income

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

Financial Instruments

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

Recent Accounting Pronouncements

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosures in both annual and interim financial statements about the method used to account for stock-based employee compensation and the effect of the method used on reported results. The Company will continue to apply APB 25 as the method used to account for stock-based compensation, where applicable. The Company adopted the disclosure requirements of SFAS 148 beginning with the third quarter ended March 29, 2003.

Note 2 Acquisitions

During each of fiscal 2003, 2002 and 2001, the Company made several small acquisitions. All acquisitions were accounted for using the purchase method. The total purchase consideration, including related acquisition costs, as well as the amounts exceeding the estimated fair values of assets acquired and liabilities assumed were as follows:

Fiscal Years	**2003**	2002	2001
Total purchase price and related acquisition costs	**$88,744**	$69,730	$20,335
Goodwill	**63,206**	52,073	9,008

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 fiscal 2003, 2002 or 2001. In addition, the Company periodically evaluates the remaining useful lives of amortizable intangible assets. All useful lives were 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	**2003**	2002	2001
Reported net income	**$33,689**	$38,267	$33,783
Add: Goodwill amortization, net of tax	–	–	2,919
Adjusted net income	**$33,689**	$38,267	$36,702
Reported basic earnings per share	**$1.64**	$1.87	$1.65
Add: Goodwill amortization, net of tax	–	–	0.14
Adjusted basic earnings per share	**$1.64**	$1.87	$1.79
Reported diluted earnings per share	**$1.63**	$1.85	$1.65
Add: Goodwill amortization, net of tax	–	–	0.14
Adjusted diluted earnings per share	**$1.63**	$1.85	$1.79

The changes in the carrying amount of goodwill for the fiscal years ended June 28, 2003 and June 29, 2002, by operating segment, are as follows:

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

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

As of June 29, 2002	Carrying Amount	Accumulated Amortization	Net
Customer contracts and related customer relationships	$66,470	$24,914	$41,556
Non-competition agreements	7,979	4,184	3,795
Total	$74,449	$29,098	$45,351

Total amortization expense was $7,289 in fiscal 2003, $6,057 in fiscal 2002 and $10,077 in fiscal 2001. Estimated amortization expense for each of the five succeeding fiscal years based on intangible assets as of June 28, 2003 is as follows:

2004	$7,729
2005	7,661
2006	7,357
2007	7,235
2008	6,863

Note 4 Long-Term Debt

Debt as of June 28, 2003 and June 29, 2002 includes the following:

	2003	2002
Borrowings under unsecured term loan and unsecured revolving credit facility at rates ranging from 2.48% to 4.25% at June 28, 2003 and from 3.09% to 3.21% at June 29, 2002	**$196,600**	$167,800
Borrowings under unsecured fixed rate term loan at 8.40%	**50,000**	50,000
Other debt arrangements including capital leases	**4,561**	6,620
	251,161	224,420
Less current maturities	**(14,430)**	(9,443)
Total long-term debt	**$236,731**	$214,977

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 2004 through 2007 of $11,250, $15,000, $18,750 and $22,500, respectively, and (ii) a $250,000 revolving credit facility expiring on July 2, 2007. As of June 28, 2003, borrowings outstanding under the term loan were $67,500 and under the revolving credit facility were $129,100. 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 28, 2003, letters of credit outstanding against the revolver were $15,343.

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 28, 2003 bear interest at the Eurodollar Rate or Canadian prime rate plus 1.50%. 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 other indebtedness and for general corporate purposes.

The credit facilities and the fixed rate notes contain various restrictive covenants that among other matters require the Company to maintain a minimum fixed charge coverage ratio, minimum stockholders' equity and a maximum leverage ratio, all as defined. These debt arrangements also provide for certain limits related to additional indebtedness, investments and dividends. As of June 28, 2003, the Company was in compliance with all financial debt covenants.

The fair value of the Company's long-term debt is determined using quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the long-term debt under the term loan and revolving credit facility approximates the carrying value as of June 28, 2003 and June 29, 2002. The fair value of the fixed rate term loan is $57,698 as of June 28, 2003.

The following table summarizes payments due on long-term debt, including capital leases, as of June 28, 2003 for the next five fiscal years and thereafter:

2004	$ 14,430
2005	23,429
2006	25,959
2007	29,672
2008	136,243
2009 and thereafter	21,428

Remaining future minimum lease payments under capital leases for each of fiscal 2004 and 2005 are $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 28, 2003, the Company had interest rate swap contracts to pay fixed rates of interest (average rate of 3.38%) and receive variable rates of interest based on three-month London Interbank Offered Rate ("LIBOR") on $85,000 notional amount of indebtedness. The $85,000 notional amount of outstanding contracts will mature $40,000 during fiscal 2004, $25,000 during fiscal 2005 and $20,000 thereafter. At June 29, 2002, 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 $1,231 and $1,265 at June 28, 2003 and June 29, 2002, 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 2003 or 2002. Notional amounts outstanding under foreign currency contracts at June 28, 2003 were $2,742, all of which will mature during fiscal 2004. Notional amounts outstanding under foreign currency contracts at June 29, 2002 were $4,813, all of which matured during fiscal 2003. No amounts were outstanding under such contracts at June 30, 2001. Foreign currency contracts were recorded at fair value as of June 28, 2003.

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 3,000,000 stock awards can be granted under the Employee Plans and 1,632,882 awards were available for grant as of June 28, 2003.

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			
	Employee Plans	Directors' Plan	Grant Price	Weighted Average Exercise Price
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
Granted	**364,308**	**7,000**	**29.23 - 35.69**	**33.49**
Exercised	**(26,700)**	–	**16.50 - 28.06**	**24.64**
Canceled	**(184,032)**	**(2,000)**	**25.00 - 46.00**	**32.07**
Outstanding at June 28, 2003	**1,285,496**	**44,000**	**$16.50 - 53.34**	**$32.53**
Exercisable at June 28, 2003	**428,279**	**32,000**	**$16.50 - 53.34**	**$36.35**

The following schedule summarizes the information related to stock options outstanding at June 28, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Average Remaining Option Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$16.50 - 25.00	**137,062**	**6.8**	**$24.81**	**137,062**	**$24.81**
25.01 - 37.00	**916,768**	**8.2**	**30.37**	**56,901**	**30.04**
37.01 - 53.34	**275,666**	**6.5**	**43.57**	**266,316**	**43.64**
	1,329,496	**7.7**	**$32.53**	**460,279**	**$36.35**

Under the Employee Plans, the Company grants restricted stock to key employees for nominal consideration. The restrictions lapse over periods up to seven years. During fiscal 2003, 2002 and 2001 the Company granted 25,000, 33,580 and 115,448 shares of restricted stock, respectively. The weighted average grant date fair value per share of restricted stock granted during fiscal 2003, 2002 and 2001 was $33.07, $32.67 and $28.19, 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 $990, $937 and $493 in fiscal 2003, 2002 and 2001, respectively.

Note 7 Income Taxes

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

Fiscal Years	2003	2002	2001
Current:			
Federal	**$ 9,482**	$14,727	$12,737
State and local	**1,396**	2,075	1,588
Foreign	**6,025**	8,495	8,766
	16,903	25,297	23,091
Deferred	**4,636**	(312)	(520)
	$21,539	$24,985	$22,571

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

Fiscal Years	2003	2002	2001
Federal taxes at the statutory rate	**$19,330**	$22,138	$19,724
State taxes, net of federal tax benefit	**1,447**	1,495	1,044
Foreign taxes	**582**	1,001	922
Permanent differences and other, net	**180**	351	881
Total provision	**$21,539**	$24,985	$22,571
Effective rate	**39.0%**	39.5%	40.0%

Significant components of the Company's deferred tax assets and deferred tax liabilities as of June 28, 2003 and June 29, 2002 are as follows:

	2003	2002
Deferred tax liabilities:		
Inventory	**$(22,095)**	$(20,186)
Depreciation	**(26,712)**	(17,938)
Intangibles	**(17,457)**	(12,289)
Other	**(1,811)**	(2,846)
Total deferred tax liabilities	**(68,075)**	(53,259)
Deferred tax assets:		
Accruals, reserves and other	**25,949**	20,532
Net deferred tax liabilities	**$(42,126)**	$(32,727)

The Company has foreign tax credit carryforwards of $1,280, 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 $1,189 in fiscal 2003, $1,062 in fiscal 2002 and $916 in fiscal 2001 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 $1,663 in fiscal 2003, $1,229 in fiscal 2002 and $713 in fiscal 2001.

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 $476 in fiscal 2003, $397 in fiscal 2002 and $350 in fiscal 2001. The accumulated benefit obligation of $7,532 as of June 28, 2003 and $6,680 as of June 29, 2002 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 28, 2003 and June 29, 2002, the estimated fair value of the investments was $7,532 and $6,680, and the cost of the investments was $8,576 and $8,233, respectively.

The changes in benefit obligation and plan assets consisted of the following for the years ended June 28, 2003 and June 29, 2002:

	Pension Plan		Supplemental Executive Retirement Plan	
	2003	2002	**2003**	2002
Change in benefit obligation:				
Projected benefit obligation, beginning of year	**$25,535**	$24,936	**$ 6,545**	$7,510
Service cost	**2,541**	2,141	**369**	259
Interest cost	**1,962**	1,653	**531**	441
Actuarial (gain) loss	**11,686**	(2,610)	**2,859**	(1,446)
Benefits paid	**(1,095)**	(585)	**(238)**	(219)
Projected benefit obligation, end of year	**$40,629**	$25,535	**$10,066**	$6,545
Change in plan assets:				
Fair value of plan assets, beginning of year	**$18,651**	$21,673	**$ –**	$ –
Actual loss on plan assets	**(717)**	(2,437)	**–**	–
Employer contributions	**–**	–	**238**	219
Benefits paid	**(1,095)**	(585)	**(238)**	(219)
Fair value of plan assets, end of year	**$16,839**	$18,651	**$ –**	$ –
Net cash surrender value of life insurance contracts			**$ 8,139**	$7,516

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 28, 2003 and June 29, 2002, with market values of $2,007 and $2,373, respectively. The plan received $5 in dividends on the Company's Class B common stock during each of fiscal 2003 and 2002.

The funded status of the Company's plans were as follows as of June 28, 2003 and June 29, 2002:

	Pension Plan		Supplemental Executive Retirement Plan	
	2003	2002	**2003**	2002
Funded status	**$(23,790)**	$(6,884)	**$(10,066)**	$(6,545)
Unrecognized actuarial loss	**14,315**	461	**3,440**	645
Unrecognized prior service cost	**331**	369	**368**	433
Intangible asset	**(331)**	–	**(368)**	(119)
Accumulated other comprehensive loss	**(4,562)**	–	**(524)**	–
Accrued pension liability	**$(14,037)**	$(6,054)	**$(7,150)**	$(5,586)

The following average assumptions were used to account for the plans for the years ended June 28, 2003 and June 29, 2002:

	Pension Plan		Supplemental Executive Retirement Plan	
	2003	2002	**2003**	2002
Discount rate	**6.0%**	7.5%	**6.0%**	7.5%
Expected return on plan assets	**8.0**	8.0	**N/A**	N/A
Rate of compensation increase	**5.0**	5.0	**5.0**	5.0

The components of net periodic pension cost are as follows for the years ended June 28, 2003, June 29, 2002 and June 30, 2001:

	Pension Plan			Supplemental Executive Retirement Plan		
	2003	2002	2001	**2003**	2002	2001
Service cost	**$ 2,541**	$ 2,141	$ 2,027	**$ 369**	$259	$ 336
Interest cost	**1,962**	1,653	1,584	**531**	441	511
Expected return on assets	**(1,468)**	(1,711)	(1,837)	**–**	–	–
Prior service cost	**55**	53	53	**65**	65	65
(Gain) loss	**–**	(161)	(326)	**63**	4	138
Net periodic pension cost	**$ 3,090**	$ 1,975	$ 1,501	**$1,028**	$769	$1,050

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 28, 2003:

	Operating Leases
2004	$11,740
2005	10,024
2006	7,621
2007	6,123
2008	4,731
2009 and thereafter	2,120
Total minimum lease payments	$42,359

Total rent expense for operating leases, including those with terms of less than one year was $17,780 in fiscal 2003, $15,462 in fiscal 2002 and $13,564 in fiscal 2001.

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, 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
2003:				
Revenues	**$618,798**	**$86,790**	**$ –**	**$705,588**
Income from operations	**52,823**	**16,933**	**(837)**	**68,919**
Interest expense	**13,330**	**1,198**	**(837)**	**13,691**
Total assets	**752,469**	**96,706**	**(70,369)**	**778,806**
Capital expenditures	**22,521**	**8,882**	**–**	**31,403**
Depreciation and amortization expense	**34,136**	**3,559**	**–**	**37,695**
Income tax expense	**14,720**	**6,819**	**–**	**21,539**
2002:				
Revenues	$595,365	$82,226	$ –	$677,591
Income from operations	58,224	19,973	(1,336)	76,861
Interest expense	13,343	1,602	(1,336)	13,609
Total assets	677,029	77,859	(73,189)	681,699
Capital expenditures	26,060	3,096	–	29,156
Depreciation and amortization expense	32,219	3,434	–	35,653
Income tax expense	17,218	7,767	–	24,985
2001:				
Revenues	$573,393	$82,988	$ –	$656,381
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

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 sheets of G&K Services, Inc. as of June 28, 2003 and June 29, 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the two fiscal years 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 audits. The consolidated financial statements of G&K Services, Inc. as of June 30, 2001, and for the year then ended, were audited by other auditors who have ceased operations and whose report dated August 10, 2001, expressed an unqualified opinion on those statements.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of G&K Services, Inc. as of June 28, 2003 and June 29, 2002, and the results of its operations and its cash flows for the two fiscal years then ended in conformity with accounting principles generally accepted in the United States.

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

As discussed above, the consolidated financial statements of G&K Services, Inc. as of June 30, 2001, and for the year 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 year 2001 in Note 3 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the fiscal year 2001 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 consolidated financial statements taken as a whole.

Ernst & Young LLP
Minneapolis, Minnesota
August 8, 2003

Quarterly Financial Data (unaudited)

G&K Services, Inc. and Subsidiaries

In thousands, except per share data	First	Second	Third	Fourth
2003				
Revenues	**$169,798**	**$179,653**	**$176,520**	**$179,617**
Gross Profit	**64,827**	**68,136**	**63,430**	**64,692**
Income from Operations	**19,153**	**19,855**	**13,849**	**16,062**
Net Income	**9,694**	**9,958**	**6,370**	**7,667**
Basic Earnings per Share	**0.47**	**0.48**	**0.31**	**0.37**
Diluted Earnings per Share	**0.47**	**0.48**	**0.31**	**0.37**
Dividends per Share	**0.0175**	**0.0175**	**0.0175**	**0.0175**
2002				
Revenues	$170,402	$168,585	$167,613	$170,991
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

Beginning in the third quarter of fiscal 2003, we made a change in the classification of billings to customers for lost or abused merchandise to a preferred classification of including such billings in revenue. Accordingly, all prior period billings for lost or abused garments have been reclassified from a reduction of cost of rental operations to rental operations revenue. Billings reclassifed were as follows:

	First	Second	Third	Fourth
2003				
Amounts reclassified to revenues	**$13,545**	**$13,603**	**$13,471**	**$14,967**
2002				
Amounts reclassified to revenues	$13,304	$12,924	$12,542	$12,915

This reclassification did not impact current or historical net income or stockholders' equity.

Stock Price by Quarter

	High	Low
Fiscal 2003		
1st Quarter	**$36.000**	**$27.000**
2nd Quarter	**37.000**	**29.280**
3rd Quarter	**36.300**	**21.570**
4th Quarter	**32.200**	**23.750**
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

Corporate Officers

Executive Officers

Richard M. Fink
Chairman of the Board

Thomas R. Moberly
Chief Executive Officer

Richard L. Marcantonio
President and
Chief Operating Officer

Jeffrey L. Wright
Chief Financial Officer
and Secretary

Operating and Staff Officers

Troy L. Bargmann
Regional Vice President

Jeffrey L. Boese
Regional Vice President

Sally J. Bredehoft
Vice President,
Human Resources

Guiseppe Brumale
Regional Vice President

Robert D. Burch
Regional Vice President

David B. Carter
Vice President,
Manufacturing and Distribution

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

Grover W. Ferguson
Vice President,
Acquisitions

W. Eric Fosse
Regional Vice President

Jeffrey R. Kiesel
Senior Vice President,
Field Operations

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

Timothy W. Kuck
Regional Vice President

Holly A. Lamond
Chief Information Officer

David V. Luby
Vice President,
Sales

Brian L. Miller
Regional Vice President

John M. Schmerler
Vice President,
Corporate Development

Glenn L. Stolt
Treasurer

Richard J. Stutz
Vice President,
Operations

Robert G. Wood
President, G&K Canada

Michael F. Woodard
Controller

Board of Directors

Richard M. Fink

Chairman of the Board

Thomas R. Moberly

Chief Executive Officer

Michael G. Allen

Founder Chairman
Michael Allen Company
Greenwich, Connecticut

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

Paul Baszucki

Chairman of the Board
Norstan, Inc.
Minnetonka, Minnesota

Mr. Baszucki is Chairman of the Board of Directors of Norstan, Inc. and is a director and member of the Audit Committee of WSI Industries, Inc. He has been a director of Norstan since 1975 and has served as Chairman of Norstan's Board of Directors since May 1997. He served as the Chief Executive Officer of Norstan from 1986 until May 1997, and again from December 1999 to October 2000. Mr. Baszucki has been a director of WSI Industries since 1988.

Wayne M. Fortun

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

Mr. Fortun is President, Chief Executive Officer, Chief Operating Officer and a director of Hutchinson Technology Inc., a world leader in precision manufacturing of suspension assemblies for disk drives. He has served as Hutchinson Technology's President and Chief Operating Officer since 1983 and as its Chief Executive Officer since May 1996. Mr. Fortun also serves as a director of C.H. Robinson Worldwide, Inc.

Donald W. Goldfus

Retired, Former Chairman of the Board
Apogee Enterprises, Inc.
Minneapolis, Minnesota

Retired since June 1999, Mr. Goldfus was formerly the Chairman of the Board of Directors of Apogee Enterprises, Inc. and continues to serve as a director of Apogee and a member of Apogee's Corporate Governance and Finance Committees. Mr. Goldfus also served as Chief Executive Officer of Apogee from 1986 until January 1998.

William M. Hope

Former Chief Executive Officer
G&K Services

Mr. Hope formerly served as Chief Executive Officer of the Company from January 1997 until January 1999, and as the Company's President and Chief Operating Officer from 1993 to 1997. Mr. Hope also served as Chairman of the Board of Directors of Minntech Corporation from June 2000 until September 2001 and served as Minntech's Interim Chief Executive Officer from June 2000 to November 2000.

M. Lenny Pippin

President and
Chief Executive Officer
Schwan Food Company
Marshall, Minnesota

Mr. Pippin has served as President and Chief Executive Officer of Schwan Food Company since November 1999. Prior to joining Schwan's, Mr. Pippin served as President and Chief Executive Officer of Lykes Brothers, Inc., a privately held corporation with operating divisions in the food, agriculture, transportation, energy and insurance industries. He continues to serve as a director of Lykes Brothers and also serves as a director and member of the Audit Committee of American Tire Distributors, Inc.

D.R. Verdoorn

Chairman of the Board
C.H. Robinson Worldwide, Inc.
Minneapolis, Minnesota

Mr. Verdoorn has served as a member of the Board of Directors of C.H. Robinson Worldwide, Inc. since 1975 and has served as Chairman of C.H. Robinson's Board of Directors since 1998. From 1977 until May 2002, Mr. Verdoorn served as Chief Executive Officer of C.H. Robinson and its predecessor, and served as its President from 1977 until December 1999.

Audit Committee

Paul Baszucki, Chair
Michael G. Allen
D.R. Verdoorn

Compensation Committee

Wayne M. Fortun, Chair
William M. Hope
M. Lenny Pippin
Donald W. Goldfus

Corporate Governance Committee

Donald W. Goldfus, Chair
M. Lenny Pippin

Corporate Information

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 6, 2003, at G&K Services' corporate headquarters, 5995 Opus Parkway, Minnetonka, 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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