G&K Services, Inc.

2001 Annual Report

"What a Difference an Image Makes"

G&K Services is a North American market leader in corporate identity apparel programs and facility services. Marking 100 years in business in 2002, G&K is well-known for its high level of commitment to customer-tailored corporate identity programs and world class customer service standards.

G&K generated record revenues of $603.6 million in fiscal 2001. During fiscal 2002, the company will continue to focus on growth through organic and acquisition strategies. Additional strategic priorities include: team-based management, technology and product advancements, customer relationship management, and customer service excellence. G&K is poised to continue the traditional standards of results it is accustomed to achieving.

G&K serves virtually all industries, including: automotive, warehousing, distribution, transportation, energy, manufacturing, pharmaceutical, semiconductor, restaurants and hospitality. The market-leading G&K business line-up includes:

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

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

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

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

Approximately 8,500 G&K team members in 130 processing facilities and branch offices serve more than 130,000 customers. Clients range from Fortune 100 companies to fast-growing small and midsize firms. G&K processes more than 2 million garments daily, serving customers in more than 46 states and the Canadian provinces of Ontario and Quebec. G&K is the largest identity apparel and facility services provider in Canada.

G&K stock is traded on the Nasdaq National Market system under the symbol GKSRA.

G&K Services Matures Into an Image-Making Role

It's an oversimplification, but building and managing a company image eventually comes down to attracting attention so people know you're there. Which is one reason that appearance really does matter. In the course of daily business, an organization has multiple opportunities to present its *look*. A distinguishing identity is a visual component of the *brand experience* every business strives to create.

Competitive, crowded and noisy market channels only add to the strategic value inherent in effective image-making. Because of its long experience in identity apparel, G&K Services has become an active participant in reshaping a business cost into a marketing investment. More and more of G&K apparel-based operations revolve around helping customers with image-making programs. We partner with clients in all types of industries to develop image and brand strategies powered by identity apparel. And we bring 100 years of experience managing programs to make that investment as productive and cost-efficient as possible.

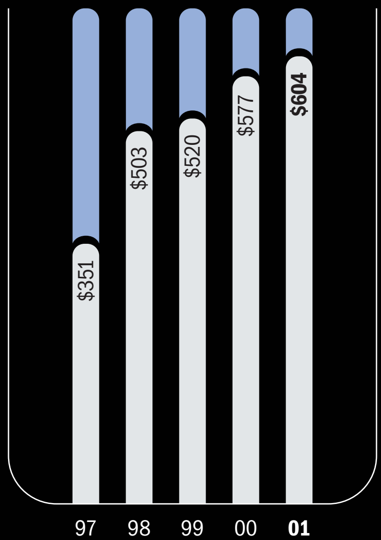
The image-driven, high-potential evolution that's moving G&K into a more strategic role with customers is significant for another reason. It's a model of the single-vendor synergy that we're pursuing across all business units. We're structured and oriented around shaping and enhancing our core competencies – local and national rental, direct sales, cleanroom and facility services – so customers can find multiple reasons to select and rely upon G&K Services.

Business trends like mergers, centralization and single-sourcing might sound, on the surface, like a challenge to G&K Services opportunities. Actually, it's exactly the opposite because we've been forecasting, transforming and equipping to step-up with value-adding solutions that fit the new, more sophisticated environment.

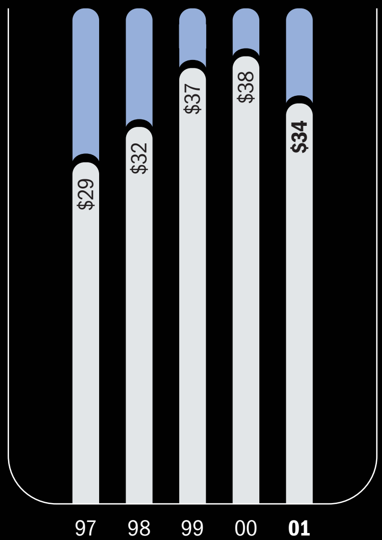
Financial Highlights

(Dollars in thousands, except per share data)	June 30, 2001	July 1, 2000	% Change
Operating Results			
Revenues	**$603,579**	$577,392	4.5%
Income from operations	**72,522**	77,644	(6.6)
Net income	**33,783**	37,812	(10.7)
Per Share Data			
Earnings	**1.65**	1.85	(10.8)%
Dividends	**0.07**	0.07	0.0
Book value	**14.73**	13.25	11.1
Average common shares outstanding	**20,457**	20,487	(0.1)
Financial Position			
Working capital	**$ 49,602**	$ 49,671	(0.1)%
Total assets	**619,963**	594,952	4.2
Long-term debt	**148,951**	167,345	(11.0)
Stockholders' equity	**301,267**	271,522	11.0
Cash flows from operating activities	**84,930**	83,314	1.9
Operating Ratios			
Current ratio	**1.4**	1.4	
Debt as percent of total capitalization	**40.9%**	45.4%	
Return on average equity	**11.8**	14.9	
Pretax margin	**9.3**	10.9	
Effective tax rate	**40.1**	40.0	

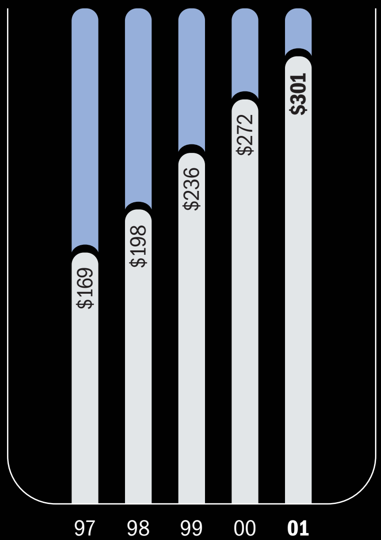
Revenues
($ in millions)



Net Income
($ in millions)



Stockholders' Equity
($ in millions)



To Our Shareholders

Richard Fink
Chairman of the Board

Thomas Moberly
President and
Chief Executive Officer

Meeting the Market Where It Does Business

During fiscal 2001, G&K Services took important and future-enhancing strides toward competing as a premier force in the image apparel and facility services industry. There is new evidence daily that the purposeful and steady G&K transformation of the last few years is moving the company forward as planned.

A G&K customer's recent merger is a good example. The merger outcome not only adds incremental G&K growth, it's also a first-hand look at converging market drivers that are the framework for our transformation. These drivers include:

- Increasing **consolidation and centralization**, with smaller or regional organizations combining to become widely operated enterprises.
- The growth opportunity signaled by the **increasing strategic value** of a strong **image and brand**.
- Preference for a single-source vendor that doesn't force a client to choose between **operational sophistication** and a flexible, **relationship-driven approach** to conducting business.

The rest of the instructive customer merger story goes like this:

Consolidation shapes our markets. G&K customer Tires Plus®, a nine-state regional chain of retail tire stores, sold its stock to a 15-state chain, Morgan Tire and Auto. The merger, it's agreed, is a masterful match because of the expanded coverage, greater buying clout and efficiencies that will enhance competitiveness.

A consistent image and a visible brand are assets. Morgan sales revenue is more than two times larger than Tires Plus. At the same time, the retailer has operated under a wide variety of names in its markets. In a nod to image and brand as assets, Morgan is gradually putting the Tires Plus name on all of the approximately 540 stores.

World-class relationships have value. G&K served the Tires Plus identity apparel account, while a larger competitor supplied Morgan Tire and Auto. The account for the merged, significantly larger operation appeared headed, by default, to our larger competitor. But in the final result, G&K Services – thanks to its prior business relationship with Tires Plus, consolidated reporting tools and relentless customer service – gained the entire 24-state account.

The image-making and brand-building opportunity is compelling. It's also fast-moving. And, especially at the national-account level, it comprises rental and direct sales customers who are very sophisticated in calculating the contribution that apparel and facility services should make to their success.

Fiscal 2001 Financial Results

A strong fourth-quarter performance that surpassed sales targets for the period paced G&K to fiscal 2001 consolidated revenues of $603.6 million, a 4.5 percent increase over last year's record sales. Excluding the extra week of revenue during fiscal 2000, the revenue increase equaled 6.6 percent. Breaking through the $600 million level – and achieving stockholders' equity of over $300 million – represent significant performance milestones.

Excluding the extra week in fiscal 2000, earnings per diluted share for the full year totaled $1.65 compared with $1.81 in the prior year. Reduced earnings were due to weak economic conditions during the second half of the year, which reduced employment levels at existing customers and reduced customer retention. In addition, higher energy and employee benefit costs tempered improvements in rental plant productivity and direct sales margins. Income from operations was $72.5 million, a 6.6 percent decrease from $77.6 million the previous year.

Despite continued job losses within the existing customer base, rental revenue for the year increased to $583.2 million, up 6.9 percent over the previous year, excluding the extra week last year. Direct sale revenue was $20.4 million, consistent with last year after excluding the extra week of revenue. Direct sale fulfillment operation productivity gains reduced the cost of direct sales for the year to 77.2 percent of revenue compared with 84.0 percent last year.

Once again, G&K generated cash flow levels that can fuel revenue-enhancing initiatives, like the customer relationship management system launched during 2001, on a scale that puts us in position to capture the potential in our industry. Free cash flow, which is cash from operations less capital expenditures, was $50.8 million compared to $39.6 million last year. G&K free cash flow, on a per-share basis, is the best in our industry.

It appears the economy might continue to impact short-term results, but we are more confident than ever that G&K is strategically positioned and strongly equipped to compete in the long-term market environment. One of our greatest strengths is the scope of opportunities that exist among our 130,000 customers. We'll continue to add coverage to increase that base. But efficient, profitable growth also depends on increasing the value that customers can experience when they do business with G&K.

Upgrading to a High-Performance Engine

G&K Services' long-term strategic direction is in full view. It's about the maturation of an established player focused on achieving steady growth and a lead role in an evolving industry. The transformation is also about equipping G&K to do business as a "large" enterprise in every useful and productive sense of that term.

Operating at a higher critical mass is a necessity. Ongoing consolidation within our own industry is creating a competitive terrain that requires increased sophistication in areas such as infrastructure, geographic reach, acquisition and expansion readiness, operations excellence, product development, marketing and selling.

Fiscal 2001 included several indications that G&K has progressed beyond rebuilding and is moving on to sustained growth.

- We completed and fine-tuned the team-based management infrastructure required to achieve our top-line growth and profit-improvement objectives. During the last two years, G&K has assembled greater strategic resources within headquarters, while building seven strong, fully-engaged regional organizations poised to compete and win in their respective markets.

- The G&K vision to support customers as a national, top-tier partner requires aggressiveness in achieving operational excellence. This, in turn, focuses attention on the need for significant and sophisticated information technologies. One example: The Customer Relationship Management (CRM) solution that we began implementing during fiscal 2001. The software significantly broadens G&K sales acquisition and account development capability.

- National Accounts sales growth, generated within an organization built from the ground up just six years ago, continues to prove that G&K can compete at this level. Frequent competitive wins against more established national suppliers confirms the G&K contention that we offer unique value because our models put relationship-building and flexible customer solutions ahead of capturing rental and sales transactions.

- The new, high-automation St. Paul plant that went online during the year demonstrates the G&K plan to grow our business through highly strategic capital investment. With the St. Paul facility in operation, G&K is able to continue profitable growth in the greater Twin Cities area.

- G&K expanded coverage through acquisitions serving customers in North Carolina, Illinois, Ohio and Pennsylvania. We will continue to make key-market acquisitions, but growing the business organically also keeps us focused on establishing new branch locations that will be supported by existing G&K plants.

- G&K maintained the commitment during fiscal 2001 to establish a vital direct sales business. With the fulfillment portion of the operation working well, we focused business development efforts on optimizing sales structure and leveraging our existing customer base. The continued emphasis on image-making and branding confirms that the single-source synergy of providing rental and sales programs is a strong opportunity among existing customers.

- The growing sophistication of customers at the route sales level pointed to the need for a more sophisticated sales and account management structure. There is a much broader array of customer characteristics that G&K needs to understand. Our new service organization implemented during early fiscal 2002 redeploys account management staff in a way that enables them to better understand customers' business needs. Anticipating needs and proactively recommending solutions increases the value we deliver to customers and improves our ability to earn more of the investment in apparel and facility products.

The G&K Services transformation continues. But it's good to report that much of the hard work has been done. We're past the *rebuilding* stage. We're moving on to capturing the top-line growth and profit improvement available to a company that can execute at the industry's most elite level.

Our industry is healthy and will experience consistent annual growth. The last two years have been extremely important to our own preparations for consistent, healthy growth. As a result, we believe we are in position to outperform the industry. Although we face the challenges of uncertain economic conditions, we expect fiscal 2002 to offer tremendous opportunities for realizing our long-term objectives.

Richard Fink

Richard Fink
Chairman of the Board

Thomas R. Moberly

Thomas Moberly
President and Chief Executive Officer

It Might Sound
Like an

A comprehensive **image resource**

Ego Thing

Mergers and acquisitions are center-stage today – and into the future – because there's evidence that *the whole* really can be worth more than the *sum of its parts*. When it comes to assembling a growth-accelerating competitive advantage, 1 + 1 + 1 potentially equals 4. To capitalize on those economies of scale, organizations consider ways to turn critical mass into sales-creating visibility.

G&K strategic planning since the mid-1990s has focused on orienting and expanding core competencies to compete, with force, in the image-making space. But it's not only in response to the M&A phenomenon. Every enterprise needs a compelling brand. And that typically hinges on a consistent, memorable and distinctive *visual image*.

Buyers have more **confidence and trust** in employees wearing uniforms, and feel that product/service quality is likely to be higher when they see uniformed employees. Approximately 60 percent of consumer and business-to-business survey respondents prefer to buy from employees wearing uniforms. Less than 10 percent prefer businesses where employees are not in uniform.

The Customer Perception of Uniforms in the Workplace[1]

But Appearances **Do Matter**

Service Experts Inc.® is a leading North American provider in residential and light commercial heating and air conditioning products and services. With 10,000 employees, the company senses the marketing power contained in an unmistakable identity. So the growth-seeking enterprise is rolling out its first image-building apparel program.

Co-managed in the United States and Canada by G&K Services and another supplier, the apparel strategy has been taking shape since early 2000, when global climate control leader Lennox International Inc. acquired Service Experts. Previously, the company's 200-plus locations – which were once independent businesses – made their own employee apparel selections.

From the start, Service Experts looked at its image opportunity with enthusiasm. The striking focus of its first standardized look for 7,000 field employees is a unique, custom-designed red, black and white shirt. Office personnel also participate by selecting branded, business casual logowear available through G&K Teamwear.™

[1] Uniform and Textile Association study, with research conducted by J.D. Powers and Associates

‘Technology’ Gets All the

Delivering every day, **no surprises**

Attention

Forecasting the most direct routes to consistent, long-term growth keeps G&K Services in constant motion. There's lots of changing territory to map. One component of our business, however, is as constant as true north. In the end, at least on the apparel side, we're accountable to *individuals* who have highly *personal* expectations toward what G&K provides.

Elements like delivery logistics, program management and interaction with Purchasing get the visibility. But our ultimate responsibility is making our customer's workforce – one employee at a time – feel comfortable, satisfied and unconcerned about what they wear to do their jobs every day.

The business-building power of **employee morale** can't be overestimated. Satisfied employees lead to satisfied customers. Providing business apparel is one more employee benefit. Protective, high-quality uniforms with the company logo reinforce team spirit and promote a team environment that makes employees feel more involved in the company's mission and performance objectives.

But People Still **Lead the Charge**

For production line employees at multiple Ford Motor Company complexes in the United States and Canada, it's as automatic as punching in. The first order of business for plant workers is getting into clean, G&K-supplied garments. Trucks from the nearest G&K locations arrive at each auto plant by 7 a.m. – six mornings a week – with laundered garments retrieved from the Ford sites just 24 hours earlier.

The apparel program is company-paid, but it's Ford employees who own the day-to-day requirements that G&K must meet. That's because production lines move only when employees have clean, well-fitting garments for the new shift. Delivery, inventory or garment-quality issues would keep them from their work.

The same is true among employees on-the-job at other large, complex operations around North America. High-end technologies might dominate high-end manufacturing. But it's the human element that makes it all go.

Branding Is a Constant

Exceptional customer understanding

Effort

There is an axiom about branding: It's not a sprint, it's a marathon. The analogy fits. Building a strong-performing brand – one that genuinely adds value to the business – is a continuous, long-term effort. It's also important to be consistent over the long haul, which means constantly evaluating the multitude of ways you can apply a brand's influence.

The G&K Services logo mat, now a proven new-product success after 18 months of steadily growing demand, is at the intersection between our single-source philosophy and providing clients with new branding ideas. In this case, it's a brand extension opportunity that's right underneath their customers' feet.

In this industry, winning on price doesn't help you **retain accounts for 15 or 20 years.** Creating loyal customers is about better service, doing the right thing, and introducing options that prove you're looking after their best interests. Confidence in a vendor goes a long way toward a customer feeling free to concentrate on its core competence.

But Every Square Foot Is **an Opportunity**

Successful consumer product retailing always goes hand-in-hand with a compelling in-store image. An excellent shopping experience becomes characteristic of the store's brand.

The stakes are even higher when the product is from a recreational or sport category like boating. Discretionary income-spending boaters – like snowmobilers, bicyclists and mountain climbers – are enthusiastic about their pastimes. And they'll bond with retailers who can supply their equipment…and an experience.

R&R Marine, located near the Twin Cities in Minnesota, is a single-location, full-service boat dealership. For 16 years, G&K has supplied the 20-employee business with uniforms and items from virtually every facility product category. Over that period of weekly visits, G&K came to know the business well enough to suggest another way that ownership could market the dealership. This year, the owner's brand-building program grew to include several custom, logo-imprinted floor mats. Customers experience the R&R Marine brand throughout the store.


R&R MARINE

Using Scale **Has Its**

New levels of **trust and integrity**

Challenges

Leveraging economies-of-scale to pursue greater financial performance can be a good news/bad news exercise. The mathematical realities of scale typically provide at least the opportunity for bottom-line enhancement. At the same time, acquiring more operations or tapping into existing mass can also accelerate a system's natural tendency toward disorder.

The bigger they are…the harder they can fall.

The antidote is a complimentary increase in system-wide coordination and control that blocks out inefficiencies – like cost mismanagement. In that respect, the National Accounts business at G&K Services is a familiar model. But in the six years since it launched the organization, G&K has concentrated on being uncommon.

The operational challenge **across large, multi-site organizations** – or within companies growing through acquisition – is to maintain process integrity and ensure control. As a result, the need to trust vendors rises to significantly higher levels. The key is to pursue integrated vendor-customer partnerships and avoid the transaction-based focus that limits vision to the short term.

But It Can Be **Managed**

Studies say that *the shopping experience* carries considerable weight when consumers select their primary supermarkets. So it's not surprising that Midwest grocery wholesaler and retailer Nash Finch, in the midst of a wide-ranging campaign to maximize customer satisfaction, includes apparel and facility products in the mix.

In keeping with a charter to drive higher levels of performance by leveraging technology and optimizing process management companywide, Nash Finch tapped G&K Services to manage apparel and facility products across 111 corporate stores. G&K is also the recommended provider for more than 1,700 independently-owned stores.

Nash Finch is committed to leading-edge information technology and robust reporting capabilities in its own business. The grocer identified with the detail that G&K brings in the form of systems and processes. Having struggled with vendor-managed inventory levels and costs that had gotten out of control as it grew, Nash Finch relies on total cost management and real-time planning that G&K provides system-wide.

Eleven-Year Summary

G&K SERVICES, INC. AND SUBSIDIARIES

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Per Share (diluted)											
Revenues	**$ 29.50**	$ 28.18	$ 25.35	$ 24.57	$ 17.18	$ 14.98	$ 12.92	$ 11.13	$ 10.25	$ 9.62	$ 8.72
Assets	**30.31**	29.04	26.40	26.00	15.27	13.85	12.47	10.14	9.95	9.89	10.19
Equity	**14.73**	13.25	11.49	9.69	8.27	6.91	5.83	4.98	4.44	4.07	3.80
Earnings	**1.65**	1.85	1.81	1.57	1.42	1.11	0.90	0.73	0.55	0.42	0.38
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	**30.25**	54.00	56.25	47.31	37.75	32.00	19.50	17.00	13.00	13.33	11.00
Low	**17.00**	14.75	39.75	33.00	23.50	18.75	13.00	11.69	8.83	8.67	6.08
Income Data (000s)											
Revenues	**$603,579**	$577,392	$519,966	$502,593	$350,914	$305,414	$262,481	$225,229	$207,904	$194,716	$176,233
Operating Income	**72,522**	77,644	77,402	72,411	52,711	45,244	36,103	29,751	24,994	21,539	16,632
Net Other Expenses	**(16,168)**	(14,625)	(16,204)	(19,664)	(4,812)	(8,028)	(5,839)	(4,433)	(7,227)	(7,422)	(7,541)
Pretax Income	**56,354**	63,019	61,198	52,747	47,899	37,216	30,264	25,318	19,113	14,117	12,326
Income Taxes	**22,571**	25,207	24,169	20,689	18,897	14,496	11,978	10,527	7,990	5,535	5,255
Net Income	**33,783**	37,812	37,029	32,058	29,002	22,720	18,286	14,791	11,123	8,582	7,771
Average Diluted Shares Outstanding	**20,457**	20,487	20,509	20,454	20,426	20,394	20,317	20,233	20,290	20,238	20,202
Balance Sheet (000s)											
Current Assets	**$188,671**	$176,302	$162,806	$153,413	$113,128	$ 99,650	$ 87,319	$ 63,530	$ 58,982	$ 52,302	$ 56,728
Net Fixed Assets	**225,965**	216,434	198,435	187,685	149,721	132,898	114,450	89,584	85,875	85,435	81,862
Total Assets	**619,963**	594,952	541,432	531,842	311,965	282,520	253,333	205,064	201,822	200,084	205,806
Current Liabilities	**139,069**	126,631	89,638	80,065	72,261	49,813	42,450	34,179	36,388	33,855	28,703
Long-Term Debt	**148,951**	167,345	193,952	234,843	54,284	75,143	76,519	54,676	59,803	68,421	85,942
Stockholders' Equity	**301,267**	271,522	235,633	198,120	168,987	140,976	118,529	100,857	90,158	82,439	76,835
Cash Flow Data (000s)											
Cash from Operations	**$ 84,930**	$ 83,314	$ 59,381	$ 74,452	$ 44,092	$ 41,884	$ 21,733	$ 28,054	$ 23,090	$ 25,112	$ 17,833
Property, Plant and Equipment Additions, Net	**(34,115)**	(43,699)	(37,974)	(37,398)	(35,536)	(36,237)	(36,545)	(17,541)	(13,252)	(15,292)	(16,528)
Ratio Analysis (%)											
Operating Margin	**12.02%**	13.45%	14.89%	14.41%	15.02%	14.81%	13.75%	13.21%	12.02%	11.06%	9.44%
Pretax Margin	**9.34**	10.91	11.77	10.50	13.65	12.19	11.53	11.24	9.19	7.25	6.99
Effective Tax Rate	**40.05**	40.00	39.49	39.22	39.45	38.95	39.58	41.58	41.80	39.21	42.63
Net Margin	**5.60**	6.55	7.12	6.38	8.26	7.44	6.97	6.57	5.35	4.41	4.41
Return on Assets [1]	**5.68**	6.98	6.96	10.28	10.27	8.97	8.92	7.33	5.56	4.17	7.61
Return on Average Equity	**11.80**	14.91	17.07	17.47	18.71	17.51	16.67	15.49	12.89	10.78	10.59

Ten-Year Highlights

Compound Annual Revenue Growth	13.1%
Compound Annual Net Income Growth	15.8%

[1] Based on beginning amounts

Performance Against Long-Term Financial Goals

Review of Goals Versus Actual Performance

	Long-Term Financial Goals	5-Year Results	10-Year Results	15-Year Results
Revenue growth[1]	15%	14.6%	13.1%	15.3%
Net income growth[1]	18%	8.3%	15.8%	15.5%
Return on average equity	18%	16.0%	15.3%	15.4%

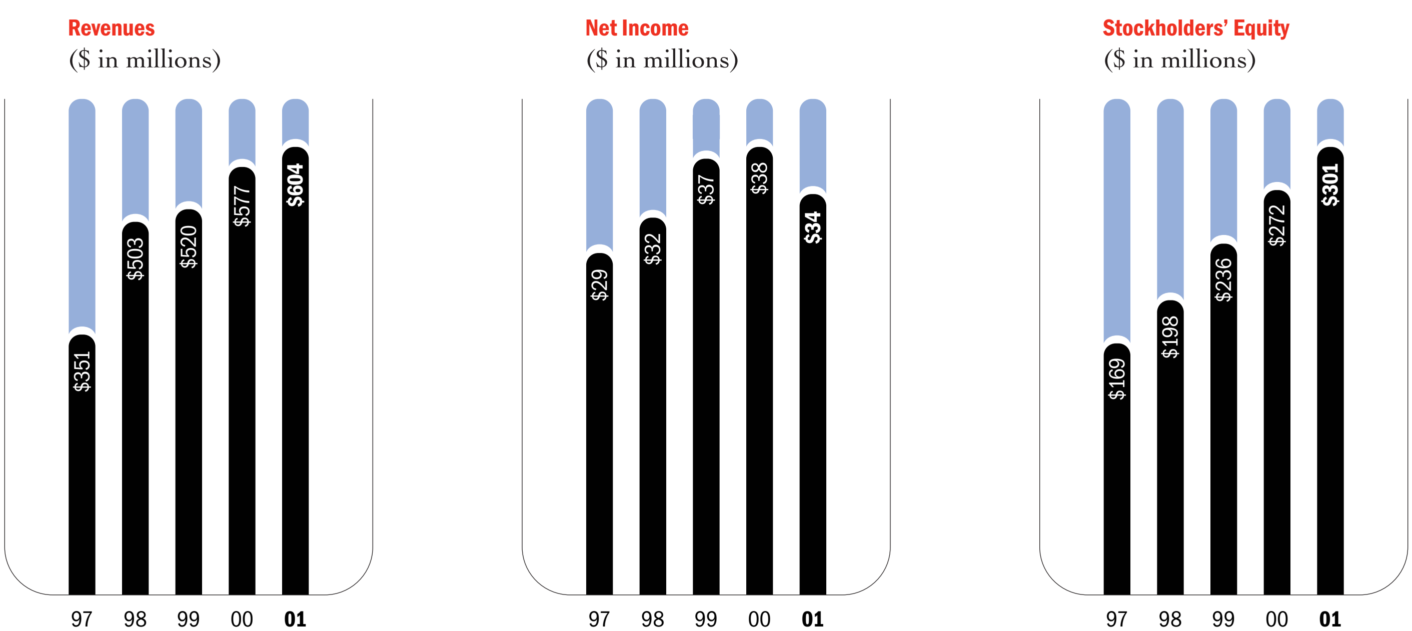
[1] Compound annual growth rate

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes thereto which are included herein. The Company utilizes a 52-53 week fiscal year ending on the Saturday nearest June 30. The fiscal year ended July 1, 2000 was a 53-week year with the extra week reported in the fourth quarter.

In fiscal 2001, G&K, the third largest competitor in the estimated $6.3 billion corporate identity apparel and facility services rental market, achieved 6.6% revenue growth after excluding the extra week of revenue in fiscal 2000. A decline in net income of 10.7% from fiscal 2000 and return on average equity to 11.8% was due to the additional week in fiscal 2000 and weak economic conditions during the second half of the current fiscal year that negatively impacted existing customer employment levels and customer turnover. In addition, sharply higher energy costs and increased employee benefit expenses contributed to lower earnings. Improved margins in direct sale and productivity gains in rental partially offset these items. G&K's record of strong financial performance results from a strategy of strengthening and expanding its market coverage and offering a broad product portfolio that provides the ability to leverage relationships with its customers.

During fiscal years 2001 and 2000, the Company made several small acquisitions. All acquisitions were accounted for using the purchase method. The total purchase price and related acquisition costs of these transactions was approximately $20.3 million in cash in 2001 and $38.3 million in cash in 2000. The total purchase price and related acquisition costs exceeded the fair values assigned to tangible assets by approximately $12.7 million in 2001 and $26.1 million in 2000.

For the latest five-year period, revenues grew at a rate of 14.6%, compounded annually. This is in line with the Company's stated goal of maintaining a long-term growth rate of 15.0%. These results reflect the Company's strategies to increase market penetration and expand its customer base through internal growth and acquisitions. New product promotions, continued success in signing national accounts, modest internal growth and acquisition have contributed to G&K's success over the past fiscal year.



The Company's five-year growth rate for net income was 8.3%, compounded annually. Net income was negatively impacted in fiscal 2001 due to the difficult economy, higher energy costs and higher employee benefit costs. In addition, the Company continues to focus on investments and process improvement that support future success. These investments include new technologies focused on enhancing revenue growth and improving human resource management. Better merchandise control and lower processing costs have contributed to the bottom line, while garment manufacturing facilities have enhanced product quality and decreased merchandise costs.

The percentage relationships to net sales of certain income and expense items for the three fiscal years ended June 30, 2001, July 1, 2000 and June 26, 1999, and the percentage changes in these income and expense items between years are presented in the following table:

	Percentage of Net Sales Years Ended			Percentage Change Between Years	
	FY 01	FY 00	FY 99	FY 01 vs. FY 00	FY 00 vs. FY 99
Revenues	**100.0%**	100.0%	100.0%	**4.5%**	11.0%
Expenses:					
Cost of rental and direct sales	**58.9**	57.8	56.8	**6.7**	12.9
Selling and administrative	**22.6**	22.1	21.4	**7.0**	14.6
Depreciation	**4.8**	5.1	5.3	**(2.4)**	7.6
Amortization of intangibles	**1.7**	1.6	1.6	**8.9**	7.9
Income from operations	**12.0**	13.4	14.9	**(6.6)**	0.3
Interest expense	**2.9**	2.9	3.3	**3.2**	(3.0)
Other income, net	**(0.2)**	(0.4)	(0.2)	**(48.4)**	105.8
Income before income taxes	**9.3**	10.9	11.8	**(10.6)**	3.0
Provision for income taxes	**3.7**	4.4	4.7	**(10.5)**	4.3
Net income	**5.6%**	6.5%	7.1%	**(10.7)%**	2.1%

Fiscal 2001 Compared to Fiscal 2000

Total revenues for fiscal 2001 rose 4.5% to $603.6 million from $577.4 million in fiscal 2000 (6.6% after excluding the extra week of revenue in fiscal 2000).

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

Direct sale revenue was $20.4 million, consistent with fiscal 2000 (after excluding the extra week of revenue in fiscal 2000). Direct sale revenue remained constant as the Company focused early in the fiscal year on improving efficiency and productivity of its direct sale operations. Cost of direct sales, as a percent of direct sales, decreased to 77.2% in fiscal 2001 from 84.0% in fiscal 2000. The improvement in gross margin was driven by the progress made in the fulfillment operation.

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

Selling and administrative expenses increased 7.0% to $136.4 million in fiscal 2001 from $127.5 million in fiscal 2000. As a percentage of total revenues, selling and administrative expenses increased to 22.6% in fiscal 2001 from 22.1% in fiscal 2000. The increase as a percent of revenue was driven by information systems initiatives focused on enhancing revenue growth and improving human resources management. These increases were partially offset by cost reductions in the direct sale operations.

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

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

Income from operations decreased 6.6% to $72.5 million in fiscal 2001 from $77.6 million in fiscal 2000. Operating margins decreased to 12.0% in fiscal 2001 from 13.4% in fiscal 2000.

Interest expense was $17.2 million for fiscal 2001, up from $16.7 million in fiscal 2000. The increase in interest expense was due primarily to higher average interest rates during the past year. Other income decreased to $1.1 million in fiscal 2001, down from $2.1 million in fiscal 2000. This decrease was largely due to a one-time gain recorded in fiscal 2000 related to the adoption of the new Financial Accounting Standards Statement No. 133. Under this accounting standard, the Company changed its characterization of investments held in connection with deferred compensation plans to trading securities and recognized previously unrealized gains. The Company's effective tax rate increased to 40.1% in fiscal 2001 from 40.0% in fiscal 2000.

Net income fell 10.7% to $33.8 million in fiscal 2001 from $37.8 million in fiscal 2000. Basic and diluted earnings per share for fiscal 2001 was $1.65 per share compared to basic and diluted earnings per share of $1.85 per share in fiscal 2000. Net income margins decreased to 5.6% for fiscal 2001 compared to 6.5% in fiscal 2000.

Fiscal 2000 Compared to Fiscal 1999

Total revenues for fiscal 2000 rose 11.0% to $577.4 million from $520.0 million in fiscal 1999 (8.9% after excluding the impact of the extra week of revenue in fiscal 2000).

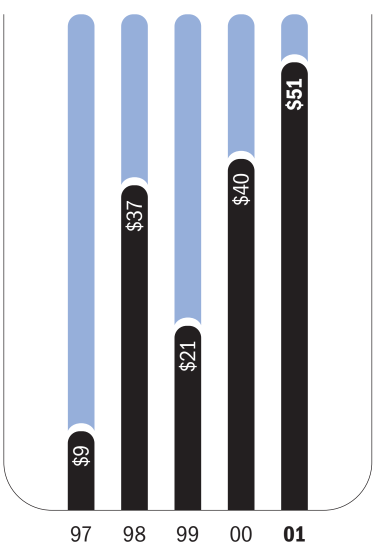
Rental revenues rose $53.6 million in fiscal 2000, a 10.7% increase over fiscal 1999 (8.5% after excluding the impact of the extra week of revenue in fiscal 2000). The improvement in rental growth rates was influenced by several factors including the Company's focus on internal revenue growth, which includes increased sales and administrative costs designed to support planned growth, acquisitions and a stronger Canadian dollar compared to the U.S. dollar.

Total direct sales to outside customers increased 22.7% to $20.7 million in fiscal 2000 from $16.9 million in fiscal 1999 (20.4% after excluding the impact of the extra week of revenue in fiscal 2000). Cost of direct sales, as a percent of direct sales, increased to 84.0% in fiscal 2000 from 70.6% in fiscal 1999. The increase in cost of direct sales was largely due to the addition of fixed fulfillment and embroidery costs to support the future growth in direct sales and catalog revenues.

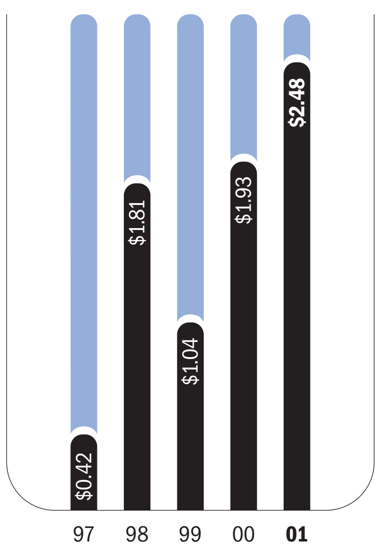
Cost of rental operations increased 11.5% to $316.1 million in fiscal 2000 from $283.4 million in fiscal 1999. As a percent of rental revenues, these costs increased to 56.8% in fiscal 2000 compared to 56.3% in fiscal 1999. The increase as a percent of revenue was primarily attributed to the closing of the Portland cleanroom facility, increased cost of employee benefits, specifically the cost of health care and workers' compensation, and increases in delivery fuel costs. These increases were partially offset by the Company's success in increasing productivity and reducing labor costs.

Selling and administrative expenses increased 14.6% to $127.5 million in fiscal 2000 from $111.2 million in fiscal 1999. As a percentage of total revenues, selling and administrative expenses increased to 22.1% in fiscal 2000 from 21.4% in fiscal 1999. The increase as a percent of revenue was due to several factors, including expenses related to the direct sale operation, including a larger sales force, an expanded catalog and additional administrative personnel, as well as a larger rental sales force and expenses related to new product launches.

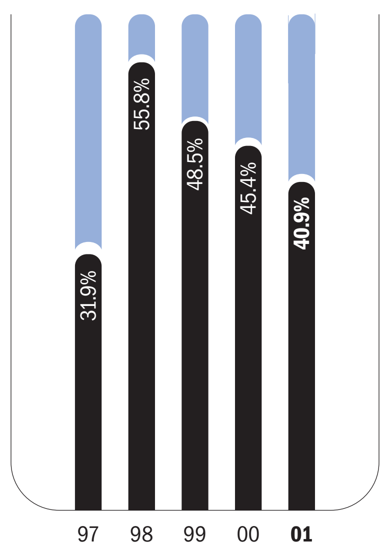
Free Cash Flow
($ in millions)



Free Cash Flow per Diluted Share



Debt as a Percentage of Total Capitalization
(Percent)



Depreciation expense increased 7.6% to $29.5 million in fiscal 2000 from $27.4 million in fiscal 1999. As a percentage of revenues, depreciation expense decreased to 5.1% in fiscal 2000 compared to 5.3% in fiscal 1999. Capital expenditures for fiscal 2000, excluding acquisition of businesses, was $43.7 million compared to $38.0 million in fiscal 1999. The increase in capital expenditures was largely due to the acquisition of software in connection with the Company's strategic information systems initiatives.

Amortization expense increased to $9.3 million for fiscal 2000 from $8.6 million in fiscal 1999. As a percent of revenues, amortization expense remained consistent at 1.6% in fiscal 2000 compared to fiscal 1999.

Income from operations increased 0.3% to $77.6 million in fiscal 2000 from $77.4 million in fiscal 1999. Operating margins decreased to 13.4% in fiscal 2000 from 14.9% in fiscal 1999.

Interest expense was $16.7 million for fiscal 2000, down from $17.2 million in fiscal 1999. The decrease was driven by lower average debt levels partially offset by an increase in interest rates. Other income increased to $2.1 million in fiscal 2000, up from $1.0 million in fiscal 1999. This increase was largely due to a one-time gain related to the adoption of the new Statement of Financial Accounting Standards (SFAS) No.133. Under this accounting standard, the Company changed its characterization of investments held in connection with deferred compensation plans to trading securities and recognized previously unrealized gains. The Company's effective tax rate increased to 40.0% in fiscal 2000 from 39.5% in fiscal 1999.

Net income rose 2.1% to $37.8 million in fiscal 2000 from $37.0 million in fiscal 1999. Basic and diluted earnings per share for fiscal 2000 was $1.85 per share compared to basic and diluted earnings per share of $1.81 per share in fiscal 1999. Net income margins decreased to 6.5% for fiscal 2000 compared to 7.1% in fiscal 1999.

Liquidity and Financial Resources

Cash flow from operating activities was $84.9 million in fiscal 2001, $83.3 million in fiscal 2000 and $59.4 million in fiscal 1999. The increase in cash flow in fiscal 2001 was the result of improvements in merchandise control and merchandise costs, improvement in accounts receivable agings related to direct sales and acquired businesses and increases in accounts payable and other accrued expenses in connection with acquired operations. The increased cash flow in fiscal 2000 was largely due to increases in earnings before depreciation and amortization and increases in accounts payable and other current liabilities associated with acquired operations. Working capital at June 30, 2001 was $49.6 million, down 0.1% from $49.7 million at July 1, 2000.

Cash used in investing activities was $55.5 million in fiscal 2001, $84.6 million in fiscal 2000 and $36.8 million in fiscal 1999. The decrease in fiscal 2001 was related to the activity of acquiring business assets in these periods and a reduction in the level of capital expenditures. The lower level of capital spending reflects ongoing efforts to ensure appropriate financial return on capital resources. The increase in fiscal 2000 was due primarily to two key acquisitions. In fiscal 2002, capital expenditures are anticipated to be approximately $38.0 million to $42.0 million.

Financing activities used cash of $20.5 million in fiscal 2001, provided $1.5 million of cash in fiscal 2000 and used $28.3 million in fiscal 1999. The fiscal 2001 and fiscal 1999 cash used for financing activities was primarily related to repayment of long-term debt. Total long-term debt, including current maturities, decreased to $208.2 million at June 30, 2001 from $225.7 million at July 1, 2000. The Company paid dividends of $1.4 million in each of the fiscal years 2001, 2000 and 1999. The Company's ratio of debt to total capitalization decreased to 40.9% at the end of fiscal 2001 from 45.4% at the end of fiscal 2000. The Company has a $125.0 million line of credit and a $20.0 million discretionary credit facility. There was $11.0 million outstanding under the discretionary credit facility and no amounts outstanding under the line of credit at the end of fiscal 2001.

The Company's debt arrangements contain various restrictive covenants that, among other matters, require the Company to maintain a minimum interest coverage ratio, minimum stockholders' equity and maximum leverage ratio, all as defined. The credit facility also limits additional indebtedness, investments, capital expenditures and cash dividends. As of June 30, 2001, the Company was in compliance with all debt covenants.

Stockholders' equity grew 11.0% to $301.3 million at June 30, 2001, compared with $271.5 million at the end of fiscal 2000. G&K's return on average equity decreased to 11.8% in fiscal 2001, compared with 14.9% and 17.1% for fiscal 2000 and fiscal 1999, respectively.

Management believes that cash flows generated from operations and borrowing capability under its credit facilities should provide adequate funding for its current businesses and planned expansion of operations or any future acquisitions.

Recent Accounting Pronouncements

Emerging Issues Task Force (EITF) Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" was adopted by the Company in the fourth quarter of fiscal 2001. This EITF requires the reporting of amounts billed to a customer in a sale transaction related to shipping and handling, if any, be classified as revenue. The effects of adoption in fiscal 2001, 2000 and 1999 were not material.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives will no longer be amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company has adopted the provisions of SFAS No. 142 effective July 1, 2001. Management is currently assessing the impact of adopting these standards.

Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of the federal securities laws, including statements concerning business strategies and their intended results, and similar statements concerning anticipated future events and expectations that are not historical facts. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document reflect management's best judgment at the time they are made, but all such statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed in or implied by the statements herein. Additional information concerning potential factors that could affect future financial results is included in the Company's Annual Report on Form 10-K for the Fiscal Year Ended June 30, 2001.

Quantitative and Qualitative Disclosure About Market Risk

The Company uses financial instruments, including fixed and variable rate debt, as well as interest rate swaps, to manage interest rate risk. The Company's earnings are affected by changes in short-term interest rates due to the use of variable rate notes and revolving credit facilities amounting to approximately $150 million. This exposure is limited by the use of interest rate swap agreements as a hedge against variability in short-term rates. The interest rate swap agreements are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes, nor is it a party to any leveraged instrument. If short-term rates increase by one-half percent (or 50 basis points), the Company's interest expense would increase, and income before taxes would decrease, by approximately $0.6 million. Conversely, if short-term rates decrease by one-half percent (or 50 basis points), the Company's interest expense would decrease, and income before taxes would increase, by approximately $0.6 million. This estimated exposure considers the mitigating effects of interest rate swap agreements on the change in the cost of variable rate debt. This analysis does not consider the effects of a change in economic activity or a change in the Company's capital structure.

The information below summarizes the Company's market risks associated with debt and interest rate swap obligations as of June 30, 2001. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date. The fair values were estimated by discounting the projected cash flows using the then-current rate applicable to similar transactions.

	Expected Maturity Date by Fiscal Year							
(In thousands)	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Long-Term Debt, variable rate	$59,220	$47,189	$50,378	$1,286	$ 66	$ 32	$158,171	$158,171
Average interest rate	4.30%	5.23%	6.15%	6.59%	6.83%	6.99%	5.19%	–
Long-Term Debt, fixed rate	–	–	–	$7,143	$7,143	$35,714	$ 50,000	$ 53,394
Average interest rate	–	–	–	8.40%	8.40%	8.40%	8.40%	–
Interest Rate Swaps, variable to fixed	–	$10,000	$30,000	–	–	–	$ 40,000	$ 41,388
Average pay rate	–	7.04%	6.31%	–	–	–	6.49%	–
Average receive rate	–	4.73%	5.65%	–	–	–	5.42%	–

Consolidated Statements of Operations

G&K SERVICES, INC. AND SUBSIDIARIES

For the Fiscal Years Ended (In thousands, except per share data)	June 30, 2001	July 1, 2000	June 26, 1999
Revenues			
Rental operations	**$583,183**	$556,646	$503,062
Direct sales	**20,396**	20,746	16,904
Total revenues	**603,579**	577,392	519,966
Operating Expenses			
Cost of rental operations	**340,053**	316,131	283,419
Cost of direct sales	**15,751**	17,435	11,938
Selling and administrative	**136,397**	127,451	111,228
Depreciation	**28,779**	29,481	27,410
Amortization of intangibles	**10,077**	9,250	8,569
Total operating expenses	**531,057**	499,748	442,564
Income from Operations	**72,522**	77,644	77,402
Interest expense	**17,239**	16,702	17,213
Other income	**(1,071)**	(2,077)	(1,009)
Income before Income Taxes	**56,354**	63,019	61,198
Provision for income taxes	**22,571**	25,207	24,169
Net Income	**$ 33,783**	$ 37,812	$ 37,029
Basic weighted average number of shares outstanding	**20,446**	20,456	20,414
Basic Earnings per Common Share	**$ 1.65**	$ 1.85	$ 1.81
Diluted weighted average number of shares outstanding	**20,457**	20,487	20,509
Diluted Earnings per Common Share	**$ 1.65**	$ 1.85	$ 1.81

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 30, 2001	July 1, 2000
Assets		
Current Assets		
Cash and cash equivalents	$ 15,317	$ 6,420
Accounts receivable, less allowance for doubtful accounts of $2,613 and $3,138	66,911	63,970
Inventories	90,085	89,975
Prepaid expenses	16,358	15,937
Total current assets	188,671	176,302
Property, Plant and Equipment		
Land	30,658	25,845
Buildings and improvements	110,468	101,636
Machinery and equipment	222,946	206,033
Automobiles and trucks	39,058	39,208
Less accumulated depreciation	(177,165)	(156,288)
Total property, plant and equipment	225,965	216,434
Other Assets		
Goodwill, net	148,080	144,229
Restrictive covenants and customer lists, net	39,890	40,911
Other, principally retirement plan assets	17,357	17,076
Total other assets	205,327	202,216
	$ 619,963	$ 594,952
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 18,622	$ 15,892
Accrued expenses		
Salaries and employee benefits	24,441	19,678
Other	23,825	18,300
Deferred income taxes	12,961	14,406
Current maturities of long-term debt	59,220	58,355
Total current liabilities	139,069	126,631
Long-Term Debt	148,951	167,345
Deferred Income Taxes	16,168	15,243
Other Noncurrent Liabilities	14,508	14,211
Commitments and Contingencies (Notes 7 and 8)		
Stockholders' Equity		
Common stock, $0.50 par		
Class A, 50,000,000 shares authorized, 19,164,746 and 19,061,299 shares issued and outstanding	9,582	9,531
Class B, 10,000,000 shares authorized, 1,474,996 and 1,474,996 shares issued and outstanding	738	738
Additional paid-in capital	29,117	26,679
Retained earnings	278,972	246,629
Deferred compensation	(4,402)	(2,464)
Accumulated other comprehensive income	(12,740)	(9,591)
Total stockholders' equity	301,267	271,522
	$ 619,963	$ 594,952

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)	Common Stock Class A Number of Shares	Common Stock Class A Amount	Common Stock Class B Number of Shares	Common Stock Class B Amount	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income	Comprehensive Income
Balance June 27, 1998	19,012	$9,506	1,475	$738	$23,644	$174,660	$(1,973)	$ (8,455)	
Net income	–	–	–	–	–	37,029	–	–	$37,029
Cash dividend $0.07 per share	–	–	–	–	–	(1,436)	–	–	–
Stock issued for employee benefit plans	30	15	–	–	2,442	–	(1,533)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	905	–	–
Unrealized holding gains, net of tax	–	–	–	–	–	–	–	548	548
Less: reclassification adjustment for gains included in net income, net of tax	–	–	–	–	–	–	–	(140)	(140)
Translation adjustment	–	–	–	–	–	–	–	(317)	(317)
Comprehensive income	–	–	–	–	–	–	–	–	$37,120
Balance June 26, 1999	19,042	9,521	1,475	738	26,086	210,253	(2,601)	(8,364)	
Net income	–	–	–	–	–	37,812	–	–	$37,812
Cash dividend $0.07 per share	–	–	–	–	–	(1,436)	–	–	–
Stock issued for employee benefit plans	19	10	–	–	593	–	(386)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	523	–	–
Unrealized holding gains, net of tax	–	–	–	–	–	–	–	171	171
Less: reclassification adjustment for gains included in net income, net of tax	–	–	–	–	–	–	–	(865)	(865)
Translation adjustment	–	–	–	–	–	–	–	(533)	(533)
Comprehensive income	–	–	–	–	–	–	–	–	$36,585
Balance July 1, 2000	19,061	9,531	1,475	738	26,679	246,629	(2,464)	(9,591)	
Net income	–	–	–	–	–	33,783	–	–	$33,783
Cash dividend $0.07 per share	–	–	–	–	–	(1,440)	–	–	–
Stock issued for employee benefit plans	104	51	–	–	2,438	–	(2,431)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	493	–	–
Unrealized holding losses, net of tax	–	–	–	–	–	–	–	(1,559)	(1,559)
Translation adjustment	–	–	–	–	–	–	–	(1,590)	(1,590)
Comprehensive income	–	–	–	–	–	–	–	–	**$30,634**
Balance June 30, 2001	**19,165**	**$9,582**	**1,475**	**$738**	**$29,117**	**$278,972**	**$(4,402)**	**$(12,740)**	

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 30, 2001	July 1, 2000	June 26, 1999
Operating Activities:			
Net income	**$ 33,783**	$ 37,812	$ 37,029
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	**38,856**	38,731	35,979
Deferred income taxes	**(421)**	3,995	3,008
Changes in current operating items, exclusive of acquisitions –			
Accounts receivable and prepaid expenses	**(3,017)**	(4,450)	(8,043)
Inventories	**1,189**	(4,174)	(6,577)
Accounts payable and other accrued expenses	**12,962**	10,485	(5,055)
Other, net	**1,578**	915	3,040
Net cash provided by operating activities	**84,930**	83,314	59,381
Investing Activities:			
Property, plant and equipment additions, net	**(34,115)**	(43,699)	(37,974)
Acquisition of business assets	**(20,335)**	(38,304)	(155)
Net proceeds from sale of assets	**–**	–	2,074
Purchases of investments, net	**(1,049)**	(2,611)	(770)
Net cash used for investing activities	**(55,499)**	(84,614)	(36,825)
Financing Activities:			
Proceeds from debt financing	**77,200**	90,433	22,635
Repayments of debt financing	**(96,275)**	(87,760)	(50,032)
Cash dividends paid	**(1,440)**	(1,436)	(1,436)
Sale of common stock	**58**	217	534
Net cash provided by (used for) financing activities	**(20,457)**	1,454	(28,299)
Increase (Decrease) in Cash and Cash Equivalents	**8,974**	154	(5,743)
Effect of Exchange Rates on Cash	**(77)**	(31)	65
Cash and Cash Equivalents:			
Beginning of year	**6,420**	6,297	11,975
End of year	**$ 15,317**	$ 6,420	$ 6,297
Supplemental Cash Flow Information:			
Cash paid for –			
Interest	**$ 14,343**	$ 15,521	$ 16,052
Income taxes	**$ 17,940**	$ 16,921	$ 27,403

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

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

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 floormats, dust mops and cloths, wiping towels, selected linen items and several restroom products. The Company also manufactures certain uniform garments that it uses to support its garment rental programs.

Principles of Consolidation

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

Fiscal Year

The Company operates on a fiscal year ending on the Saturday closest to June 30. Fiscal years for the consolidated financial statements included herein ended on June 30, 2001 (52 weeks), July 1, 2000 (53 weeks) and June 26, 1999 (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

New goods inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Rental merchandise in service is stated at cost less amortization, which is not in excess of market. The components of inventories as of June 30, 2001 and July 1, 2000 are as follows:

	2001	2000
New goods	**$23,311**	$21,206
Rental merchandise in service	**66,774**	68,769
	$90,085	$89,975

Property, Plant and Equipment

The Company provides for depreciation for financial reporting purposes over the estimated useful lives of property, plant and equipment as follows:

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

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

Intangible Assets Arising From Acquisitions

The cost of acquisitions in excess of the fair value of the underlying net assets acquired (goodwill) is amortized over periods ranging from eight to 40 years. Accumulated amortization of goodwill was $24,341 as of June 30, 2001 and $19,655 as of July 1, 2000. Restrictive covenants and acquired customer lists, stated at cost less accumulated amortization of $23,040 and $17,926 as of June 30, 2001 and July 1, 2000, are being amortized over the terms of the respective agreements and the estimated average life of an account, respectively.

Impairment losses are recorded on goodwill and other long-lived assets used in operations when indicators of impairment are present and the future undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Impairment losses are measured by comparing the fair value of the assets as determined by discounting the future cash flows at a market rate of interest to their carrying amounts. There were no impairments recognized during fiscal 2001, 2000 or 1999.

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

Assets and liabilities of the Company's foreign operations are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are recorded in stockholders' equity (as a component of comprehensive income).

Income Taxes

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

Per Share Data

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

For the Fiscal Years Ended	June 30, 2001	July 1, 2000	June 26, 1999
Weighted average number of common shares outstanding used in computation of basic earnings per share	**20,446,000**	20,456,000	20,414,000
Weighted average effect of nonvested restricted stock grants and exercise of options	**11,000**	31,000	95,000
Shares used in computation of diluted earnings per share	**20,457,000**	20,487,000	20,509,000

Potential common shares of 846,000, 118,000 and 32,000 related to the Company's outstanding stock options and restricted stock grants were excluded from the computation of diluted earnings per share for 2001, 2000 and 1999, respectively, as inclusion of these shares would have been antidilutive.

Use of Estimates

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

Comprehensive Income

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

Financial Instruments

Effective March 26, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement requires that all derivative financial instruments that qualify for hedge accounting, such as interest rate swap contracts, be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are either recognized periodically in income or stockholders' equity (as a component of other comprehensive income). The initial adoption resulted in the recording of $138 increase in other comprehensive income in fiscal 2000.

Concurrent with the adoption of SFAS No. 133, the Company changed its designation of the investments associated with its deferred compensation plan to trading securities and recognized $1,725 of previously unrealized gains in fiscal 2000.

Recent Accounting Pronouncements

Emerging Issues Task Force (EITF) Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" was adopted by the Company in the fourth quarter of fiscal 2001. This EITF requires the reporting of amounts billed to a customer in a sale transaction related to shipping and handling, if any, be classified as revenue. The effects of adoption in fiscal 2001, 2000 and 1999 were not material.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives will no longer be amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company has adopted the provisions of SFAS No. 142 effective July 1, 2001. Management is currently assessing the impact of adopting these standards.

2. Acquisitions

During fiscal year 2001, the Company made several small acquisitions. All acquisitions were accounted for using the purchase method. The total purchase price and related acquisition costs of these transactions was approximately $20,335 in cash. The purchase price and related acquisition costs exceeded the fair values assigned to tangible assets by approximately $12,720.

During fiscal year 2000, the Company made several small acquisitions. All acquisitions were accounted for using the purchase method. The total purchase price and related acquisition costs of these transactions was approximately $38,304 in cash. The purchase price and related acquisition costs exceeded the fair values assigned to tangible assets by approximately $26,055.

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

On July 14, 1997, the Company purchased the uniform rental assets and selected linen rental assets of National Linen Service (NLS) for approximately $283,400 in cash. The acquisition was accounted for using the purchase method and the purchase price was allocated to the acquired assets and assumed liabilities based on the fair values of the assets purchased and the liabilities assumed. The purchase price and related acquisition costs exceeded the fair values assigned to tangible assets by approximately $160,600, which was assigned to restrictive covenants ($1,100) to be amortized over the contract life of five years, purchased customer list ($41,600) to be amortized over 11 years and goodwill ($117,900) to be amortized over 35 years.

In connection with the asset purchase from NLS, nine linen rental facilities purchased were identified as assets held for sale. Earnings or losses from these nine facilities have been excluded from the consolidated statement of operations. During fiscal 1998, the Company sold selected linen assets and uniform rental assets of eight facilities for approximately $76,700 in cash. During fiscal 1999, the Company sold the remaining linen facility classified as held for sale for approximately $2,100 in cash.

3. Long-Term Debt

Debt as of June 30, 2001 and July 1, 2000 includes the following:

	2001	2000
Borrowings under unsecured term loan and unsecured revolving credit facility at rates ranging from 4.25% to 4.88% at June 30, 2001 and 7.19% to 9.5% at July 1, 2000	**$139,341**	$202,118
Borrowings under unsecured fixed rate term loan at 8.40%	**50,000**	–
Borrowings under unsecured discretionary credit facility at rates of 4.51% at June 30, 2001 and 7.41% at July 1, 2000	**11,000**	16,400
Other debt arrangements including capital leases	**7,830**	7,182
	208,171	225,700
Less current maturities	**(59,220)**	(58,355)
Total long-term debt	**$148,951**	$167,345

The Company maintains a $425,000 term loan and revolving credit facility. The credit facility includes (i) a $300,000 term loan facility with maturities of the remaining balance of $45,192 in fiscal 2002, $45,192 in fiscal 2003, $48,957 in fiscal 2004 and (ii) a $125,000 revolving credit facility expiring on June 30, 2002. As of June 30, 2001, borrowings outstanding under the term loan were $139,341, and there were no borrowings under the revolving credit facility. The unused portion of the revolver may be used for working capital and to provide up to $10,000 in letters of credit.

Borrowings under the term loan and revolving credit facility bear interest at 0.5% to 1.125% over the rate offered to major banks in the London Interbank Eurodollar market (Eurodollar Rate), or Canadian Prime for Canadian borrowings, based on a leverage ratio calculated on a quarterly basis. Advances outstanding as of June 30, 2001 bear interest at the Eurodollar Rate or Canadian Prime Rate plus 0.50%. The Company also pays a fee of 0.15% to 0.35% on the unused daily balance of the revolver based on a leverage ratio calculated on a quarterly basis. The fee as of June 30, 2001 was 0.15%.

In fiscal 2001, the Company completed a $50,000, 8.4% private placement debt transaction with certain institutional investors. The 10-year notes have a seven-year average life with a final maturity on July 20, 2010. Beginning on July 20, 2004 and annually thereafter to maturity, the Company will repay $7,143 of the principal amount at par. The Company used the net proceeds from the sale of the notes to reduce amounts outstanding under its term loan and revolving credit facility and for general corporate purposes.

The Company also maintains a $20,000 discretionary credit facility. Borrowings under the discretionary credit facility bear interest at 0.65% to 1.275% over the Eurodollar Rate. Advances outstanding as of June 30, 2001 bear interest at the Eurodollar Rate plus 0.65%.

The credit facilities and the fixed rate term loan contain various restrictive covenants that among other matters require the Company to maintain a minimum interest coverage ratio, minimum stockholders' equity and maximum leverage ratio, all as defined. The credit agreement also limits additional indebtedness, investments, capital expenditures and cash dividends. As of June 30, 2001, the Company was in compliance with all debt covenants.

The fair value of the Company's long-term debt is determined using quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the long-term debt under the term loan and revolving credit facility and under the discretionary credit facility approximates the carrying value as of June 30, 2001 and July 1, 2000. The fair value of the fixed rate term loan is $53,394 as of June 30, 2001.

Payments due on long-term debt during each of the five years subsequent to June 30, 2001 are as follows:

2002	$59,220
2003	47,189
2004	50,378
2005	8,429
2006	7,209
2007 and thereafter	35,746

Future minimum lease payments under capital leases for fiscal years 2002 through 2005 are $2,003, $2,244, $1,522 and $1,282.

4. 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 adjust the proportion of total debt that is subject to variable and fixed interest rates. Under these agreements, the Company has agreed to pay an amount equal to a specified fixed rate times a notional principal amount, and to receive in return an amount equal to a specified variable rate times the same notional principal amount. The notional amounts of the contract are not exchanged. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually will represent the net present value, at current rates of interest, of the remaining obligation to exchange payments under the term of the contract.

The interest rate swap contracts are reflected at fair value in the consolidated balance sheet 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 30, 2001, the Company had interest rate swap contracts to pay fixed rates of interest (average rate of 6.49%) and receive variable rates of interest (average three-month libor rate of 3.71%) on $40,000 notional amount indebtedness. The $40,000 notional amount of outstanding contracts will mature $10,000 during fiscal 2003 and $30,000 during fiscal 2004. At July 1, 2000, the Company had interest rate swap contracts on $100,000 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 a loss on the contract of $1,388 at June 30, 2001 and a gain of $171 at July 1, 2000.

5. 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. 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. A maximum of 1,500,000 stock awards can be granted under Employee Plans and 650,221 awards were available for grant as of June 30, 2001.

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 50,000 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	Restricted Stock	Grant Price
Outstanding at June 27, 1998	68,453	20,000	329,903	$11.33 - 41.88
Granted	234,103	5,000	24,322	44.77 - 53.34
Exercised	(7,013)	–	–	11.33 - 41.88
Canceled	(36,868)	–	(7,881)	46.00
Outstanding at June 26, 1999	258,675	25,000	346,344	$16.00 - 53.34
Granted	452,183	6,000	28,388	25.00 - 45.50
Exercised	–	–	–	–
Canceled	(66,985)	–	(12,822)	41.56 - 49.63
Outstanding at July 1, 2000	643,873	31,000	361,910	$16.00 - 53.34
Granted	330,494	8,000	115,448	21.50 - 28.50
Exercised	(433)	–	–	16.50
Canceled	(87,950)	–	(12,431)	16.50 - 46.00
Outstanding at June 30, 2001	**885,984**	**39,000**	**464,927**	**$16.00 - 53.34**
Exercisable at June 30, 2001	**108,144**	**31,000**	**–**	**$16.00 - 53.34**

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the accompanying consolidated statements of operations except for shares issued under the Restricted Stock Plan. 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," the Company's net income and net income per common share would have been adjusted to the following pro forma amounts:

Fiscal Years	2001	2000	1999
Net income:			
As reported	**$33,783**	$37,812	$37,029
Pro forma	**29,986**	35,574	36,035
Basic net income per share:			
As reported	**$ 1.65**	$ 1.85	$ 1.81
Pro forma	**1.47**	1.74	1.77
Diluted net income per share:			
As reported	**$ 1.65**	$ 1.85	$ 1.81
Pro forma	**1.47**	1.74	1.76

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. The weighted average fair value of options granted in 2001, 2000 and 1999 was $14.42, $15.96 and $17.38, respectively. The weighted average exercise price was $28.37, $33.74 and $46.46, 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 5.85% for 2001, 6.43% for 2000 and 4.83% for 1999; expected dividends of $0.07 per share; expected lives of seven years for 2001, 2000 and 1999; and expected volatility of 40.00% for 2001 grants, 34.48% for 2000 grants and 23.90% for 1999 grants.

6. Income Taxes

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

Fiscal Years	2001	2000	1999
Current:			
Federal	**$12,737**	$11,366	$11,625
State and local	**1,588**	1,310	1,118
Foreign	**8,766**	8,409	8,418
	23,091	21,085	21,161
Deferred	**(520)**	4,122	3,008
	$22,571	$25,207	$24,169

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

Fiscal Years	2001	2000	1999
Federal taxes at the statutory rate	**$19,724**	$22,057	$21,419
State taxes, net of federal tax benefit	**1,044**	1,071	944
Foreign taxes	**922**	1,332	1,155
Permanent differences and other, net	**881**	747	651
Total provision	**$22,571**	$25,207	$24,169
Effective rate	**40.1%**	40.0%	39.5%

Significant components of the Company's deferred tax assets and deferred tax liabilities as of June 30, 2001 and July 1, 2000 are as follows:

	2001	2000
Deferred tax liabilities:		
Inventory	**$(19,741)**	$(20,064)
Depreciation	**(14,442)**	(12,849)
Other	**(3,306)**	(4,653)
Total deferred tax liabilities	**(37,489)**	(37,566)
Deferred tax assets:		
Accruals, reserves and other	**8,360**	7,917
Net deferred tax liability	**$(29,129)**	$(29,649)

7. 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 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. Plan assets consist primarily of common stocks and U.S. government and corporate obligations.

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 $916 in 2001, $909 in 2000 and $939 in 1999 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 $713 in 2001, $608 in 2000 and $534 in 1999.

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 as of June 30, 2001 and July 1, 2000 was $5,890 and $4,849, respectively, and 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 and provides a guaranteed investment return that is adjusted annually. The Company's matching contributions under the DEFCO plan were $350 in 2001, $327 in 2000 and $265 in 1999. The accumulated benefit obligation of $7,339 as of June 30, 2001 and $7,622 as of July 1, 2000 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, which may be used to fund the retirement benefits. The investments had an aggregate market value of $7,063 as of June 30, 2001 and $7,648 as of July 1, 2000, and are included in other assets in the accompanying consolidated balance sheets at these values.

The changes in benefit obligation and plan assets consisted of the following for the years ended June 30, 2001 and July 1, 2000:

	Pension Plan		Supplemental Executive Retirement Plan	
	2001	2000	2001	2000
Change in benefit obligation:				
Projected benefit obligation, beginning of year	**$20,691**	$18,464	**$6,694**	$5,092
Service cost	**2,027**	1,753	**336**	177
Interest cost	**1,584**	1,373	**511**	377
Actuarial (gain) loss	**1,314**	(362)	**180**	1,241
Benefits paid	**(680)**	(537)	**(211)**	(193)
Projected benefit obligation, end of year	**$24,936**	$20,691	**$7,510**	$6,694
Change in plan assets:				
Fair value of plan assets, beginning of year	**$23,214**	$23,386	**$ –**	$ –
Actual return on plan assets	**(861)**	365	**–**	–
Employer contributions	**–**	–	**211**	193
Benefits paid	**(680)**	(537)	**(211)**	(193)
Fair value of plan assets, end of year	**$21,673**	$23,214	**$ –**	$ –
Net cash surrender value of life insurance contracts			**$5,890**	$4,849

The funded status of the Company's plans were as follows as of June 30, 2001 and July 1, 2000:

	Pension Plan		Supplemental Executive Retirement Plan	
	2001	2000	2001	2000
Funded status	**$(3,263)**	$ 2,523	**$(7,510)**	$(6,694)
Unrecognized transition amount	**–**	–	**–**	–
Unrecognized actuarial (gain) loss	**(1,238)**	(5,576)	**1,884**	2,054
Unrecognized prior service cost	**422**	475	**498**	562
Intangible asset	**–**	–	**409**	562
Accrued pension liability	**$(4,079)**	$(2,578)	**$(4,719)**	$(3,516)

The following average assumptions were used to account for the plans for the years ended June 30, 2001 and July 1, 2000:

	Pension Plan		Supplemental Executive Retirement Plan	
	2001	2000	2001	2000
Discount rate	**7.50%**	7.75%	**7.50%**	7.75%
Expected return on plan assets	**8.00%**	7.50%	**N/A**	N/A
Rate of compensation increase	**5.00%**	5.00%	**5.00%**	5.00%

The components of net periodic pension cost are as follows for the years ended June 30, 2001, July 1, 2000 and June 26, 1999:

	Pension Plan			Supplemental Executive Retirement Plan		
	2001	2000	1999	2001	2000	1999
Service cost	**$ 2,027**	$ 1,753	$ 1,312	**$ 336**	$177	$258
Interest cost	**1,584**	1,373	1,137	**511**	377	377
Expected return on assets	**(1,837)**	(1,742)	(1,454)	**–**	–	–
Net transition asset	**–**	(133)	(133)	**–**	–	–
Prior service cost	**53**	53	53	**65**	65	65
(Gain) loss	**(326)**	(473)	(321)	**138**	34	60
Net periodic pension cost	**$ 1,501**	$ 831	$ 594	**$1,050**	$653	$760

8. Commitments and Contingencies

Litigation

The Company is a defendant in litigation arising in the ordinary course of business, including being named, along with other defendants, as a potentially responsible party at certain waste disposal sites where groundwater contamination has been detected, or is suspected. In the opinion of management, resolution of the litigation will not have a material effect on the Company's results of operations or financial position.

Leases

The Company has noncancelable operating lease commitments for certain production and other equipment, vehicles and delivery facilities that expire on various dates through 2008. Minimum annual rental commitments at June 30, 2001 for the fiscal years 2002 through 2006 and thereafter are $7,984, $6,134, $3,576, $2,731, $1,939 and $1,487. In accordance with the terms of certain lease agreements, the Company is required to pay real estate taxes and maintenance costs. Total lease expense was $13,172 in 2001, $10,786 in 2000 and $7,896 in 1999.

9. Segment Information

The Company has two operating segments under the guidelines of SFAS No. 131: United States and Canada. Each operating segment derives revenues from the corporate identity apparel and facility services industry, which includes garment rental and non-apparel items such as floormats, dust mops and cloths, wiping towels and selected linen items. No one customer's transactions account for 1% 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). Financial information by geographic location is as follows:

	United States	Canada	Elimination	Total
2001:				
Revenues	**$526,589**	**$76,990**	**$ –**	**$603,579**
Income from operations	**51,571**	**20,951**	**–**	**72,522**
Interest income	**1,217**	**277**	**(1,590)**	**(96)**
Interest expense	**16,853**	**1,976**	**(1,590)**	**17,239**
Total assets	**612,945**	**79,990**	**(72,972)**	**619,963**
Capital expenditures	**30,795**	**3,320**	**–**	**34,115**
Depreciation and amortization expense	**34,284**	**4,572**	**–**	**38,856**
Income tax expense	**14,699**	**7,872**	**–**	**22,571**
2000:				
Revenues	$504,234	$73,158	$ –	$577,392
Income from operations	56,570	21,074	–	77,644
Interest income	3,601	64	(1,423)	2,242
Interest expense	16,130	1,995	(1,423)	16,702
Total assets	586,875	72,385	(64,308)	594,952
Capital expenditures	41,886	1,813	–	43,699
Depreciation and amortization expense	34,352	4,379	–	38,731
Income tax expense	17,786	7,421	–	25,207
1999:				
Revenues	$457,462	$62,504	$ –	$519,966
Income from operations	60,029	17,373	–	77,402
Interest income	2,283	45	(1,430)	898
Interest expense	16,164	2,479	(1,430)	17,213
Total assets	525,973	69,656	(54,197)	541,432
Capital expenditures	35,091	2,883	–	37,974
Depreciation and amortization expense	31,903	4,076	–	35,979
Income tax expense	17,617	6,552	–	24,169

Report of Independent Public Accountants

To G&K Services, Inc.:

We have audited the accompanying consolidated balance sheets of G&K Services, Inc. (a Minnesota corporation) and Subsidiaries as of June 30, 2001 and July 1, 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements referred to above present fairly, in all material respects, the financial position of G&K Services, Inc. and Subsidiaries as of June 30, 2001 and July 1, 2000, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective March 26, 2000, the Company adopted the new requirements of Statements of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Arthur Andersen LLP

Minneapolis, Minnesota

August 10, 2001

Quarterly Financial Data (UNAUDITED)

G&K SERVICES, INC. AND SUBSIDIARIES

(In thousands, except per share data)	First	Second	Third	Fourth
2001				
Revenues	$146,145	$150,836	$151,486	$155,112
Gross Profit	61,463	60,448	62,299	63,565
Income from Operations	20,206	17,324	17,371	17,621
Net Income	9,817	7,995	7,987	7,984
Basic Earnings per Share	0.48	0.39	0.39	0.39
Diluted Earnings per Share	0.48	0.39	0.39	0.39
Dividends per Share	0.0175	0.0175	0.0175	0.0175
2000[1]				
Revenues	$134,960	$142,355	$143,433	$156,644
Gross Prioft	58,066	59,678	60,670	65,412
Income from Operations	19,206	18,817	19,375	20,246
Net Income	9,583	8,631	9,161	10,437
Basic Earnings per Share	0.47	0.42	0.45	0.51
Diluted Earnings per Share	0.47	0.42	0.45	0.51
Dividends per Share	0.0175	0.0175	0.0175	0.0175

[1] Fourth quarter of fiscal 2000 included an extra week of operations.

Stock Price by Quarter

	High	Low
Fiscal 2001		
1st Quarter	30.125	24.250
2nd Quarter	29.000	23.625
3rd Quarter	30.250	18.875
4th Quarter	27.500	17.000
Fiscal 2000		
1st Quarter	54.000	37.750
2nd Quarter	42.938	29.000
3rd Quarter	33.000	14.750
4th Quarter	30.750	17.938

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

Shareholders should refer to the Definitive Proxy Statement on Form 14A for the annual meeting date, time and place. All shareholders and members of the investment community are invited to attend and take part in the discussion of company affairs.

Independent Accountants

Arthur Andersen LLP
Minneapolis, Minnesota

Transfer Agent and Registrar

Wells Fargo Bank Minnesota, N.A.
St. Paul, Minnesota

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, Assistant Treasurer or JD Bergquist Wood, Investor Relations at the corporate address, phone number or web site.

Directors

Richard M. Fink
Chairman of the Board

Thomas Moberly
President and Chief Executive Officer

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

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

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

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

Bernard Sweet*
Retired, Former President and Chief Executive Officer
Republic Airlines, Inc.
Minneapolis, Minnesota

D.R. Verdoorn*
Chairman of the Board and Chief Executive Officer
C.H. Robinson Worldwide, Inc.
Eden Prairie, Minnesota

* Audit Committee Member
** Compensation Committee Member

Officers

Richard M. Fink
Chairman of the Board

Thomas Moberly
President and Chief Executive Officer

Robert G. Wood
Executive Vice President

Jeffrey L. Wright
Chief Financial Officer, Treasurer and Secretary

Sally J. Bredehoft
Vice President, Human Resources

Patricia Kleinman
Vice President, Direct Sales

Nick Maris
Vice President, Marketing

William Otto
Vice President, Information Systems

John Schmerler
Vice President, Corporate Development

Richard Stutz
Vice President, Operations

Kathryn Trickey
Vice President, Sales

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