G&K SERVICES INC
Form 10-Q
April 28, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 27, 2010
Commission file number 0-4063
G&K SERVICES, INC.
(Exact name of registrant as specified in its charter)

MINNESOTA	41-0449530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5995 OPUS PARKWAY
MINNETONKA, MINNESOTA 55343
(Address of principal executive offices and zip code)
Registrant s telephone number, including area code (952) 912-5500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Common Stock, par value $0.50 per share, outstanding
April 26, 2010 was 18,567,267 shares

G&K Services, Inc.
Form 10-Q
Table of Contents

Table of Contents

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEETS

G&K Services, Inc. and Subsidiaries

(In thousands)	March 27, 2010 (Unaudited)	June 27, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 10,461	$ 13,136
Accounts receivable, less allowance for doubtful accounts of $4,482 and $3,848	80,311	85,209
Inventories, net	121,308	135,492
Other current assets	19,075	21,241
Total current assets	231,155	255,078
Property, Plant and Equipment, net	199,530	216,736
Goodwill	325,268	319,942
Other Assets	57,833	59,412
Total assets	$ 813,786	$ 851,168
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 25,742	$ 29,134
Accrued expenses	75,240	79,010
Deferred income taxes	3,614	3,414
Current maturities of long-term debt	412	7,744
Total current liabilities	105,008	119,302
Long-Term Debt, net of Current Maturities	174,243	224,781
Deferred Income Taxes	1,077	1,893
Accrued Income Taxes Long Term	9,533	12,016
Other Noncurrent Liabilities	55,826	55,820
Stockholders Equity	468,099	437,356
Total liabilities and stockholders equity	$ 813,786	$ 851,168

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

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

G&K Services, Inc. and Subsidiaries

(Unaudited)

(In thousands, except per share data)	For the Three Months Ended March 27, 2010	For the Three Months Ended March 28, 2009	For the Nine Months Ended March 27, 2010	For the Nine Months Ended March 28, 2009
Revenues				
Rental operations	$ 185,606	$ 209,872	$ 572,585	$ 660,211
Direct sales	13,339	21,120	40,851	57,770
Total revenues	198,945	230,992	613,436	717,981
Operating Expenses				
Cost of rental operations	130,038	147,041	402,906	460,912
Cost of direct sales	9,664	15,521	30,255	42,822
Selling and administrative	45,289	53,980	142,197	170,860
Goodwill and other impairment charges		126,719		126,719
Total operating expenses	184,991	343,261	575,358	801,313
Income/(Loss) from Operations	13,954	(112,269)	38,078	(83,332)
Interest expense	3,275	3,263	10,675	10,681
Income/(Loss) before Income Taxes	10,679	(115,532)	27,403	(94,013)
Provision/(Benefit) for income taxes	3,642	(29,229)	9,932	(18,706)
Net Income/(Loss)	$ 7,037	$ (86,303)	$ 17,471	$ (75,307)
Basic weighted average number of shares outstanding	18,305	18,222	18,300	18,450
Basic Earnings per Common Share	$ 0.38	$ (4.74)	$ 0.95	$ (4.08)
Diluted weighted average number of shares outstanding	18,361	18,222	18,339	18,450
Diluted Earnings per Common Share	$ 0.38	$ (4.74)	$ 0.95	$ (4.08)
Dividends per share	$ 0.075	$ 0.070	$ 0.225	$ 0.210

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

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

G&K Services, Inc. and Subsidiaries

(Unaudited)

(In thousands)	For the Nine Months Ended March 27, 2010	March 28, 2009
Operating Activities:		
Net income/(loss)	$ 17,471	$ (75,307)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	30,014	33,871
Goodwill and other impairment charges		126,719
Deferred income taxes	(1,737)	(34,298)
Other adjustments	(1,613)	5,731
Changes in current operating items	9,319	13,192
Other assets and liabilities	754	3,942
Net cash provided by operating activities	54,208	73,850
Investing Activities:		
Property, plant and equipment additions, net	(12,249)	(18,422)
Divestitures of business assets, net	21,670	20
Net cash provided/(used) by investing activities	9,421	(18,402)
Financing Activities:		
Payments of long-term debt	(7,434)	(7,540)
Payments of revolving credit facilities, net	(54,210)	(23,425)
Cash dividends paid	(4,185)	(3,920)
Net issuance of common stock, primarily under stock option plans	7	209
Purchase of common stock	(388)	(16,775)
Net cash used by financing activities	(66,210)	(51,451)
(Decrease)/Increase in Cash and Cash Equivalents	(2,581)	3,997
Effect of Exchange Rates on Cash	(94)	(1,359)
Cash and Cash Equivalents:		
Beginning of period	13,136	12,651
End of period	$ 10,461	$ 15,289

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

Table of Contents

G&K SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Amounts in millions, except per share data)
(Unaudited)

1. Basis of Presentation for Interim Financial Statements

The consolidated condensed financial statements included herein, except for the June 27, 2009 balance sheet, which was derived from the audited consolidated financial statements for the fiscal year ended June 27, 2009, have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In our opinion, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our financial position as of March 27, 2010, and the results of our operations for the three and nine months ended and our cash flows for the nine months ended March 27, 2010 and March 28, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures herein are adequate to make the information presented not misleading. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our latest report on Form 10-K.

The results of operations for the three and nine month periods ended March 27, 2010 and March 28, 2009 are not necessarily indicative of the results to be expected for the full year. We have evaluated subsequent events and have found none that warrant discussion.

The accounting policies we follow are set forth in Note 1 in our Annual Report on Form 10-K for the fiscal year ended June 27, 2009. Additional significant accounting policies are identified below.

Impairments of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable in accordance with applicable accounting standards. Recoverability of assets in accordance with these standards compares the projected undiscounted future cash flows from use and disposition of assets to the carrying amounts of those assets. When the sum of projected undiscounted cash flows is less than the carrying amount, impairment losses are recognized. In determining such impairment losses, discounted cash flows are utilized to determine the fair value of the assets being evaluated. The only impairments of long-lived assets in fiscal year 2009, occurred during the third quarter of fiscal 2009, when we recorded an impairment loss of $16.2 million related to certain long-lived assets and included that loss in the goodwill and other impairment charges line item in the consolidated condensed statements of operations. We did not record any impairment losses on long-lived assets in the consolidated condensed financial statements in fiscal 2010.

For additional information see Note 11, Goodwill and Other Impairment Charges .

Goodwill and Intangible Assets

The carrying value of goodwill is reviewed annually in our fourth quarter for possible impairment or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. Goodwill has been assigned to reporting units for purposes of impairment testing. Our reporting units are U.S. Rental operations, Canadian Rental operations and Direct Sales operations. The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit s fair value to its carrying value. We generally estimate fair value based on discounted cash flows. The reporting unit s discounted cash flows require significant management judgment with respect to sales, gross margin and selling, general, and administrative (SG&A) rates, capital expenditures and the selection and use of an appropriate discount rate. The projected sales, gross margin and SG&A expense rate assumptions and capital expenditures are based on our annual business plan or other forecasted results. Discount rates reflect estimates of a market-based weighted average cost of capital taking into consideration the risks associated with the projected cash flows directly resulting from the use of those assets in operations. The

Table of Contents

estimated fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions could increase or decrease estimated discounted future operating cash flows and could increase or decrease any impairment charge. If the carrying value of a reporting unit exceeds its estimated fair value in the first step, a second step is performed, in which the reporting unit s goodwill is written down to its implied fair value. In the second step we allocate the fair value of the reporting unit derived in the first step to the fair value of the reporting unit s net assets, with any fair value in excess of amounts allocated to such net assets representing the implied fair value of goodwill for that reporting unit.

For additional information see Note 11, Goodwill and Other Impairment Charges .

2. Contingent Liabilities

Environmental Matters

We are currently involved in several environmental-related proceedings by certain governmental agencies which relate primarily to whether we operated certain facilities in compliance with required permits. In addition to these proceedings, in the normal course of our business, we are subject to, among other things, periodic inspections by regulatory agencies. We continue to dedicate substantial operational and financial resources to environmental compliance, and we remain fully committed to operating in compliance with all environmental laws and regulations. As of March 27, 2010 and June 27, 2009, we had reserves of approximately $3.8 million and $4.6 million, respectively, related to various pending environmental-related matters. During the third quarter of fiscal year 2009, a $4.1 million charge was recorded related to environmental matters, which is included in the selling and administrative line of the consolidated condensed statements of operations.

While we cannot predict the ultimate outcome of any of these matters, currently, none of them are expected to have a material adverse effect on our results of operations or financial position. However, while we believe the possibility is remote, there is the potential that we may incur additional losses in excess of established reserves, and these losses could be material.

3. Adoption of New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued revised guidance regarding accounting for business combinations. The guidance retains the requirement that the acquisition method of accounting (previously called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This guidance also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We adopted this revised guidance effective at the beginning of fiscal year 2010. Our adoption did not impact our consolidated financial position or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS No. 168 was codified as Accounting Standards Codification Topic 105-10 and replaces SFAS No. 162, the Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. We adopted Accounting Standards Codification Topic 105-10 effective as of September 26, 2009. The adoption did not impact our financial position or results of operations.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06 or the ASU). The ASU amends ASC 820 to require a number of additional disclosures regarding fair value measurements. Specifically, the ASU requires entities to disclose the following:

Table of Contents

The amounts of significant transfers between level 1 and level 2 of the hierarchy and the reasons for the transfer.

The reason for any transfer in or out of level 3.

Information in the reconciliation of recurring level 3 measurements about purchases, sales, issuance and settlements on a gross basis.

Additional information about both the valuation techniques and inputs used in estimating level 2 and level 3 fair value measurements.

The levels within the fair value hierarchy are defined in Note 4, to the consolidated condensed financial statements. ASU 2010-06 is effective for our third quarter ended March 27, 2010, and will not impact our financial position or results of operations.

4. Fair Value Measurements

Generally accepted accounting principles (GAAP) defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We considered non-performance risk when determining fair value of our derivative financial instruments. The fair value hierarchy prescribed under GAAP contains three levels as follows:

Level 1 Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets in non-active markets;

Inputs other than quoted prices that are observable for the asset or liability; and

Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management s estimates of market participant assumptions.

We have not transferred any amounts between fair value levels during fiscal year 2010. In addition, to value our level 2 assets and liabilities, we obtained information from independent third parties for similar assets and liabilities in active markets.

Table of Contents

The following table summarizes the balances of assets and liabilities measured at fair value on a recurring basis:

	As of March 27, 2010 Fair Value Measurements Using Inputs Considered as		
	Level 1	Level 2	Total
Other current assets:			
Derivative financial instruments	$	$ 0.1	$ 0.1
Other assets:			
Non-qualified, non-contributory retirement plan assets		9.7	9.7
Non-qualified deferred compensation plan assets	17.4		17.4
Total assets	$ 17.4	$ 9.8	$ 27.2
Accrued expenses:			
Derivative financial instruments	$	$ 7.0	$ 7.0
Total liabilities	$	$ 7.0	$ 7.0

The fair value of cash, trade receivables and borrowings under credit agreements approximates the amounts recorded.

5. Derivative Financial Instruments

All derivative financial instruments are recognized at fair value and are recorded in other current assets or accrued expenses in the consolidated condensed balance sheets. The accounting for changes in the fair value of a derivative financial instrument depends on whether it has been designated and qualifies as a hedging relationship and on the type of the hedging relationship. For those derivative financial instruments that are designated and qualify as hedging instruments, we designate the hedging instrument (based on the exposure being hedged) as cash flow hedges. We do not have any derivative financial instruments that have been designated as either a fair value hedge or a hedge of a net investment in a foreign operation. Cash flows associated with derivative financial instruments are classified in the same category as the cash flows hedged in the consolidated condensed statements of cash flows.

In the ordinary course of business, we are exposed to market risks. We utilize derivative financial instruments to manage interest rate risk and commodity price risk and periodically foreign exchange risk. Interest rate swap contracts are entered into to manage interest rate risk associated with our fixed and variable rate debt. Futures contracts on energy commodities are entered into to manage the price risk associated with forecasted purchases of gasoline and diesel fuel used in our rental operations. Forward exchange contracts on foreign currencies are periodically entered into to manage the foreign currency exchange risk associated with firm commitments denominated in foreign currencies. We designate interest rate swap contracts as cash flow hedges of the interest expense related to variable rate debt and futures contracts on energy commodities as cash flow hedges of forecasted purchases of gasoline and diesel fuel. We have not designated our forward exchange contracts on foreign currencies as hedging instruments.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative financial instrument is reported as a component of accumulated other comprehensive income and reclassified into the consolidated condensed statements of operations in the same line item associated with the forecasted transaction and in the same period as the expenses from the cash flows of the hedged items are recognized. We perform an assessment at the inception of the hedge and on a quarterly basis thereafter, to determine whether our derivatives are highly effective in offsetting changes in the value of the hedged items. Any changes in the fair value resulting from hedge ineffectiveness, is immediately recognized as income or expense.

We use interest rate swap contracts to limit exposure to changes in interest rates and to balance the total debt that is subject to variable and fixed interest rates. The interest rate swap contracts we utilize effectively modify our exposure to interest rate risk by converting variable rate debt to a fixed rate without an exchange of the underlying principal amount. Approximately 88% of our outstanding variable rate debt had its interest payments modified using interest rate swap contracts as of March 27, 2010.

In addition, we purchase fuel commodity futures contracts to limit exposure to energy prices and effectively hedge a portion of our anticipated gasoline and diesel fuel purchases. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchases of those commodities without an exchange of the underlying commodity. Approximately 25% of our anticipated gasoline and diesel fuel purchases for the next twelve months are hedged using futures contracts as of March 27, 2010.

We do not engage in speculative transactions or fair value hedging nor do we hold or issue financial instruments for trading purposes.

Table of Contents

The following tables summarize the classification and fair value of the interest rate swap contracts and fuel commodity futures contracts which have been designated as cash flow hedging instruments:

		Asset Derivatives Fair Value	
Relationship:	Balance Sheet Classification:	March 27, 2010	June 27, 2009
Fuel commodity futures contracts	Other current assets	$ 0.1	$ 0.3
Total derivatives designated as cash flow hedging instruments		$ 0.1	$ 0.3

		Liability Derivatives Fair Value	
Relationship:	Balance Sheet Classification:	March 27, 2010	June 27, 2009
Interest rate swap contracts	Accrued expenses	$ 6.3	$ 9.3
Fuel commodity futures contracts	Accrued expenses	0.1	0.2
Total derivatives designated as cash flow hedging instruments		$ 6.4	$ 9.5

The fair value of interest rate swap contracts not designated as hedging instruments totaled a $0.6 million liability as of March 27, 2010. As of June 27, 2009, all derivative financial instruments were designated as hedging instruments.
For our interest rate swap contracts that qualify for cash flow hedge designation, the related gains or losses on the contracts are deferred as a component of accumulated other comprehensive income or loss (net of related income taxes) until the interest expense on the related debt is recognized. As the interest expense on the hedged debt is recognized, the other comprehensive income or loss is reclassified to interest expense. Of the $4.1 million net loss deferred in accumulated other comprehensive income as of March 27, 2010, a $2.7 million loss is expected to be reclassified to interest expense in the next twelve months.
As of March 27, 2010, we had interest rate swap contracts to pay fixed rates of interest and to receive variable rates of interest based on three-month London Interbank Offered Rate (LIBOR) on $165.0 million notional amount, of which, $20.0 million are forward starting interest rate swap contracts. Of the $165.0 million notional amount, $70.0 million matures in 12 months, $45.0 million matures in 13-24 months, $25.0 million matures in 25-36 months and $25.0 million matures later than 36 months. The average rate on the $165.0 million of interest rate swap contracts was 4.1% as of March 27, 2010. These interest rate swap contracts are highly effective cash flow hedges and accordingly, gains or losses on any ineffectiveness was not material to any period.
As our fuel commodity futures contracts qualify for cash flow hedge designation, the related gains or losses on these contracts are deferred as a component of other comprehensive income or loss (net of related income taxes) until the expense is recognized on the hedged commodity. Upon purchase of the hedged commodity the other comprehensive income or loss is reclassified to the cost of rental operations line item in the consolidated condensed statements of operations. The gain deferred in accumulated other comprehensive income as of March 27, 2010 is less than $0.1 million and is expected to be reclassified to cost of rental operations in the next twelve months.
As of March 27, 2010, we had fuel commodity futures contracts to pay fixed prices of unleaded gasoline and diesel fuel and receive variable prices based on the Department of Energy (DOE) index on 1.1 million gallons, all of which will occur in the next twelve months. The weighted average fixed price on the 1.1 million gallons of fuel commodity futures contracts was $2.94 per gallon as of March 27, 2010. These commodity contracts have been designated as highly effective cash flow hedges and accordingly, gains or losses on any ineffectiveness was not material to any

period.

Table of Contents

The following tables summarize the amount of gain or loss recognized in accumulated other comprehensive income or loss and the classification and amount of gains or losses reclassified from accumulated other comprehensive income or loss into the consolidated condensed statements of operations for the three and nine months ended March 27, 2010 and March 28, 2009 related to derivative financial instruments in cash flow hedging relationships:

	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)			
	Three Months Ended		Nine Months Ended	
Relationship:	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Interest rate swap contracts	$ (0.6)	$ (0.3)	$ (1.8)	$ (6.7)
Fuel commodity futures contracts		(0.2)	(0.1)	(2.3)
Total derivatives designated as cash flow hedging instruments	$ (0.6)	$ (0.5)	$ (1.9)	$ (9.0)

		Amount of Gain or (Loss) Reclassified From Accumulated Other Comprehensive Income (Loss) to Consolidated Statements of Operations			
		Three Months Ended		Nine Months Ended	
Relationship:	Statement of Operations Classification:	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Interest rate swap contracts	Interest Expense	$ (0.9)	$ (0.8)	$ (2.7)	$ (1.3)
Interest rate swap contracts	Selling and Administrative	(0.1)		(0.1)	
Fuel commodity futures contracts	Cost of Rental Operations		(0.5)		(0.5)
Total derivatives designated as cash flow hedging instruments		$ (1.0)	$ (1.3)	$ (2.8)	$ (1.8)

The following table summarizes the amount of gain or loss recognized in the consolidated statement of operations for the three and nine months ended March 27, 2010 and March 28, 2009 related to derivative financial instruments not designated as hedging instruments.

		Amount of Gain or (Loss) Recognized in Consolidated Statement of Operations			
		Three Months Ended		Nine Months Ended	
Relationship:	Statement of Operations Classification:	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Interest rate swap contracts	Selling and Administrative	$ (0.3)	$	$ (0.3)	$

Table of Contents

6. Exit, Disposal and Related Activities

We continuously monitor our operations and related cost structure to ensure that our resource levels are appropriate and from time to time take various actions to ensure that these resources are utilized in an efficient manner. These actions may consist of facility closures, divestitures, expansions and increases or decreases in staffing levels. During the nine months ended March 27, 2010 and March 28, 2009, we took a number of actions to adjust our business operations as a result of the changes in the economic environment. The most significant of these actions are discussed below.

In the first quarter of fiscal year 2009, we closed three processing plants, two branch locations, reduced selected headcount and outsourced our fleet maintenance function. As a result of these actions, we recorded approximately $2.6 million of expense in the consolidated condensed statements of operations during fiscal year 2009. These charges principally impacted our United States operating segment. Of these amounts, approximately $1.0 million was recorded in the cost of rental operations line item and the remaining $1.6 million was recorded in the selling and administrative line item. All severance associated with this action was paid by September 26, 2009.

In the third quarter of fiscal year 2009, we restructured our workforce to better align our cost structure with our revenue volume. As a result of this action, we recorded approximately $0.9 million in severance costs in the consolidated condensed statements of operations. These charges impacted both our United States and Canadian operating segments and did not significantly impact any one line item on our consolidated condensed statements of operations for the three and nine months ended March 28, 2009. Substantially all severance costs related to these actions were paid by March 28, 2009.

During the first quarter of fiscal year 2010, we continued to align our operations, workforce and cost structure to better match our cost structure with our revenue levels. As a result, we reduced selected administrative, regional and corporate headcount, divested an unprofitable operation and recorded approximately $1.4 million in associated severance costs in the selling and administrative line. Of the $1.4 million in severance, $0.6 million was paid by September 26, 2009, with the remaining $0.8 million to be paid by October 31, 2010. These actions primarily impacted our United States operating segment.

In the second quarter of fiscal year 2010, we sold all of the customer lists and certain assets related to our U.S. Cleanroom operations. In addition, we disposed of a non-core linen operation at one of our production facilities. As a result of these transactions, including the associated asset impairment charges, we recognized a net gain of $1.2 million in the selling and administrative line in the consolidated condensed statements of operations.

In the third quarter of fiscal year 2010, we sold a portion of the customer list and certain assets related to a non-core linen operation and refined our estimates related to the disposition of our Cleanroom operations. As a result of these transactions, including the associated impairment charges, we recognized a net gain of $2.5 million in the selling and administrative line in the consolidated condensed statements of operations.

7. Income Taxes

Our fiscal 2010 year to date effective tax rate increased to 36.2% for the first nine months of fiscal year 2010 from 19.9% in the same period of fiscal year 2009. The current year tax rate is lower than our statutory rate due to the adjustment of deferred tax liabilities related to Canada, the enactment of a provincial tax rate reduction and the favorable tax treatment on the sale of certain assets, offset by the reduction of a deferred tax asset associated with equity based compensation. The prior year tax rate was significantly lower than our statutory rate primarily due to the impact of nondeductible goodwill impairment charges, nondeductible environmental charges, and the write-off of deferred tax assets associated with certain expiring stock options.

Table of Contents

8. 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 period. Diluted earnings per common share was computed similarly to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and other dilutive securities, including non-vested restricted stock, using the treasury stock method.

	Three Months Ended		Nine Months Ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Weighted average number of common shares outstanding used in computation of basic earnings per share	18.3	18.2	18.3	18.5
Weighted average effect of non-vested restricted stock grants and assumed exercise of options	0.1			
Shares used in computation of diluted earnings per share	18.4	18.2	18.3	18.5

We excluded potential common shares related to our outstanding equity compensation grants of 1.5 million and 2.0 million for the three months ended March 27, 2010 and March 28, 2009, respectively, and 1.8 million for both nine months ended March 27, 2010 and March 28, 2009, from the computation of diluted earnings per share. Inclusion of these shares would have been anti-dilutive.

9. Comprehensive Income

For the three and nine month periods ended March 27, 2010 and March 28, 2009, the components of comprehensive income were as follows:

	Three Months Ended		Nine Months Ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Net income/(loss)	$ 7.0	$ (86.3)	$ 17.5	$ (75.3)
Other comprehensive income/(loss):				
Foreign currency translation adjustments, net of tax	1.7	(1.8)	13.4	(27.6)
Derivative financial instruments (loss) recognized, net of tax	(0.6)	(0.5)	(1.9)	(9.0)
Derivative financial instruments (loss) reclassified, net of tax	1.0	1.3	2.8	1.8
Total comprehensive income/(loss)	$ 9.1	$ (87.3)	$ 31.8	$ (110.1)

10. Inventories

The components of inventory as of March 27, 2010 and June 27, 2009 are as follows:

	March 27, 2010	June 27, 2009

Raw Materials	$ 8.2	$ 9.2
Work in Process	0.8	3.6
Finished Goods	52.1	55.1
New Goods	$ 61.1	$ 67.9
Merchandise in Service	$ 60.2	$ 67.6
Total Inventories	$ 121.3	$ 135.5

13

Table of Contents

11. Goodwill and Other Impairment Charges

The following table identifies the major components of the goodwill and other impairment charges that are reflected in the consolidated condensed statements of operations for the three and nine months ended March 28, 2009.

Goodwill	$ 107.0
Computer software	7.6
Property, plant and equipment	7.2
Customer contracts	3.5
Assets held for sale	1.4
Goodwill and other impairment charges	$ 126.7

Goodwill

During the three months ended March 28, 2009, we recorded a non-cash impairment charge of $107.0 million related to our goodwill, of this amount $100.0 million was associated with our U.S. Rental operations and $7.0 million was related to our Direct Sales operations. The goodwill impairment charges described above are recorded on the goodwill and other impairment charges line of the consolidated condensed statements of operations.

The carrying value of goodwill is reviewed annually in our fourth quarter for possible impairment or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired. In the third quarter of fiscal year 2009, the accelerated deterioration in the economic environment continued to negatively impact our operations. The resultant increased disparity between our carrying value and market capitalization as of our January 31, 2009 measurement date prompted us to perform an interim goodwill impairment test. Goodwill has been assigned to reporting units for purposes of impairment testing and consists of U.S. Rental operations, Canadian Rental operations and Direct Sales operations. The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit s fair value to its carrying value. In previous years, we used a market valuation approach to determine fair value for each reporting unit. As of June 28, 2008, our market capitalization substantially exceeded our carrying value. During the third quarter of fiscal year 2009, we engaged a third party independent valuation consulting firm to assist in determining the fair value of each reporting unit. Based on consultation with our valuation specialist, we used both a market valuation and income valuation approach, weighted evenly, to determine the fair values of our reporting units. The income valuation was derived by discounting future forecasted cash flows using a market based weighted average cost of capital. The market valuation was derived by referencing a measure of invested capital compared to earnings and cash flows of a peer group of companies and applying the resultant multiples to our reporting units. The combination of these valuations produced an estimated fair value that was less than the carrying amount for the U.S. Rental and Direct Sales reporting units. The fair value of our Canadian Rental reporting unit exceeded its carrying amount by more than 20%. Since the carrying value of the U.S. reporting unit and the Direct Sales reporting unit exceeded its estimated fair value in the first step, a second step was performed in which the reporting unit s goodwill was written down to its implied fair value. In the second step, we allocate the fair value of the reporting unit derived in the first step to the fair value of the reporting unit s net assets. The second step also requires, among other things, us to determine the estimated fair market value of our tangible and intangible assets. Any fair value in excess of amounts allocated to such net assets represents the implied fair value of goodwill for that reporting unit.

The goodwill impairment testing process is subject to inherent uncertainties and subjectivity. Determination of fair value requires significant management judgment with respect to various assumptions, including revenue volume, gross margins, SG&A rates, capital expenditures, discount rates, terminal growth rates and the fair values of each unit s tangible and intangible assets and liabilities. The projected revenue levels, gross margins, SG&A rate, and capital expenditure assumptions are based on our annual business plan or other forecasted results. Discount rates reflect estimates of a market-based weighted average cost of capital, which take into consideration the risks associated with the projected cash flows directly resulting from the use of those assets in operations. The estimates of fair value of each reporting unit are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease the estimated fair value and could materially increase or decrease any impairment charge. The discount rates used in step one and step two ranged from 9.7%-11.7% and included certain risk premiums. Our forecasted future cash flows considered both current and future economic conditions and a terminal growth rate of 2.5%-3.0%. Changing the discount rate by 50 basis points would increase or decrease the calculated fair values of the U.S. Rental, Canadian Rental and Direct Sales reporting units by approximately $45 million, $10 million and $1 million, respectively. Changing the terminal growth rate by 50 basis points would increase or decrease the calculated fair values of the U.S. Rental, Canadian Rental and Direct Sales reporting units by approximately $25 million, $5 million and $0, respectively. Increasing or decreasing the fair values of the net assets of the impaired reporting units by 5% as compared to the values used in the preparation of these financial statements would increase or decrease the goodwill impairment charge related to the U.S. Rental and Direct Sales reporting units by approximately $20 million and $0, respectively.

As of March 27, 2010, the date of the our most recent impairment test, the fair value exceeded the carrying value of our goodwill related to both our U.S. reporting unit and our Canadian reporting unit by over 20%.

Long-Lived Assets

Asset impairment charges in the third quarter of fiscal 2009 include $7.2 million related to properties held and used, $1.4 million related to properties held for sale, $7.6 million related to computer software and $3.5 million related to customer contracts associated with our Direct Sales reporting unit.

Long-lived assets held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. During the third quarter of fiscal year 2009, as a result of the continued and accelerated deterioration in the economic environment and expectations regarding future operating performance, management took a series of actions to increase profitability and productivity. Due to a combination of these factors and actions, we determined that the carrying value of certain assets held and used exceeded their fair value. Determination of recoverability of long-lived assets is based on an estimate of undiscounted future cash flows resulting from the use of those assets in operation. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value. As a result of our projected undiscounted future cash flows related to certain locations being less than the carrying value of those assets, an impairment charge of $7.2 million was required. The fair values of these asset groups were determined based on prices of similar assets.

In the third quarter of fiscal 2009, we made the decision to close and sell certain underperforming production facilities. In connection with this decision and the plan to dispose of these asset groups, we recorded an impairment charge of $1.4 million. The estimated fair values of the asset groups to be disposed of were determined based on prices of similar assets.

In the third quarter of fiscal year 2009, due to the continued deterioration in the economic environment and expectations regarding future operating performance, we tested our Direct Sales reporting unit s long-lived assets for impairment. It was determined that the carrying value of certain computer software and customer contracts exceeded their associated fair values by approximately $7.6 million and $3.5 million, respectively. The estimated fair values were determined based on discounted cash flows.

12. Goodwill and Intangible Assets

Goodwill by segment includes the following:

	United States	Canada	Total
Balance as of June 27, 2009	$ 260.2	$ 59.7	$ 319.9
Acquisitions, net of purchase accounting adjustments	0.2		0.2
Divestitures	(0.5)	(1.0)	(1.5)
Foreign currency translation and other		6.7	6.7
Balance as of March 27, 2010	$ 259.9	$ 65.4	$ 325.3

Our other intangible assets, which are included in other assets on the consolidated condensed balance sheet, are as follows:

	March 27,	June 27,

	2010	2009
Other Intangible Assets:		
Customer Contracts	$ 116.1	$ 113.8
Divestitures	(2.1)	
Accumulated Amortization	(90.6)	(85.0)
Net	$ 23.4	$ 28.8
Non-Competition Agreements	$ 11.1	$ 11.0
Accumulated Amortization	(10.7)	(10.3)
Net	$ 0.4	$ 0.7

The customer contracts include the combined value of the written service agreements and the related customer relationship. Other intangible assets are amortized over a weighted average life of approximately 11 years. Amortization expense was $4.6 million and $5.6 million for the nine months ended March 27, 2010 and March 28, 2009, respectively. Estimated amortization expense for each of the next five fiscal years based on the intangible assets as of March 27, 2010 is as follows:

2010 remaining	$1.6
2011	5.1
2012	4.0
2013	2.8
2014	1.8
2015	1.3

13. Long-Term Debt

On July 1, 2009, we completed a new $300.0 million, three-year unsecured revolving credit facility with a syndicate of banks, which expires on July 1, 2012. This facility replaced our $325.0 million unsecured revolving credit facility, which was scheduled to mature in August 2010. Borrowings in U.S. dollars under the new credit facility will, at our election, bear interest at (a) the adjusted London Interbank Offered Rate (LIBOR) for specified interest periods plus a margin, which can range from 2.25% to 3.25%, determined with reference to our consolidated leverage ratio or (b) a floating rate equal to the greatest of (i) JPMorgan s prime rate, (ii) the federal funds rate plus 0.50% and (iii) the adjusted LIBOR for a one month interest period plus 1.00%, plus, in each case, a margin determined with reference to our consolidated leverage ratio. Swingline loans will, at our election, bear interest at (i) the rate described in clause (b) above or (ii) a rate to be agreed upon by us and JPMorgan. Borrowings in Canadian dollars under the credit facility will bear interest at the greater of (a) the Canadian Prime Rate and (b) the Adjusted LIBOR for a one month interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1.00%. Effective July 1, 2009, the interest rate spread on this new facility is 1.875% higher than the previous facility. We also pay a fee on the unused daily balance of the revolving credit facility based on a leverage ratio calculated on a quarterly basis.

As of March 27, 2010, borrowings outstanding under the revolving credit facility were $64.0 million. The unused portion of the revolver may be used for general corporate purposes, acquisitions, share repurchases, working capital needs and to provide up to $50.0 million in letters of credit. As of March 27, 2010, letters of credit outstanding against the revolver totaled $23.7 million and primarily relate to our property and casualty insurance programs. No amounts have been drawn upon these letters of credit. Availability of credit under this new facility requires that we maintain compliance with certain customary covenants. In addition, there are certain restricted payment limitations on dividends or other distributions, including share repurchases. The covenants under this agreement are the most restrictive when compared to our other credit facilities. The following table illustrates compliance with regard to the material covenants required by the terms of this facility as of March 27, 2010:

	Required	Actual
Maximum Leverage Ratio (Debt/Adjusted EBITDA)	3.50	2.17
Minimum Interest Coverage Ratio (Adjusted EBITDA/Interest Expense)	3.00	6.52
Minimum Net Worth (In Millions)	$314.5	$468.1

Our maximum leverage ratio and minimum interest coverage ratio covenants are calculated after adding back non-cash charges, as defined in our debt agreement.

Advances outstanding as of March 27, 2010 bear interest at a weighted average all-in rate of 3.00% (LIBOR plus 2.75%) for the Eurocurrency rate loans and an all-in rate of 3.25% (Lender Prime Rate) for overnight Swingline Base Rate loans. We also pay a fee on the unused daily balance of the revolving credit facility based on a leverage ratio calculated on a quarterly basis.

We have $75.0 million of variable rate unsecured private placement notes. The notes bear interest at 0.60% over LIBOR and are scheduled to mature on June 30, 2015. The notes do not require principal payments until maturity. Interest payments are reset and paid on a quarterly basis. As of March 27, 2010, the outstanding balance of the notes was $75.0 million at an all-in rate of 0.85% (LIBOR plus 0.60%).

We maintain a receivable securitization facility, whereby the lender will make loans to us on a revolving basis up to a maximum of $50.0 million. The amount of funds available under the loan agreement as of March 27, 2010 was $39.5 million, which was the amount of eligible receivables less a reserve requirement. We are required to pay interest on outstanding loan balances at an annual rate of one month LIBOR plus a margin or, if the lender is funding the loan through the issuance of commercial paper to third parties, at an annual rate equal to the commercial paper rate plus a margin. In connection with the loan agreement, we granted a first priority security interest in certain of our U.S.-based receivables. As of March 27, 2010, there was $35.0 million outstanding under this loan agreement at an all-in interest rate of 1.39% (commercial paper plus 1.10%). We are also required to pay a fee on the unused balance of the facility.

We had $50.0 million, 8.4% unsecured fixed rate private placement notes with certain institutional investors. The 10-year notes had a nine-year average life with a final maturity on July 20, 2010. Beginning on July 20, 2004, and annually thereafter, we repaid $7.1 million of the principal amount at par. On January 20, 2010, we repaid these notes prior to their original maturity date and incurred additional costs associated with the prepayment of approximately $0.3 million which is included in the selling and administrative line of the consolidated condensed statements of operations for the three and nine months ended March 27, 2010.

See Note 5 to the consolidated condensed financial statements for details of our interest rate swap and hedging activities related to our outstanding debt.

14. Share-Based Compensation

We grant share-based awards, including restricted stock and options to purchase our common stock. Stock option grants are for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. Share-based compensation is recognized in the consolidated condensed statements of operations on a straight-line basis over the requisite service period. The amortization of share-based compensation reflects estimated forfeitures adjusted for actual forfeiture experiences. We review our estimated forfeiture rates on an annual basis. As share-based compensation expense is recognized, a deferred tax asset is recorded that represents an estimate of the future tax deduction from the exercise of stock options or release of restrictions on the restricted stock. At the time share-based awards are exercised, cancelled, expire or restrictions lapse, we recognize adjustments to income tax expense. Total compensation expense related to share-based awards was $1.2 million and $1.9 million for the three months ended March 27, 2010 and March 28, 2009, respectively and $3.5 million and $5.2 million for the nine months ended March 27, 2010 and March 28, 2009, respectively. The number of options exercised and restricted stock vested since June 27, 2009, was 0.1 million shares.

15. Employee Benefit Plans

On December 31, 2006, we froze our pension and supplemental executive retirement plans. The net periodic pension cost for these plans for the three and nine months ended March 27, 2010 was $0.6 million and $1.7 million, respectively. The net periodic pension cost for these plans for the three and nine months ended March 28, 2009 was $0.1 million and $0.4 million, respectively. In addition, the components of net periodic pension cost for these plans are immaterial for the three and nine months ended March 27, 2010 and March 28, 2009.

Table of Contents

16. Segment Information

We have two operating segments, United States (includes the Dominican Republic and Ireland Operations) and Canada, which have been identified as components of our organization that are reviewed by our Chief Executive Officer to determine resource allocation and evaluate performance. Each operating segment derives revenues from the branded identity apparel and facility services industry. During the three and nine months ended March 27, 2010, and for the same periods of the prior fiscal year, no single customer accounted for more than 2.0% of our total revenues. Our customers are primarily located in the United States and Canada.

Income from operations includes the impact of an intercompany management fee charged to Canada which is self-eliminated in the total income from operations below. This intercompany management fee was approximately \$2.4 million and \$1.8 million for the three months ended March 27, 2010 and March 28, 2009, respectively and \$7.3 million and \$6.3 million for the nine months ended March 27, 2010 and March 28, 2009, respectively.

We evaluate performance based on income from operations. Financial information by segment for the three and nine month periods ended March 27, 2010 and March 28, 2009 is as follows:

For the Three Months Ended	United States	Canada	Elimination	Total
Third Quarter Fiscal Year 2010:				
Revenues	$ 163.0	$ 35.9	$	$ 198.9
Income from operations	7.9	6.1		14.0
Total assets	755.2	137.4	(78.8)	813.8
Depreciation and amortization expense	8.3	1.4		9.7
Third Quarter Fiscal Year 2009:				
Revenues	$ 197.0	$ 34.0	$	$ 231.0
(Loss)/Income from operations	(114.4)	2.1		(112.3)
Total assets	822.1	131.5	(94.0)	859.6
Depreciation and amortization expense	9.8	1.4		11.2

For the Nine Months Ended	United States	Canada	Elimination	Total
Fiscal Year 2010:				
Revenues	$ 505.5	$ 107.9	$	$ 613.4
Income from operations	26.4	11.7		38.1
Total assets	755.2	137.4	(78.8)	813.8
Depreciation and amortization expense	25.7	4.3		30.0
Fiscal Year 2009:				
Revenues	$ 605.8	$ 112.2	$	$ 718.0
(Loss)/Income from operations	(93.4)	10.1		(83.3)
Total assets	822.1	131.5	(94.0)	859.6
Depreciation and amortization expense	29.6	4.3		33.9

During the third quarter of fiscal year 2009, we recorded a noncash charge for goodwill and other impairments of \$125.9 million in the U.S. segment and \$0.8 million in our Canadian segment. See Note 11 to the consolidated condensed statements of operations for further discussion.

Table of Contents

17. Stock Repurchase

In May 2008, we announced the authorization to expand our share repurchase program from $100.0 million to $175.0 million, which increased the share repurchase program previously approved by our Board of Directors in May 2007. For the three and nine months ended March 27, 2010 and March 28, 2009, there were no share repurchases. For the nine months ended March 28, 2009, we repurchased 650,387 shares totaling $16.1 million. As of March 27, 2010, we had approximately $57.8 million remaining under this authorization.

18. Restricted Stock Unit Withholdings

We issue restricted stock units as part of our equity incentive plans. Upon vesting, the participant may elect to have shares withheld to pay the minimum statutory tax withholding requirements. Although shares withheld are not issued, they are treated as common stock repurchases in our financial statements as they reduce the number of shares that would have been issued upon vesting.

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

(Unaudited)

Overview

G&K Services, Inc., founded in 1902 and headquartered in Minnetonka, Minnesota, is a market leader in branded identity apparel and facility services products and programs that enhance image and safety in the workplace. We provide rental and direct purchase uniforms and facility services, such as shirts, pants, jackets, mats, towels and restroom supplies, to a wide variety of North American companies such as the food, transportation, warehousing, security, service and retail sectors. We believe that the North American rental market is approximately $7.0 billion and the direct purchase market is approximately $5.0 billion.

We have participated in the industry consolidation from family owned and small local providers to several large providers. Our acquisition strategy is focused on acquisitions in the rental and direct purchase businesses that expand our geographic presence and/or expand our local market share and further leverage our existing production facilities. The severe decline in customer employment levels continues to challenge our ability to generate revenue growth and continues to adversely impact our revenue levels. As a result, we have adjusted our operations to serve our customers in the most efficient and cost effective manner. As part of these adjustments, we have realigned our workforce, closed several production and branch facilities and divested certain operations. We are continuously assessing our business and making adjustments as necessary.

Critical Accounting Policies

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

Critical accounting policies are defined as the most important and pervasive accounting policies used and areas most sensitive to material changes from external factors and those that are reflective of significant judgments and uncertainties. See Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended June 27, 2009 for additional discussion of the application of these and other accounting policies.

Table of Contents

Results of Operations

The percentage relationships to revenues of certain income and expense items for the three and nine month periods ended March 27, 2010 and March 28, 2009, and the percentage changes in these income and expense items between periods are presented in the following table:

	Three Months Ended		Nine Months Ended		Percentage Change	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009	Three Months FY 2010 vs. FY 2009	Nine Months FY 2010 vs. FY 2009
Revenues:						
Rental operations	93.3%	90.9%	93.3%	92.0%	(11.6)%	(13.3)%
Direct sales	6.7	9.1	6.7	8.0	(36.8)	(29.3)
Total revenues	100.0	100.0	100.0	100.0	(13.9)	(14.6)
Expenses:						
Cost of rental operations	70.1	70.1	70.4	69.8	(11.6)	(12.6)
Cost of direct sales	72.4	73.5	74.1	74.1	(37.7)	(29.3)
Total cost of sales	70.2	70.4	70.6	70.2	(14.1)	(14.0)
Selling and administrative	22.8	23.4	23.2	23.8	(16.1)	(16.8)
Goodwill and other impairment charges		54.9		17.6	(100.0)	(100.0)
Income/(Loss) from operations	7.0	(48.6)	6.2	(11.6)	112.4	145.7
Interest expense	1.6	1.4	1.7	1.5	0.4	(0.1)
Income/(Loss) before income taxes	5.4	(50.0)	4.5	(13.1)	109.2	129.1
Provision for income taxes	1.8	(12.7)	1.6	(2.6)	112.5	153.1
Net income/(loss)	3.5%	(37.4)%	2.8%	(10.5)%	108.2%	123.2%

Three months ended March 27, 2010 compared to three months ended March 28, 2009

Revenues. Total revenue in the third quarter of fiscal 2010 decreased 13.9% to $198.9 million from $231.0 million in the third quarter of fiscal 2009.

Rental revenue decreased $24.3 million, or 11.6% in the third quarter of fiscal 2010 compared to the same period of the prior fiscal year. Our rental organic growth rate was negative 10.5% compared to negative 7.25% in the same period of the prior fiscal year. Our rental organic growth rate reflects continued pressure from lower customer employment levels, increased customer financial difficulties and lower pricing. Our rental organic growth rate is calculated using rental revenue, adjusted to exclude the impact of foreign currency exchange rate changes, divestitures and acquisitions compared to prior-period results. We believe that the rental organic growth rate reflects changes in our existing rental business and is therefore useful in analyzing our financial condition and results of operations. In addition, rental revenue was positively impacted by approximately $5.7 million or 2.7% compared to the prior year due to the favorable impact of foreign currency translation rates with Canada. This positive impact was offset by the divestiture of several operations that resulted in a decrease in rental revenue of approximately $8.6 million or 4.1%.

Direct sale revenue decreased 36.8% to $13.3 million in the third quarter of fiscal 2010 compared to $21.1 million in the same period of fiscal 2009. The organic direct sale growth rate during the current period was approximately negative 37.25%. The decrease in direct sale revenue was due to the roll out of an apparel program at a significant customer in fiscal year 2009 that did not reoccur in fiscal year 2010, the loss of a significant customer at our Lion Uniform Group at the end of fiscal 2009 and the continued difficult economic environment.

Cost of Rental. Cost of rental operations decreased 11.6% to $130.0 million in the third quarter of fiscal 2010 from $147.0 million in the same period of fiscal 2009. As a percentage of rental revenue, our gross margin from rental operations remained flat at 29.9% in the third quarter of fiscal 2010 from 29.9% in the same period of fiscal 2009. A decrease in rental gross margin resulting from fixed cost absorbed over a lower revenue base and increased vehicle related and gasoline costs were offset by a focused effort on merchandise utilization, lower health costs and natural gas expenses. In addition, we were able to mitigate the impact of the difficult economic environment through a focus on costs and operational efficiencies throughout the company.

Cost of Direct Sales. Cost of direct sales decreased to $9.7 million in the third quarter of fiscal 2010 from $15.5 million in the same period of fiscal 2009. Gross margin from direct sales increased to 27.6% in the third quarter of fiscal 2010 from 26.5% in the same quarter of fiscal 2009. The increase in direct sale margin was due primarily to the mix of products and customers and to a lesser extent improved operational efficiencies.

Selling and Administrative. Selling and administrative expenses decreased 16.1% to $45.3 million in the third quarter of fiscal 2010 from $54.0 million in the same period of fiscal 2009. As a percentage of total revenues, selling and administrative expenses decreased to 22.8% in the third quarter of fiscal 2010 from 23.4% in the third quarter of fiscal 2009. The decrease in selling and administrative expenses is primarily the result of the net gain of $2.5 million associated with certain divestitures and asset write downs that occurred in the third quarter of fiscal year 2010, operational efficiencies, as well as a decrease in bad debt and regulatory compliance costs. These decreases were partially offset by the impact of fixed costs absorbed over a lower revenue base.

Impairment Charges. As discussed in Note 11 to the consolidated condensed financial statements, during the third quarter of fiscal year 2009, we conducted an impairment analysis for our goodwill, intangible assets and our long-lived assets. This analysis concluded that certain of our goodwill, intangible assets, and long-lived assets carrying values exceeded their related fair values by $126.7 million. This non-cash charge consisted of $107.0 million related to goodwill, $16.2 million related to long-lived assets and $3.5 million related to certain customer lists and is reported on the goodwill and other impairment charges line item of the consolidated condensed statements of operations for the three months ended March 28, 2009.

Interest Expense. Interest expense was $3.3 million in the third quarter of fiscal 2010, consistent with the $3.3 million reported in the same period of fiscal 2009. Interest expense remained flat due to the impact of hedging activity and increased amortization of debt closing costs in fiscal year 2010 offset by lower average debt balances during the quarter.

Provision for Income Taxes. Our effective tax rate increased to 34.1% in the third quarter of fiscal 2010 from 25.3% in the same period of fiscal 2009. The current period tax rate is lower than our statutory rate due to the decrease in tax reserves for

uncertain tax positions due to the expiration of certain tax statutes and the favorable tax treatment on the sale of certain assets, offset by the write-off of deferred tax assets associated with certain expiring stock options in the current year. The prior year tax rate was significantly lower than our statutory rate primarily due to the impact of nondeductible goodwill impairment charges and the decrease in tax reserves for uncertain tax positions due to the expiration of certain tax statutes, offset by the write-off of deferred tax assets associated with certain expiring stock options.

Nine months ended March 27, 2010 compared to nine months ended March 28, 2009

Revenues. Total revenue for the first nine months of fiscal 2010 decreased 14.6% to $613.4 million compared to $718.0 million for the same period in the prior fiscal year.

Rental revenue decreased $87.6 million, or 13.3% in the first nine months of fiscal 2010 compared to the same period of the prior fiscal year. Our rental organic growth rate was approximately negative 12.75% compared to approximately negative 3.0% in the same period of the prior fiscal year. The current year rental organic growth rate was negatively impacted by significantly reduced customer employment levels and lower new account sales due to adverse economic conditions. In addition, rental revenue was positively impacted by approximately $8.1 million or 1.1% compared to the prior year due to the favorable impact of foreign currency translation rates with Canada. This positive impact was offset by the divestiture of several operations that resulted in a decrease in rental revenue of approximately $13.6 million or 1.9%.

Direct sale revenue decreased 29.3% to $40.9 million in the first nine months of fiscal 2010 compared to $57.8 million in the same period of fiscal 2009. The organic direct sale growth rate during the current period was a negative 29.0%. The decrease in direct sale revenue was due to the loss of a significant customer at the end of fiscal year 2009, the impact of the roll out of an apparel program at a significant customer in fiscal year 2009 that did not reoccur in fiscal year 2010 and the continued difficult economic environment.

Cost of Rental. Cost of rental operations decreased 12.6% to $402.9 million in the first nine months of fiscal 2010 from $460.9 million in the same period of fiscal 2009. As a percentage of rental revenue, our gross margin from rental sales decreased to 29.6% in the first nine months of fiscal 2010 from 30.2% in the same period of fiscal 2009. The decrease in rental gross margin was a result of fixed costs absorbed over a lower revenue base, increased vehicle costs and a $1.5 million charge related to the withdrawal from a Multi-Employer Pension Plan (MEPP). Our withdrawal from the MEPP was triggered by employees of a location voting to decertify their local union. The charge for the MEPP withdrawal liability was estimated based on information provided to us by the plan administrator. We do not expect future adjustments, if any, to be material. The decrease in rental gross margin was partially offset by cost reduction efforts and lower energy costs, fringe benefit costs and repairs and maintenance expenses.

Cost of Direct Sales. Cost of direct sales decreased to $30.3 million in the first nine months of fiscal 2010 from $42.8 million in the same period of fiscal 2009. Gross margin from direct sales was 25.9% in the first nine months of fiscal 2010, which was consistent with the 25.9% reported in the same period of fiscal 2009. We were able to offset the impact of the difficult economic environment through a focus on costs, operational efficiencies and the mix of higher margin customers and products.

Selling and Administrative. Selling and administrative expenses decreased 16.8% to $142.2 million in the first nine months of fiscal 2010 from $170.9 million in the same period of fiscal 2009. As a percentage of total revenues, selling and administrative expenses decreased to 23.2% in the first nine months of fiscal 2010 from 23.8% in the same period of fiscal 2009. The decrease is primarily the result of cost reduction activities, net gain associated with the sale, divestiture and impairment of certain business assets in fiscal year 2010, which totaled $4.5 million, and environmental expenses in the prior year of $4.5 million that did not reoccur in the current year. These decreases were partially offset by the impact of fixed costs over a lower revenue base.

Impairment Charges. As discussed in Note 11 to the consolidated condensed financial statements, during the third quarter of fiscal year 2009, we conducted an impairment analysis for our goodwill, intangible assets and our long-lived assets. This analysis concluded that certain of our goodwill, intangible assets, and long-lived assets carrying values exceeded their related fair values by $126.7 million. This non-cash charge consisted of $107.0 million related to goodwill, $16.2 million related to long-lived assets and $3.5 million related to certain customer lists and is reported on the goodwill and other impairment charges line item of the consolidated condensed statements of operations for the nine months ended March 28, 2009.

Interest Expense. Interest expense was $10.7 million in the first nine months of fiscal 2009 and 2010. The decreased interest expense associated with the reduction in overall debt levels was offset by higher effective interest rates and increased debt closing costs amortization related to the new revolving credit agreement.

Provision for Income Taxes. Our effective tax rate increased to 36.2% in the first nine months of fiscal 2010 from 19.9% in the same period of fiscal 2009. The current year tax rate is lower than our statutory rate due to the adjustment of deferred tax liabilities related to Canada, the enactment of a provincial tax rate reduction and the favorable tax treatment on the sale of certain assets, offset by the reduction of a deferred tax asset associated with equity based compensation. The prior year tax rate was significantly lower than our statutory rate primarily due to the impact of nondeductible goodwill impairment charges, nondeductible environmental charges, and the write-off of deferred tax assets associated with certain expiring stock options. Both periods included adjustments resulting from the final calculation and filing of our annual income tax returns and the decrease in tax reserves for uncertain tax positions due to the expiration of certain tax statutes.

Liquidity, Capital Resources and Financial Condition

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

Working capital at March 27, 2010 was $126.1 million, down approximately 7.1% from $135.8 million at June 27, 2009.

Operating Activities. Net cash provided by operating activities was $54.2 million in the first nine months of fiscal 2010 and $73.9 million in the same period of fiscal 2009. The decrease is primarily due to lower net income, excluding the impairment charge, and a decreased benefit from accounts receivable collections and inventory reduction management.

Investing Activities. Net cash provided by investing activities was $9.4 million in the first nine months of fiscal 2010 and net cash used for investing activities was $18.4 million in the same period of fiscal 2009. The change was primarily due to lower capital expenditures and the divestitures of certain business assets in fiscal year 2010.

Financing Activities. Cash used for financing activities was $66.2 million in the first nine months of fiscal 2010 compared to $51.5 million in fiscal year 2009. As a result of the deterioration in economic conditions, the company has focused its financing activities primarily on debt reduction. In the previous year, the company s financing activities included both debt reduction and share repurchases. We have not repurchased any shares during fiscal 2010 under our board approved share repurchase program. During the first nine months of fiscal 2010 and 2009, we paid dividends of $4.2 million and $3.9 million, respectively.

On July 1, 2009, we completed a new $300.0 million, three-year unsecured revolving credit facility with a syndicate of banks, which expires on July 1, 2012. This facility replaced our $325.0 million unsecured revolving credit facility, which was scheduled to mature in August 2010. Borrowings in U.S. dollars under the new credit facility will, at our election, bear interest at (a) the adjusted London Interbank Offered Rate (LIBOR) for specified interest periods plus a margin, which can range from 2.25% to 3.25%, determined with reference to our consolidated leverage ratio or (b) a floating rate equal to the greatest of (i) JPMorgan s prime rate, (ii) the federal funds rate plus 0.50% and (iii) the adjusted LIBOR for a one month interest period plus 1.00%, plus, in each case, a margin determined with reference to our consolidated leverage ratio. Swingline loans will, at our election, bear interest at (i) the rate described in clause (b) above or (ii) a rate to be agreed upon by us and JPMorgan. Borrowings in Canadian dollars under the credit facility will bear interest at the greater of (a) the Canadian Prime Rate and (b) the Adjusted LIBOR for a one month interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1.00%. Effective July 1, 2009, the interest rate spread on this new facility is 1.875% higher than the previous facility. We also pay a fee on the unused daily balance of the revolving credit facility based on a leverage ratio calculated on a quarterly basis.

As of March 27, 2010, borrowings outstanding under the revolving credit facility were $64.0 million. The unused portion of the revolver may be used for general corporate purposes, acquisitions, share repurchases, working capital needs and to provide up to $50.0 million in letters of credit. As of March 27, 2010, letters of credit outstanding against the revolver totaled $23.7 million and primarily relate to our property and casualty insurance programs. No amounts have been drawn upon these letters of credit. Availability of credit under this new facility requires that we maintain compliance with certain customary covenants. In addition, there are certain restricted payment limitations on dividends or other distributions, including share repurchases.

The covenants under this agreement are the most restrictive when compared to our other credit facilities. The following table illustrates compliance with regard to the material covenants required by the terms of this facility as of March 27, 2010:

	Required	Actual
Maximum Leverage Ratio (Debt/Adjusted EBITDA)	3.50	2.17
Minimum Interest Coverage Ratio (Adjusted EBITDA/Interest Expense)	3.00	6.52
Minimum Net Worth (In Millions)	$314.5	$468.1

Our maximum leverage ratio and minimum interest coverage ratio covenants are calculated after adding back non-cash charges, as defined in our debt agreement.

Advances outstanding as of March 27, 2010 bear interest at a weighted average all-in rate of 3.00% (LIBOR plus 2.75%) for the Eurocurrency rate loans and an all-in rate of 3.25% (Lender Prime Rate) for overnight Swingline Base Rate loans. We also pay a fee on the unused daily balance of the revolving credit facility based on a leverage ratio calculated on a quarterly basis.

We have $75.0 million of variable rate unsecured private placement notes. The notes bear interest at 0.60% over LIBOR and are scheduled to mature on June 30, 2015. The notes do not require principal payments until maturity. Interest payments are reset and paid on a quarterly basis. As of March 27, 2010, the outstanding balance of the notes was $75.0 million at an all-in rate of 0.85% (LIBOR plus 0.60%).

We maintain a receivable securitization facility, whereby the lender will make loans to us on a revolving basis up to a maximum of $50.0 million. The amount of funds available under the loan agreement as of March 27, 2010 was $39.5 million, which was the amount of eligible receivables less a reserve requirement. We are required to pay interest on outstanding loan balances at an annual rate of one month LIBOR plus a margin or, if the lender is funding the loan through the issuance of commercial paper to third parties, at an annual rate equal to the commercial paper rate plus a margin. In connection with the loan agreement, we granted a first priority security interest in certain of our U.S.-based receivables. As of March 27, 2010, there was $35.0 million outstanding under this loan agreement at an all-in interest rate of 1.39% (commercial paper plus 1.10%). We are also required to pay a fee on the unused balance of the facility.

We had $50.0 million, 8.4% unsecured fixed rate private placement notes with certain institutional investors. The 10-year notes had a nine-year average life with a final maturity on July 20, 2010. Beginning on July 20, 2004, and annually thereafter, we repaid $7.1 million of the principal amount at par. On January 20, 2010, we repaid these notes prior to their original maturity date and incurred additional costs associated with the prepayment of approximately $0.3 million which is included in the selling and administrative line of the consolidated condensed statements of operations for the three and nine months ended March 27, 2010.

See Note 5 to the consolidated condensed financial statements for details of our interest rate swap and hedging activities related to our outstanding debt.

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

At March 27, 2010, we had available cash on hand of $10.5 million, approximately $212.3 million of available capacity under our revolving credit facility and an additional $4.5 million available under our asset securitization facility. We anticipate that we will generate sufficient cash flows from operations to satisfy our cash commitments and capital requirements for fiscal 2010 and to reduce the amounts outstanding under the revolving credit facility; however, we may utilize borrowings under the revolving credit facility to supplement our cash requirements from time to time. We estimate that capital expenditures in fiscal 2010 will be approximately $15.0 to $20.0 million.

Cash generated from operations could be affected by a number of risks and uncertainties. In fiscal 2010, we may actively seek and consider acquisitions of business assets. The consummation of any acquisition could affect our liquidity profile and level of outstanding debt. We believe that our earnings and cash flows from operations, existing credit facilities and our ability to obtain additional debt or equity capital, if necessary, will be adequate to finance acquisition opportunities.

Table of Contents

We rely upon access to the capital markets, including bank financing, to provide sources of liquidity for general corporate purposes, including share repurchases. Although we believe that we will be able to maintain sufficient access to the capital markets, changes in current market conditions, deterioration in our business performance, or adverse changes in the economy could limit our access to these markets. Although we cannot predict the availability of future funding, we do not believe that the overall credit concerns in the markets will impede our ability to access the capital markets because of our financial position.

Off Balance Sheet Arrangements

At March 27, 2010, we had $23.7 million of stand-by letters of credit that were issued and outstanding, primarily in connection with our property and casualty insurance programs. No amounts have been drawn upon these letters of credit.

Pension Obligations

Pension expense is recognized on an accrual basis over an employee s approximate service periods. Pension expense is generally independent of funding decisions or requirements. The expense recognized for our defined benefit pension plan was $0.4 million and $0 in the third quarter of fiscal 2010 and 2009, respectively. At June 27, 2009, the fair value of our pension plan assets totaled $36.9 million.

Our defined benefit pension plan and related supplemental executive retirement plan were frozen as of January 1, 2007, and as a result, there will be no future growth in benefits after December 31, 2006.

The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience may differ from these assumptions. Pension expense increases as the expected rate of return on pension plan assets decreases. At June 27, 2009, we estimated that the pension plan assets will generate a long-term rate of return of 8.0%. This rate was developed by evaluating input from our outside actuary as well as long-term inflation assumptions. The expected long-term rate of return on plan assets at June 27, 2009 is based on an allocation of equity and fixed income securities. Decreasing the expected long-term rate of return by 0.5% (from 8.0% to 7.5%) would increase our estimated 2010 pension expense by approximately $0.2 million. Pension liability and future pension expense increase as the discount rate is reduced. We discounted future pension obligations using a rate of 6.9% at June 27, 2009. The discount rate is determined in consultation with our actuary based upon reference to a yield curve based on high quality bonds. Decreasing the discount rate by 0.5% (from 6.9% to 6.4%) would increase our accumulated benefit obligation at June 27, 2009 by approximately $4.3 million.

Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in our pension plan will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future. As part of our assessment of the expected return on plan assets, we considered the recent volatility in the global markets and concluded that an 8% long term rate was still appropriate.

Union Pension Plans

We participate in a number of union sponsored, collectively bargained multi-employer pension plans (Union Plans). We are responsible for our proportional share of any unfunded vested benefits related to the Union Plans. Under the applicable accounting rules, we are not required to record a liability for our portion of the withdrawal liability until we exit the plan.

During fiscal year 2009, we exited a union sponsored pension plan as part of a facility closure and recorded $1.0 million in associated exit costs. In the second quarter of fiscal year 2010, local union members at a certain facility voted to leave their union triggering a pension liability of approximately $1.5 million. If a future decision to exit a plan is made, we will record our proportional share of the unfunded vested benefits, which could have a material adverse impact on our future results of operations. It is difficult to obtain timely updated information from the plan administrators regarding these Union Plans. Based upon the most recent information available from the trustees managing the Union Plans, our share of the unfunded vested benefits for these plans is estimated to be approximately $19.0 to $25.0 million.

Exit, Disposal and Related Activities

We continuously monitor our operations and related cost structure to ensure that our resource levels are appropriate and from time to time take various actions to ensure that these resources are utilized in an efficient manner. These actions may consist of facility closures, divestitures, expansions and increases or decreases in staffing levels. During the nine months ended March 27, 2010 and March 28, 2009 we took a number of actions to adjust our business operations as a result of the changes in the economic environment. The most significant of these actions are discussed below.

In the first quarter of fiscal year 2009, we closed three processing plants, two branch locations, reduced selected headcount and outsourced our fleet maintenance function. As a result of these actions, we recorded approximately $2.6 million of expense in the consolidated condensed statements of operations during fiscal year 2009. These charges principally impacted our United States operating segment. Of these amounts, approximately $1.0 million was recorded in the cost of rental operations line item and the remaining $1.6 million was recorded in the selling and administrative line item. All severance associated with this action was paid by September 26, 2009.

In the third quarter of fiscal year 2009, we restructured our workforce to better align our cost structure with our revenue volume. As a result of this action, we recorded approximately $0.9 million in severance costs in the consolidated condensed statements of operations. These charges impacted both our United States and Canadian operating segments and did not significantly impact any one line item on our consolidated condensed statements of operations for the three and nine months ended March 28, 2009. Substantially all severance costs related to these actions were paid by March 28, 2009.

During the first quarter of fiscal year 2010, we continued to align our operations workforce and cost structure to better match our revenue levels. As a result, we reduced selected administrative, regional and corporate headcount, divested an unprofitable operation and recorded approximately $1.4 million in associated severance costs in the selling and administrative line. Of the $1.4 million in severance, $0.6 million was paid by September 26, 2009, with the remaining $0.8 million to be paid by October 31, 2010. These actions primarily impacted our United States operating segment.

In the second quarter of fiscal year 2010, we sold all of the customer lists and certain assets related to our U.S. Cleanroom operations. In addition, we disposed of a non-core linen operation at one of our production facilities. As a result of these transactions, including the associated asset impairment charges, we recognized a net gain of $1.2 million in the selling and administrative line in the consolidated condensed statements of operations.

In the third quarter of fiscal year 2010, we sold a portion of the customer list and certain assets related to a non-core linen operation and refined our estimates related to the disposition of our Cleanroom operations. As a result of these transactions, including the associated impairment charges, we recognized a net gain of $2.5 million in the selling and administrative line in the consolidated condensed statements of operations.

Litigation

We are involved in a variety of legal actions relating to personal injury, employment, environmental and other legal matters that arise in the normal course of business. We are party to certain additional legal matters described in Part II Item 1. Legal Proceedings of this report.

Environmental Matters

We are currently involved in several environmental-related proceedings by certain governmental agencies, which relate primarily to whether we operated certain facilities in compliance with required permits. In addition to these proceedings, in the normal course of our business, we are subject to, among other things, periodic inspections by regulatory agencies. We continue to dedicate substantial operational and financial resources to environmental compliance, and we remain fully committed to operating in compliance with all environmental laws and regulations.

As of March 27, 2010 and June 27, 2009, we had reserves of approximately $3.8 million and $4.6 million, respectively, related to various pending environmental-related matters. During the third quarter of fiscal year 2009, a $4.1 million charge was recorded related to environmental matters, which is included in the selling and administrative line of the consolidated condensed statements of operations.

While we cannot predict the ultimate outcome of any of these matters, currently, none of them are expected to have a material adverse effect on our results of operations or financial position. However, while we believe the possibility is remote, there is the potential that we may incur additional losses in excess of established reserves, and these losses could be material.

Table of Contents

Share-Based Compensation

We grant share-based awards, including restricted stock and options to purchase our common stock. Stock option grants are for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. Share-based compensation is recognized in the consolidated condensed statements of operations on a straight-line basis over the requisite service period. The amortization of share-based compensation reflects estimated forfeitures adjusted for actual forfeiture experiences. We review our estimated forfeiture rates on an annual basis. As share-based compensation expense is recognized, a deferred tax asset is recorded that represents an estimate of the future tax deduction from the exercise of stock options or release of restrictions on the restricted stock. At the time share-based awards are exercised, cancelled, expire or restrictions lapse, we recognize adjustments to income tax expense. Total compensation expense related to share-based awards was $1.2 million and $1.9 million for the three months ended March 27, 2010 and March 28, 2009, respectively and $3.5 million and $5.2 million for the nine months ended March 27, 2010 and March 28, 2009, respectively. The number of options exercised and restricted stock vested since June 27, 2009, was 0.1 million shares.

Adoption of New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued revised guidance regarding accounting for business combinations. The guidance retains the requirement that the acquisition method of accounting (previously called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This guidance also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We adopted this revised guidance effective at the beginning of fiscal year 2010. Our adoption did not impact our consolidated financial position or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS No. 168 was codified as Accounting Standards Codification Topic 105-10 and replaces SFAS No. 162, the Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. We adopted Accounting Standards Codification Topic 105-10 effective as of September 26, 2009. The adoption did not impact our financial position or results of operations.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06 or the ASU). The ASU amends ASC 820 to require a number of additional disclosures regarding fair value measurements. Specifically, the ASU requires entities to disclose the following:

- The amounts of significant transfers between level 1 and level 2 of the hierarchy and the reasons for the transfer.
- The reason for any transfer in or out of level 3.
- Information in the reconciliation of recurring level 3 measurements about purchases, sales, issuance and settlements on a gross basis.
- Additional information about both the valuation techniques and inputs used in estimating level 2 and level 3 fair value measurements.

The levels within the fair value hierarchy are defined in Note 4, to the consolidated condensed financial statements. ASU 2010-06 is effective for our third quarter ended March 27, 2010, and will not impact our financial position or results of operations.

Cautionary Statements Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements. Forward-looking statements may be identified by words such as estimates, anticipates, projects, plans, expects, intends, believes, seeks, could, should, may and will or the negative versions thereof and simil and by the context in which they are used. Such statements are based upon our current expectations and speak only as of the date made. These statements are subject to various risks, uncertainties and other factors that could cause actual results to differ from those set forth in or implied by this Quarterly Report on Form 10-Q. Factors that might cause such a difference include, but are not limited to, the possibility of greater than anticipated operating costs, lower sales volumes, the performance and costs of integration of acquisitions or assumption of unknown liabilities in connection with acquisitions, fluctuations in costs of materials and labor, costs and possible effects of union organizing activities, loss of key management, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, failure to achieve and maintain effective internal controls for financial reporting required by the Sarbanes-Oxley Act of 2002, the initiation or outcome of litigation or government investigations, higher than assumed sourcing or distribution costs of products, the disruption of operations from catastrophic events, disruptions in capital markets, the liquidity of counterparties in financial transactions, changes in federal and state tax laws, economic uncertainties and the reactions of competitors in terms of price and service. We undertake no obligation to update any forward-looking statements to reflect events or circumstances arising after the date on which they are made except as required by law. Additional information concerning potential factors that could effect future financial results is included in the Company s Annual Report on Form 10-K for the fiscal year ended June 27, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates. We use financial instruments, such as interest rate swap agreements, to manage interest rate risk on our fixed and variable rate debt. Under these arrangements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts, calculated by reference to an agreed upon notional principal amount. Interest rate swap agreements are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The estimated exposure considers the mitigating effects of interest rate swap agreements outstanding at March 27, 2010 on the change in the cost of variable rate debt. The current fair market value of all outstanding contracts at March 27, 2010 was an unrealized loss of $6.9 million.

A sensitivity analysis was performed to measure our interest rate risk over a one-year period to changes in market interest rates for forecasted debt levels and interest rate swaps. The base rate used for the sensitivity analysis for variable rate debt and interest rate swaps is the three month LIBOR market interest rates at March 27, 2010. The credit spread is included in the base rate used in the analysis. The two scenarios include measuring the sensitivity to interest expense with an immediate 50 basis point change in market interest rates and the impact of a 50 basis point change distributed evenly throughout the year. Based on the forecasted average debt level, outstanding interest rate swaps and current market interest rates, the forecasted interest expense is $13.7 million. The scenario with an immediate 50 basis point change would increase or decrease forecasted interest by $0.2 million or 1.3%. The scenario that distributes the 50 basis point change evenly would increase or decrease forecasted interest expense by $0.1 million or 0.8%.

Energy Cost Risk

We are subject to market risk exposure related to changes in energy costs. To manage this risk, we have established target levels of forecasted purchases in which the price will not be subject to market price changes. We use derivative financial instruments to manage the risk that changes in gasoline costs will have on our future financial results. We purchase fuel commodity futures contracts to effectively hedge a portion of anticipated actual energy purchases. Under these contracts, we agree to exchange, at specified intervals, the difference between fixed and floating commodity prices calculated by reference to an agreed-upon notional principal amount.

A sensitivity analysis was performed to measure our energy cost risk over a one-year period for forecasted levels of unleaded and diesel fuel purchases. The sensitivity analysis that was performed assumed gasoline and diesel prices at March 27, 2010, hedged gallons of 1.1 million (including unleaded and diesel), and forecasted gasoline and diesel purchases over a one-year period. For each one percentage point increase or decrease in gasoline and diesel prices under these forecasted levels and prices, our forecasted energy cost would change by approximately $0.1 million.

Production costs at our plants are also subject to fluctuations in natural gas costs. To reduce our exposure to changes in natural gas prices, we utilize natural gas supply contracts in the normal course of business. These contracts meet the definition of normal purchases and therefore, are not considered derivative instruments for accounting purposes.

Table of Contents

Foreign Currency Exchange Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Form 10-Q. Based on their evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal controls over financial reporting that occurred during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 19, 2010, we settled the previously disclosed matter brought against us by the Commissioner of Environmental Protection of the State of Connecticut. The aggregate settlement amount is within previously established reserves.

In August 2008, we became aware that our Des Moines, Iowa facility allegedly violated the facility s wastewater treatment permit. In addition, we became aware that this facility allegedly did not properly report its wastewater sampling results to the City of Des Moines. We promptly brought this matter to the attention of the City of Des Moines Attorney s office and the water reclamation authority. We also immediately launched our own investigation. As part of our investigation, we learned, among other things, that the City of Des Moines water reclamation authority was aware of the situation and had referred this matter to the U.S. Environmental Protection Agency (U.S. EPA). The U.S. EPA has also referred this matter to the U.S. Attorneys office in Des Moines, Iowa. The U.S. Attorney served a subpoena requesting various documents, correspondence, e-mails and electronic documents related to the wastewater treatment system at the Des Moines facility. In response to the subpoena, we have submitted certain information to the U.S. Attorney. Further, we reached settlement with the Des Moines Metropolitan Wastewater Reclamation Authority and resolved this matter with the city.

On July 24, 2008, the U.S. EPA inspected our facility in South Chicago, Illinois. As part of its inspections, the U.S. EPA identified certain alleged deficiencies with respect to the operations at this facility, including potential recordkeeping violations and opportunities to improve the overall environmental compliance and permitting of the facility. The U.S. EPA provided written record of its inspection findings to us and identified alleged noncompliance with certain provisions of the Resource Conservation and Recovery Act. We have responded to the U.S. EPA and will continue to work cooperatively with the U.S. EPA to resolve this matter.

In the summer and fall of 2008, the U.S. EPA inspected our facility in Manchester, New Hampshire. As part of its inspection, the U.S. EPA identified certain alleged deficiencies with respect to the operations at this facility, including potential recordkeeping violations and opportunities to improve the facility s overall environmental compliance and permitting. Since the U.S. EPA s inspection, we have had an independent third party environmental consulting firm audit this facility. This firm identified certain environmental issues at the facility, and we are currently undertaking corrective actions. The U.S. EPA requested additional information regarding our Manchester and Portsmouth, New Hampshire facilities to evaluate compliance with the Clean Air Act and applicable state and federal regulations, and the U.S. EPA issued a testing order at the Manchester facility. We have completed the requested testing and, we submitted a test report to the U.S. EPA and the New Hampshire Department of Environmental Services (NHDES). Subsequently, in September 2009, the U.S. EPA issued a Notice of Violation alleging noncompliance with state and federal laws concerning air emissions and permitting. We met with the U.S. EPA in October 2009 to discuss the allegations in the Notice of Violation, and in December 2009, we provided them with additional information.

While we cannot predict the outcome of these matters with certainty, we currently do not expect any of these matters to have a material adverse effect on our results of operations or financial position. However, while we believe the possibility is remote, there is the potential that we may incur additional losses in excess of established reserves, and these losses could be material.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended June 27, 2009, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended June 27, 2009. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial could have a material adverse affect on our business, financial condition and/or operating results.

Table of Contents

ITEM 6. EXHIBITS

a. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

	G&K SERVICES, INC. (Registrant)
Date: April 28, 2010	By: /s/ Jeffrey L. Wright Jeffrey L. Wright Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
	By: /s/ Thomas J. Dietz Thomas J. Dietz Vice President and Controller (Principal Accounting Officer)