

G&K SERVICES INC
Form DEF 14A
September 22, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

G&K SERVICES, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(3) Filing Party:

(4) Date Filed:

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

Notice of Annual Meeting of Shareholders, Wednesday, November 5, 2014

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

The annual meeting of shareholders of G&K Services, Inc. will be held, pursuant to due call by our Board of Directors, at our corporate headquarters, 5995 Opus Parkway, Minnetonka, Minnesota 55343, on Wednesday, November 5, 2014 at 10:00 a.m. Central Standard Time, or at any adjournment or postponement thereof, for the purpose of considering and taking action with respect to the following items:

1. elect the two "Class I" directors named in the attached proxy statement to serve for terms of three years;
 2. ratify the appointment of KPMG LLP, independent registered public accounting firm, as our independent auditors for fiscal 2015;
 3. hold an advisory vote on executive compensation; and
 4. transact any other business as may properly come before the meeting or any adjournment or postponement thereof.
- Pursuant to action of our Board of Directors, shareholders of record on September 8, 2014 will be entitled to vote at the meeting or any adjournment or postponement thereof.

A proxy for the meeting is enclosed. We request that you promptly vote your shares by returning a proxy card or by following the instructions to vote via the Internet or by telephone.

By Order of the Board of Directors

G&K Services, Inc.

Jeffrey L. Cotter

Vice President, General Counsel and Corporate Secretary

September 22, 2014

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Proxy Statement of G&K Services, Inc.

Annual Meeting of Shareholders to be Held Wednesday, November 5, 2014

Voting by Proxy and Revocation of Proxies

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of G&K Services, Inc. to be used at the annual meeting of our shareholders to be held on Wednesday, November 5, 2014, at 10:00 a.m. Central Standard Time, at our corporate headquarters, 5995 Opus Parkway, Minnetonka, Minnesota 55343, or at any adjournment or postponement thereof, for the purpose of considering and taking action with respect to the following items:

1. elect the two Class I directors named in this proxy statement to serve for terms of three years;
2. ratify the appointment of KPMG LLP, independent registered public accounting firm, as our independent auditors for fiscal 2015;
3. hold an advisory vote on executive compensation; and
4. transact any other business as may properly come before the meeting or any adjournment or postponement thereof.

The approximate date on which this proxy statement and the accompanying proxy were first sent or given to shareholders was September 22, 2014.

With the exception of shares held in employee benefit plan accounts, you may revoke your proxy at any time before your shares are voted by sending a written statement to our Corporate Secretary, or by submitting another proxy with a later date. You may also revoke your proxy by voting at the meeting in person or via the Internet. With respect to shares held in employee benefit plan accounts, you may revoke your proxy for those shares up until 11:59 p.m. Central Standard Time on November 2, 2014. Each shareholder who signs and returns a proxy in the form enclosed with this proxy statement may revoke the same at any time prior to its use and prior to the annual meeting by giving notice of such revocation to the company in writing, at the meeting or by executing and delivering a new proxy to our Corporate Secretary. Unless so revoked, the shares represented by each proxy will be voted at the annual meeting or at any adjournment or postponement thereof. Mere presence at the annual meeting by a shareholder who has signed a proxy does not, alone, revoke that proxy; revocation must be announced by the shareholder at the time of the meeting. All shares which are entitled to vote and are represented at the annual meeting by properly executed proxies received prior to or at the annual meeting, and not revoked, will be voted at the annual meeting or any adjournment or postponement thereof.

Voting Procedures

The company has one class of voting securities outstanding: Class A Common Stock, \$0.50 par value per share, of which 19,945,879 shares were outstanding as of the close of business on September 8, 2014, the record date for the annual meeting. Each share of Class A Common Stock is entitled to one vote on each matter put to a vote of shareholders. Our Class A Common Stock is referred to in this proxy statement as common stock. Only shareholders of record at the close of business on the record date will be entitled to vote at the annual meeting or any adjournment or postponement thereof. A quorum, consisting of the holders of a majority of the common stock issued and outstanding and entitled to vote at the annual meeting, is required for the transaction of business at the annual meeting. Such quorum must be present, either in person or represented by proxy, for the

transaction of business at the annual meeting, except as otherwise required by law, our Amended and Restated Articles of Incorporation or our Amended and Restated Bylaws.

All shares entitled to vote and represented by properly executed proxies received prior to the annual meeting, and not revoked, will be voted as instructed on those proxies. If no instructions are indicated, the shares will be voted as recommended by our board. If any director nominee should withdraw or otherwise become unavailable, the proxies which would have otherwise been voted for that director nominee may be voted for a substitute director nominee selected by our board.

Election of Directors. A plurality of votes cast is required for the election of each director in proposal number 1. Ratification of the Appointment of Independent Auditors. The affirmative vote of the holders of the greater of (i) a majority of the voting power of shares present and entitled to vote on that item of business or (ii) a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum for the transaction of business at the annual meeting is required for the appointment of KPMG LLP.

“Say-on-Pay.” Proposal number 3 is a non-binding advisory vote. However, the Compensation Committee of our Board of Directors, which is responsible for designing and administering our executive compensation program, values the opinions expressed by shareholders in their vote and will consider the outcome of the vote when making future compensation decisions for named executive officers.

A shareholder who abstains with respect to any proposal is considered to be present and entitled to vote on that proposal and is, in most cases, effectively casting a negative vote. On any proposal, a shareholder, including a broker, who does not give authority to a proxy to vote, or who withholds authority to vote, will not be considered present and entitled to vote on that proposal.

If you hold your shares in street name and do not provide voting instructions to your broker, your broker has authority under New York Stock Exchange rules to vote those shares for or against “routine” proposals, such as the ratification of the appointment of independent auditors. Brokers cannot vote on their customers’ behalf on “non-routine” proposals, such as the election of directors and the say-on-pay proposal. These rules apply to us even though our common stock is traded on the NASDAQ Global Select Market. If a broker does not receive voting instructions as to a routine proposal, then it may exercise discretionary voting authority for or against the routine proposal and the shares will be counted for the purpose of establishing a quorum at the annual meeting and for the purpose of determining the outcome of the routine proposal. If a broker does not receive voting instructions as to a non-routine proposal, or chooses to leave shares unvoted on a routine proposal, then a “broker non-vote” will occur and those shares will be counted for the purpose of establishing a quorum at the annual meeting, but not for determining the outcome of those proposals. Shares that are subject to broker non-votes are considered not entitled to vote on the particular proposal and effectively reduce the number of shares needed to approve that proposal.

The Board of Directors unanimously recommends that you vote “FOR” the election of each director nominee named in this proxy statement, "FOR" the ratification of KPMG LLP’s appointment as our independent auditors for fiscal 2015 and “FOR” the advisory vote on executive compensation.

PROPOSAL NUMBER 1

Election of Class I Directors

Pursuant to our Amended and Restated Articles of Incorporation, our Board of Directors is comprised of not less than three and not more than 12 directors, and our Amended and Restated Bylaws state that the number of directors is established by resolution of our board. Presently, our board consists of nine directors. Pursuant to our Amended and Restated Articles of Incorporation, our directors are divided into three classes, designated as Class I, Class II and Class III, and are elected to serve for staggered three-year terms of office. The current terms of office for the directors in Class I, Class II and Class III expire, respectively, at the 2014, 2015 and 2016 annual shareholders' meetings.

Ms. Crump-Caine and Mr. Pippin, each of whom currently serves as a Class I director, have been nominated by our board to serve as our Class I directors for a three-year term commencing immediately following the annual meeting and expiring at our 2017 annual shareholders' meeting, or until such person's successor is elected and qualified. If elected, each nominee has consented to serve as a Class I director.

Set forth below is information regarding the two individuals nominated for election to our board as Class I directors, which includes information furnished by them as to their principal occupations for the last five years, certain other directorships held by them, and their ages as of the date of this proxy statement.

Director/Nominee Name (Age)	Business Experience	Director Since
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Class I Nominees:

Lynn Crump-Caine (58)	<p>Ms. Crump-Caine is a director of the company and serves as a member of the Audit Committee of our Board of Directors. Ms. Crump-Caine founded Outsidein Consulting, and she currently serves as its Chief Executive Officer. Between 1974 and her retirement in 2004, Ms. Crump-Caine served in various senior capacities with McDonald's Corporation, including as its Executive Vice President, Worldwide Operations and Restaurant Systems, from 2002 to 2004, its Executive Vice President, U.S. Restaurant Systems, from 2000 to 2002, and its Senior Vice President, U.S. Operations, from 1998 to 2000. Ms. Crump-Caine serves on the board of Krispy Kreme Doughnuts, Inc. (NYSE: KKD), where she chairs the Compensation Committee and serves on the Nominating and Corporate Governance Committees.</p> <p>Ms. Crump-Caine's far-reaching operational experience, including in various senior positions with McDonald's Corporation, gives her a unique understanding of complex operating systems. Ms. Crump-Caine provides a valuable perspective to our board in a multitude of areas, including training, brand development and operations.</p> <p>Ms. Crump-Caine is well positioned to understand the multifaceted governance matters facing large public companies today. Ms. Crump-Caine also brings useful insights from, among other things, her service on other boards, including another public company board, and her commitment to continuing education.</p>	2008
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M. Lenny Pippin (67)	<p>Mr. Pippin is a director, serves as the Lead Director of our Board of Directors and serves 2001 as Chair of the Corporate Governance Committee. Mr. Pippin served as Vice Chairman, President and Chief Executive Officer of The Schwan Food Company, a branded frozen-food company, from November 1999 until February 2008. Since 2008, Mr. Pippin has acted as a business consultant. Prior to joining Schwan's, Mr. Pippin served as President and Chief Executive Officer of Lykes Brothers, Inc., a privately held corporation with operating divisions in the food, agriculture, transportation, energy and insurance industries.</p> <p>Mr. Pippin's prior business experience with The Schwan Food Company and Lykes Brothers provides him with a keen understanding of the many strategic and operational challenges facing companies such as ours, including familiarity with managing a</p>	
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complex route delivery system. Mr. Pippin also has experience with building sales, improving brand awareness, ensuring leadership development and understanding issues facing businesses like ours. As the Lead Director of our board, Mr. Pippin possesses valuable leadership, analytical, strategic and risk assessment skills. Mr. Pippin is also well versed with corporate governance requirements facing boards of large public companies.

Our Board of Directors unanimously recommends that you vote “FOR” the election of each director nominee named in this proxy statement.

Directors and Executive Officers of the Company

Name	Age	Title	Director Term Expires
Douglas A. Milroy	55	Chairman, Chief Executive Officer and Director (Class II)	2015
Jeffrey L. Wright	52	Former Executive Vice President, Chief Financial Officer	—
Robert G. Wood	66	Chairman, G&K Services Canada Inc.	—
Jeffrey L. Cotter	47	Vice President, General Counsel and Corporate Secretary	—
Timothy N. Curran	53	Senior Vice President, U.S. Field	—
Tracy C. Jokinen	45	Chief Financial Officer	—
John S. Bronson	66	Director (Class III)	2016
Lynn Crump-Caine	58	Director (Class I)	2014
Wayne M. Fortun	65	Director (Class III)	2016
Thomas R. Greco	56	Director (Class II)	2015
Ernest J. Mrozek	61	Director (Class III)	2016
M. Lenny Pippin	67	Director and Lead Director (Class I)	2014
Alice M. Richter	61	Director (Class II)	2015

Douglas A. Milroy – Mr. Milroy has served as our Chief Executive Officer and a director since May 2009 and was appointed Chairman of the Board in August 2014. Mr. Milroy served as our President, Direct Purchase and Business Development from November 2006 to May 2009. Mr. Milroy joined us with more than 20 years of global leadership experience in business-to-business organizations. Most recently, between 2004 and November 2006, Mr. Milroy was managing director of The Milroy Group LLC, a firm focused on the acquisition and management of industrial companies in partnership with other investors. Prior to that, between 2000 and 2004, Mr. Milroy was the Vice President and General Manager – Food and Beverage North America and Water Care for Ecolab, Inc. Mr. Milroy has also held senior positions with FMC Corporation and McKinsey & Company.

Mr. Milroy brings to our board broad strategic vision for our company, and he is a trusted advisor. Mr. Milroy has in-depth knowledge of all aspects of our company and our business, together with a deep understanding and appreciation of our customers and their business operations. Mr. Milroy creates a critical link between management and the board, enabling the board to perform its oversight function with the benefit of management's perspective on our business. As Chief Executive Officer, Mr. Milroy is responsible for determining the company's strategy and for communicating that strategy throughout the organization and to investors. Mr. Milroy's prior business experience, including his international business experience, provides him with a valuable perspective on operational, strategic and management matters facing large companies and an intimate understanding of motivating employees to ensure effective execution of initiatives. Mr. Milroy also has extensive experience with merger and acquisition transactions, including integrating companies to realize synergies and create efficiencies.

Jeffrey L. Wright – Through the end of fiscal 2014, Mr. Wright served as our Executive Vice President and Chief Financial Officer and as a director. On June 28, 2014, Mr. Wright stepped down from his role as Chief Financial Officer and resigned from our board. Mr. Wright continued to serve as an Executive Vice President until his retirement on August 30, 2014. Prior to his appointment as Chief Financial Officer in 1999, Mr. Wright served as our Senior Vice President from January 2004 until May 2009, our Secretary from February 1999 until May 2004, and our Treasurer from February 1999 until November 2001. Mr. Wright was employed with BMC

Industries, Inc. from 1996 until 1999, serving as its Contoller from 1996 to 1998 and as its Treasurer from 1998 to 1999. From 1993 to 1996, Mr. Wright was Treasurer for Employee Benefit Plans, Inc. From 1984 to 1993, Mr. Wright was employed with Arthur Andersen & Co. Mr. Wright also served in various capacities with our industry trade associations, including as Chairman of the Textile Rental Services Association. Mr. Wright is a director of Hawkins, Inc. (NASDAQ: HWKN), where he serves on the Compensation Committee and the Governance and Nominating Committee and chairs the Audit Committee.

Robert G. Wood – Mr. Wood has served as Chairman of G&K Services Canada Inc. since January 1, 2014 and will continue in that role until his retirement in December 2014. Mr. Wood previously served as President of G&K Services Canada Inc. and affiliated entities since 1998 and as one of our Regional Vice Presidents between 1997 and

1998. Mr. Wood joined the company in 1995 as a General Manager and served as Executive Vice President of the company from May 2000 until July 2002. Prior to joining the company, Mr. Wood was Vice President of Marketing and Director of Sales with Livingston International, Inc., where he spent 23 years in several operating, sales, service and marketing positions.

Jeffrey L. Cotter – Mr. Cotter has served as our Vice President and General Counsel since June 2008. Mr. Cotter joined the company as Senior Corporate Counsel in January 2006 and was named Director of Legal Services and Corporate Secretary in September 2007. Prior to joining the company, since 2003, Mr. Cotter was a shareholder in the law firm of Leonard, Street and Deinard Professional Association, now known as Stinson Leonard Street LLP, where he focused on securities law, as well as on mergers, acquisitions and related transactions. Prior to being a shareholder in Leonard, Street and Deinard, Mr. Cotter was an associate at the firm (1997-1999; 2001-2003), as well as Assistant General Counsel of Stockwalk.com, Inc. (1999-2001) and an associate in the law firm of Briggs & Morgan, P.A. (1995-1997).

Timothy N. Curran – Mr. Curran has served as our Senior Vice President, U.S. Field since October 2008. Mr. Curran joined the company as Regional Vice President in 2004. Prior to joining the company, Mr. Curran served as Vice President, Operations for a distribution division of WebMD from 2002 to 2004, and served as Division General Manager and Director of Business Development for

OMNOVA Solutions, a performance chemical and decorative products company, from 2000 to 2002. Mr. Curran also held various operating and leadership positions with Honeywell International Inc. from 1993 to 2000.

Tracy C. Jokinen – Ms. Jokinen became our Chief Financial Officer on June 29, 2014. Prior to joining G&K, Ms. Jokinen spent the last 22 years with Valspar Corporation, most recently as its Vice President, Corporate Finance, where she was responsible for Valspar's tax, treasury, investor relations, internal audit, operations finance and corporate accounting functions. Throughout 2012 through September 2013, Ms. Jokinen was Valspar's Vice President, Finance & Strategy, in which role she led Valspar's global finance organization with responsibility for business finance, international shared service centers in Europe and Asia and regional accounting teams. From 2008 to 2012, Ms. Jokinen was Valspar's Vice President, Corporate Controller and Chief Accounting Officer, with responsibility for the company's SEC reporting obligations and global financial control policies. Ms. Jokinen holds a bachelor's degree in accounting from Saint Cloud State University.

John S. Bronson – Mr. Bronson is a director of the company and serves as a member of the Compensation and Corporate Governance Committees of our Board of Directors. Mr. Bronson was Senior Vice President, Human Resources for Williams-Sonoma, Inc., a specialty retailer of home furnishings, from 1999 to 2003. Prior to his employment with Williams-Sonoma, Mr. Bronson held several senior human resource-related management positions with PepsiCo, from 1979 to 1999, including as its Executive Vice President, Human Resources Worldwide for Pepsi-Cola Worldwide.

Mr. Bronson's experience in human resource-related positions with Williams-Sonoma and PepsiCo provides him with substantial experience and knowledge with respect to the many complex issues surrounding human resources, benefits and compensation. Mr. Bronson offers us a unique perspective on leadership development, employee relations and compensation issues. Mr. Bronson also has extensive international business experience, and he understands the complexities of managing a route distribution system. Finally, Mr. Bronson has a deep understanding of the diverse and complex issues facing boards of large public companies.

Lynn Crump-Caine – see information under "Election of Class I Directors" above.

Wayne M. Fortun – Mr. Fortun is a director and serves as Chair of the Compensation Committee of our Board of Directors. In 1983, Mr. Fortun was elected director and named President and Chief Operating Officer of Hutchinson Technology, Inc. (NASDAQ: HTCH), a worldwide leader in precision manufacturing of suspension assemblies for disk drives, and was Hutchinson Technology's Chief Executive Officer from May 1996 to October 1, 2012, when he assumed the role of Chairman of the Board of Hutchinson Technology and retired from his position as Chief Executive Officer. Mr. Fortun also serves as a director of C.H. Robinson Worldwide, Inc. (NASDAQ: CHRW), a global provider of multimodal transportation services and logistics solutions, where he chairs the Compensation Committee.

As the longest serving member of our board, Mr. Fortun has abundant knowledge of our company and its business. Mr. Fortun's significant experience with Hutchinson Technology provides him with critical knowledge of the management, financial and operational requirements of a large company. Mr. Fortun also provides our board with insight into international business issues. In addition, as a result of his long tenure as a director of another large public company, Mr. Fortun is well possessed with a deep understanding of the roles and responsibilities of public company board members.

Thomas R. Greco – Mr. Greco was appointed as a director in July 2014 and serves as a member of the Compensation Committee of our Board of Directors. Mr. Greco is president of Frito-Lay North America, where he leads PepsiCo's snack and convenient foods business. Mr. Greco assumed this role in September 2011, after serving as PepsiCo's executive vice president and chief commercial officer, North America Beverages, or NAB, where he was responsible for leading NAB's commercial efforts across North America. Prior to September 2011, Mr. Greco was president of global sales for PepsiCo. Mr. Greco also previously served as president of Frito Lay Canada and senior vice president of sales for Frito-Lay North America. Mr. Greco joined PepsiCo in 1986. Before joining PepsiCo, Mr. Greco worked at Procter & Gamble.

Mr. Greco's various executive responsibilities within PepsiCo enable him to understand the importance and effective means of building shareholder value and cultivating a business environment committed to quality, productivity and continuous improvement. Mr. Greco also has valuable insight into the operations of a large public company, in

addition to experience managing complex route delivery systems and leading a Canadian business operation. Finally, Mr. Greco's prior sales roles within PepsiCo lend him unique perspective on building marketing and growth strategies and improving brand awareness.

Ernest J. Mrozek – Mr. Mrozek is a director and serves as a member of the Audit and Corporate Governance Committees of our Board of Directors. Mr. Mrozek is one of our Audit Committee Financial Experts. Mr. Mrozek served as Vice Chairman and Chief Financial Officer of The ServiceMaster Company, a residential and commercial service company, from November 2006 until his retirement in March 2008. Mr. Mrozek also served as President and Chief Financial Officer of The ServiceMaster Company from January 2004 to November 2006 and as its President and Chief Operating Officer from 2002 to January 2004. He served as President and Chief Operating Officer of ServiceMaster Consumer Services, ServiceMaster's largest segment, from January 1997 until 2002. Mr. Mrozek joined ServiceMaster in 1987 and held various senior positions in general management, operations and finance, in addition to those specifically noted above. Prior to joining ServiceMaster, Mr. Mrozek spent 12 years with Arthur Andersen & Co. Mr. Mrozek served on the board of Chemed Corporation (NYSE: CHE) until May 2010, and he currently serves on the board of IDEX Corporation (NYSE: IEX), where he chairs the Audit Committee.

Mr. Mrozek's executive operating and financial responsibilities with The ServiceMaster Company and his other board service provide him with a keen understanding of the management, financial and operational requirements of a large public company, including effective growth, retention and capital structure strategies. Mr. Mrozek's experience also provides him with an understanding of corporate governance requirements and the roles and responsibilities of board members of such companies. Additionally, Mr. Mrozek is able to draw upon his public accounting experience and financial oversight positions as he assists our board in evaluating our financial results, internal controls, financial reporting and risk management practices.

M. Lenny Pippin – see information under “Election of Class I Directors” above.

Alice M. Richter – Ms. Richter is a director and serves as Chair of the Audit Committee of our Board of Directors. Ms. Richter is one of our Audit Committee Financial Experts. Ms. Richter has been retired since June 2001. Prior to her retirement, Ms. Richter was a certified public accountant with KPMG LLP for 26 years. Ms. Richter joined KPMG's Minneapolis office in 1975 and was admitted to the KPMG partnership in 1987. During her tenure at KPMG, Ms. Richter served

as the National Industry Director of KPMG's U.S. Food and Beverage practice and also served as a member of the Board of Trustees of the KPMG Foundation. Ms. Richter is a member of the boards of West Marine, Inc. (NASDAQ: WMAR), where she serves as Chair of the Audit Committee, Bluestem Brands, Inc., where she serves as the Chair of the Audit Committee, and Thrivent Financial for Lutherans, where she chairs the Audit Committee and serves on the Marketing/Strategic Oversight Committee. Ms. Richter has also been recognized as a Board Leadership Fellow by the National Association of Corporate Directors.

With more than 25 years of experience with an international public accounting firm, Ms. Richter possesses a significant understanding of accounting principles and financial reporting, evaluating financial results and the processes of financial reporting, risk management and internal control over financial reporting of both publicly and privately held companies. Ms. Richter also brings useful corporate governance and compliance insights from, among other things, her service on boards and other board committees and her commitment to continuing education regarding board service and compliance issues.

GOVERNANCE OF THE COMPANY

Board of Directors and Committees

Board of Directors

Our board believes that there is no single, generally accepted approach to providing board leadership and that, given the dynamic and competitive environment in which we operate, the right board leadership structure may vary as circumstances warrant. To that end, in August 2014, our board made the decision to combine the role of Chairman and Chief Executive Officer, and Mr. Milroy was appointed Chairman of the Board. Our board concluded that the Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with the company's business and industry and is therefore best able to identify the strategic priorities to be discussed by the board. The board also believes that combining the role of Chairman and Chief Executive Officer facilitates information flow between management and the board and fosters strategic development and execution. Contemporaneously with appointing Mr. Milroy to the Chairman position, the board appointed Mr. Pippin as its Lead Director. As Lead Director, Mr. Pippin's responsibilities include:

- presiding at any meeting of the board at which the Chairman is not present, including at executive sessions for independent directors, at meetings or portions of meetings on topics where the Chairman or the board raises a possible conflict, and when requested by the Chairman;
- calling meetings of the independent directors, at such time and place as he determines;
- serving as a liaison between the Chairman and the independent directors;
- approving any information sent to him by management for distribution to the board;
- approving meeting agendas for the board, including approving meeting schedules to ensure sufficient time is set aside to discuss relevant matters; and
- if requested by major shareholders, ensuring that he is available for consultation and direct communication.

The board believes combining the role of Chairman and Chief Executive Officer, together with a strong, independent Lead Director, provides the appropriate leadership and oversight and facilitates effective functioning of both the board and management. Additionally, our board maintains effective independent oversight through a number of governance practices, including open and direct communication with management, input on meeting agendas, annual performance evaluations and regular executive sessions.

Our board has also established the following permanent committees to assist with providing oversight to the company: an Audit Committee, a Compensation Committee and a Corporate Governance Committee. Our board has adopted a written charter for each of these committees, copies of which are available at our website at <http://www.gkservices.com>.

Our board held four meetings during fiscal 2014, all of which were held in person, and took action by written consent seven times. Each of our directors attended more than seventy-five percent of the meetings of the board and the committees of the board on which such director served during the 2014 fiscal year.

Director Attendance at Annual Meetings of Shareholders

We do not have a formal policy with respect to attendance by board members at the annual meeting of shareholders, but all directors are encouraged to attend, and we attempt to coordinate scheduling of our annual meeting of shareholders to accommodate attendance by

directors. All of our directors attended our fiscal 2013 annual meeting of shareholders.

Independence

With the exception of Mr. Milroy, all of the members of our board are independent within the meaning of applicable NASDAQ Global Select Market and Securities and Exchange Commission (SEC) rules. When considering the independence of directors, the board determined that neither Mr. Doyle's position with Domino's Pizza, nor Mr. Greco's position with Frito-Lay, which is a business unit of PepsiCo, impaired such director's independence, despite the fact that all three companies are customers of the company. All of the transactions with Domino's Pizza, Frito-Lay and PepsiCo were conducted on arm's length terms in the ordinary course of business, and the amount involved with the transactions represents less than 1% of our revenues. Mr. Doyle is not standing for re-election, and he will resign from our board on November 5, 2014.

Board Oversight of Company Risk

We rely on our comprehensive enterprise risk management (ERM) process to aggregate, monitor, measure and manage risks. Through our ERM process, our management, with board oversight, works to identify, assess and manage enterprise risks that may affect our ability to execute our corporate strategy and fulfill our business objectives. As a part of our ERM process, management regularly reviews the effectiveness of our risk management practices and capabilities to determine our risk exposure. Management then elevates certain key risks for discussion at the board level. Our board, with the assistance of management, also annually reviews the effectiveness of our ERM program. Our ERM program is overseen by our board. Our Vice President and General Counsel, who is a member of our executive team, and our Director of Internal Audit have day-to-day management responsibility for this program. Additionally, our Audit Committee is primarily responsible for oversight of our policies and practices concerning internal control over financial reporting and risk assessments related thereto. Our Audit Committee reviews and takes appropriate action with respect to the company's annual and quarterly financial statements, the internal audit program, the external audit process and results and disclosures made with respect to the company's internal controls. To facilitate these risk oversight responsibilities, the committee receives regular briefings from members of management on the internal audit plan, Sarbanes-Oxley Section 404 compliance, any significant litigation, ethics matters and health, safety and environmental matters. The committee also regularly holds executive sessions with representatives of our independent public accounting firm.

In addition to the Audit Committee's role in financial risk oversight, each of the other board committees considers risk as it relates to its particular areas of responsibility. Our Compensation Committee oversees and administers our incentive and equity compensation programs to ensure that the programs create incentives for strong operational performance and for the long-term benefit of the company and its shareholders without incentivizing undue risk. The committee receives regular briefings from our Vice President, Human Resources, our Vice President and General Counsel, our Director, Total Rewards and the committee's retained compensation consultant. Finally, our Corporate Governance Committee oversees risks related to board composition and governance matters and receives regular briefings from our Vice President and General Counsel.

Consideration of Director Candidates

The Corporate Governance Committee, together with the Chairman of the Board and other directors, recruits director candidates and presents qualified candidates to the board for consideration. At each

annual shareholders' meeting, the board proposes to the shareholders a slate of nominees for election or re-election to the board. Shareholders may propose director nominees for consideration by the Corporate Governance Committee by submitting a recommendation in writing to the Chair of the Corporate Governance Committee, in care of our Corporate Secretary at our headquarters address. Mr. Greco was recommended as a nominee by our board's non-management directors.

Qualified director candidates, whether identified by shareholders or otherwise, will be considered without regard to race, color, religion, sex, ancestry, national origin or disability. The Corporate Governance Committee will consider each candidate's general business and industry experience, the candidate's ability to act on behalf of shareholders, overall board diversity, potential concerns regarding independence or conflicts of interest and other factors relevant in evaluating board nominees. The Corporate Governance Committee seeks directors who represent a mix of backgrounds and experiences that will enhance the quality of the board's deliberations and decisions. The Corporate Governance Committee considers a number of factors in its evaluation of diversity, including diversity with respect to viewpoint, skills, experience, community involvement, geography, age, race, gender and ethnicity. Based on these factors and the qualifications and background of each director, we believe the current composition of our board is diverse.

If the Corporate Governance Committee approves a candidate for further review following an initial screening, it establishes an interview process for the candidate. Generally, the candidate meets with members of the Corporate Governance Committee and our Chief Executive Officer. Contemporaneously with the interview process, the Corporate Governance Committee will conduct a comprehensive assessment of the candidate. The Corporate Governance Committee will consider reports of the interviews and the assessment to determine whether to recommend the candidate to the board. The Corporate Governance Committee will also take into consideration the candidate's personal attributes, including personal integrity, concern for the company's success and welfare, willingness to apply sound and independent business judgment, awareness of a director's vital role in our good corporate citizenship and image, time available for meetings and consultation on company matters and willingness to assume broad, fiduciary responsibility. Shareholders who wish to nominate a candidate for election to our board at the annual meeting must comply with our advance notice bylaw described elsewhere in this proxy statement.

Corporate Governance Committee

We have established a Corporate Governance Committee of the Board of Directors comprised solely of "independent directors" (as defined by applicable rules and regulations of the SEC, NASDAQ Global Select Market and other relevant regulatory bodies), one of whom also serves on the Compensation Committee of the board. The Corporate Governance Committee operates pursuant to a written charter adopted by the board. The primary roles of the Corporate Governance Committee are to monitor the effectiveness of the board in carrying out certain responsibilities, to assure appropriate board composition, to recommend a Chief Executive Officer and to facilitate the board's annual review of our Chief Executive Officer's performance and the operation of the board (including its Chairman and its various committees). In addition, the Corporate Governance Committee presents qualified director candidates to the full board and considers qualified nominees recommended by shareholders.

The Corporate Governance Committee, which presently consists of Chair Mr. Pippin and Messrs. Bronson and Mrozek, held four meetings during fiscal 2014, three of which were held in person and one of which was telephonic, and did not take action by written

consent. The Chair and members of the Corporate Governance Committee are appointed by our board.

Audit Committee

We have established an Audit Committee of the Board of Directors which assists the board in fulfilling certain oversight responsibilities and consists solely of independent directors. The Audit Committee operates pursuant to a written charter adopted by the board. As set forth in the charter, the primary responsibilities of the Audit Committee include serving as an independent and objective party to monitor our financial reporting process and the system of internal control over financial reporting, reviewing and appraising the audit results of our independent auditors and internal audit department, and providing an open avenue of communication among the independent auditors, financial and senior management, the internal audit department and our board. The charter also requires that the Audit Committee appoint our independent auditors and review and pre-approve the performance of all audit and non-audit

accounting services to be performed by our independent auditors, other than services falling within the de minimis exceptions permitted under Section 202 of the Sarbanes-Oxley Act.

The Audit Committee, which presently consists of Chair Ms. Richter, Ms. Crump-Caine and Mr. Mrozek, held ten meetings during fiscal 2014, four of which were held in person and six of which were conducted by telephone, and did not take action by written consent. The Audit Committee met and held discussions with management and representatives of our independent auditors prior to the public release of earnings information for each of our completed fiscal periods, and prior to each Quarterly Report on Form 10-Q and our Annual Report on Form 10-K being filed with the SEC.

Our board has determined that at least two members of the Audit Committee, specifically Ms. Richter and Mr. Mrozek, are “Audit Committee Financial Experts,” as that term is defined in Item 407(d)(5) of SEC Regulation S-K. In addition, each member of the Audit Committee is an “independent director,” as such term is defined in Rule 5605(a)(2) of the NASDAQ Global Select Market’s listing standards, and meets the criteria for independence set forth in Rule 5605(c)(2) of the NASDAQ Global Select Market’s listing standards and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. Our board has also determined that each of the Audit Committee members is able to read and understand financial statements and that at least one member of the Audit Committee has past employment experience in finance or accounting.

Compensation Committee

The Compensation Committee of the Board of Directors, which presently consists of Chair Mr. Fortun and Messrs. Bronson, Doyle and Greco, held three meetings during fiscal 2014, all of which were held in person, and took action by written consent one time. All members of the Compensation Committee are “independent directors” within the meaning of the NASDAQ Global Select Market’s Rule 5605(d)(2) and “non-employee directors” within the meaning of Rule 16b-3(b)(3) under the Securities Exchange Act of 1934. The Compensation Committee reviews our compensation policies and practices and makes recommendations to the independent members of our board in connection with all compensation matters affecting our Named Executive Officers (NEOs). A description of the processes and procedures for considering and determining executive compensation is included in the “Executive Compensation – Compensation Discussion and Analysis” section of this proxy statement.

Towers Watson, the Compensation Committee’s independent compensation consultant, provides independent compensation consultation and advice to the Compensation Committee to assist in

aligning executive compensation with the long-term interests of shareholders and our corporate goals and strategies and ensuring our compensation remains competitive. Although Towers Watson primarily supports the Compensation Committee, on occasion, Towers Watson provides market data and general compensation consultation to management with respect to non-NEO employees. The decision to engage Towers Watson for additional consulting services was made by our management. During fiscal 2014, we paid Towers Watson \$68,989 for services related to assisting the Compensation Committee with determining the amount and form of executive and director compensation, and \$131,087 for other services provided, the majority of which were related to health and group benefits. As requested by the Compensation Committee, Towers Watson provides guidance as it relates to the following committee responsibilities:

- reviews Compensation Committee agendas and supporting materials in advance of each meeting;
- as requested, attends Compensation Committee meetings;
- makes recommendations on companies to include in our peer group, analyzes the selected peer group information and reviews other survey data for competitive comparisons;
- reviews our executive compensation programs and competitive positioning for reasonableness and appropriateness;
- reviews our total executive compensation program and advises the Compensation Committee of plans or practices that might be changed to improve effectiveness;
- reviews survey data on executive pay practices and amounts that come before the Compensation Committee;
- provides market data and recommendations on Chief Executive Officer compensation without prior review by management, except for necessary fact checking;
- provides market data and recommendations on director compensation;
- reviews any significant executive employment or change-in-control provisions in advance of being presented to the Compensation Committee and/or the board for approval;
- periodically reviews the Compensation Committee's charter and recommends changes;
- advises the Compensation Committee on best-practice ideas for board governance as it pertains to executive compensation as well as areas of risk in our compensation program;
- as requested, advises the Compensation Committee on management proposals; and
- undertakes other projects at the request of the Compensation Committee.

In fiscal 2014, as part of its ongoing services to the Compensation Committee, a Towers Watson representative attended three meetings of the Compensation Committee (either in person or telephonically) and worked on the following projects:

- participated in review and updating of our Compensation Committee charter;
- conducted market analysis of chief executive officer compensation and made recommendations for changes to Mr. Milroy's total compensation package for fiscal 2015;
- advised regarding Mr. Milroy's Dividend Equivalent Performance Unit Retention grant related to the Performance Stock Award granted to Mr. Milroy during fiscal 2013; and

• conducted market analysis of Board of Director compensation and made recommendations on changes to the Board of Directors compensation for fiscal 2014.

Compensation Committee Interlocks and Insider Participation

During fiscal 2014, no member of our Compensation Committee was an officer, former officer or employee of the company or any of its subsidiaries. During fiscal 2014, none of our executive officers served as a member of (i) the compensation committee of another entity, one of whose executive officers served on the Compensation Committee of our Board of Directors, (ii) the board of directors of another entity, one of whose executive officers served on the Compensation Committee of our Board of Directors, or (iii) the compensation committee (or other board committee performing equivalent functions, or in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a member of our board.

Compensation Paid to Board Members

During fiscal 2014, we paid each director who was not otherwise employed by us an annual retainer of \$50,000. We paid to members of the Audit, Compensation, and Governance Committees an annual retainer of \$10,000, \$6,000, and

\$5,000, respectively. We paid an additional \$48,000 retainer to Mr. Pippin, the former Chairman of our Board, a \$20,000 retainer to Ms. Richter, Chair of the Audit Committee, a \$12,000 retainer to Mr. Fortun, Chair of the Compensation Committee, and a \$10,000 retainer to Mr. Pippin, Chair of the Corporate Governance Committee. In addition, directors who are not otherwise employed by the company are eligible to participate in the Restated Equity Incentive Plan (2013). For fiscal 2014, each non-employee director was awarded a restricted stock grant of 1,442 shares, equivalent to approximately \$90,000, based on the closing price of our common stock on the date of grant; Mr. Pippin, our former Chairman of the Board, also received an additional restricted stock grant of 753 shares, equivalent to approximately \$47,000. Each restricted stock grant vests in equal installments over a period of three years, beginning on the first anniversary of the grant date. Each new director also receives a one-time grant of options to purchase 3,000 shares of common stock upon his or her initial election to the board. The exercise price of these options is the closing price of our stock on the date of grant. Each such option has a 10-year term and vests in three equal installments beginning on the first anniversary of the grant date. Directors must remain in service for restricted stock and options to vest; therefore, any unvested grants will be forfeited upon termination of service to the board. During fiscal 2014, the Compensation Committee approved additional retirement provisions for future option and restricted stock grants made to directors. Effective January 1, 2015, such grants will include an accelerated vesting provision whereby, upon a director's qualified retirement, the unvested portion of such grants will continue to vest in two equal installments over a two-year period following such qualified retirement. A director's qualified retirement is defined as a director's voluntary termination of service as a director on attaining the age of 70, the mandatory retirement age, or, if earlier, after completing at least 12 consecutive years of service as a director. We have in place stock ownership requirements for our non-employee directors. Specifically, each of our non-employee directors is required to own a minimum number of shares equal to five times the director's annual base retainer. Each director must achieve this level no more than five years after becoming a director. Once achieved, each director must maintain this ownership level at all times during the director's tenure with the company. The Compensation Committee annually reviews the progress against the

ownership guidelines, and each of our non-employee directors is either on track to achieve or has achieved ownership requirements.

Director Compensation Table

The following table shows the compensation of the company's non-employee directors for services in all capacities to us in fiscal 2014.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾⁽²⁾	Option Awards (\$)	Total (\$)
John S. Bronson	61,000	90,038	—	151,038
Lynn Crump-Caine	60,000	90,038	—	150,038
J. Patrick Doyle ⁽³⁾	56,000	90,038	—	146,038
Wayne M. Fortun	68,000	90,038	—	158,038
Ernest Mrozek	60,000	90,038	—	150,038
M. Lenny Pippin	113,000	137,056	—	250,056
Alice M. Richter	80,000	90,038	—	170,038

The dollar amounts represent the aggregate grant date fair value of stock awards granted during fiscal 2014. The grant date fair value of a stock award is measured in accordance with FASB ASC Topic 718 based on assumptions described in Note 11 to our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014.

(1) Consists of 1,442 shares granted to each director on January 2, 2014, which had a fair value of \$62.44 per share, and 2,195 shares granted to Mr. Pippin on January 2, 2014, which had a fair value of \$62.44 per share.

(3) Mr. Doyle is not standing for re-election and will resign from our board effective November 5, 2014.

As of the end of fiscal 2014, each director held the following unvested restricted shares and unexercised options:

Name	Number of Shares or Units of Stock That Have Not Vested (#)	Number of Securities Underlying Unexercised Options Exercisable (#)
John S. Bronson	3,643	9,600
Lynn Crump-Caine	3,643	7,800
J. Patrick Doyle ⁽¹⁾	3,643	—
Wayne M. Fortun	3,643	11,100
Ernest Mrozek	3,643	14,100
M. Lenny Pippin	5,814	16,900
Alice M. Richter	3,643	12,100

(1) Mr. Doyle is not standing for re-election and will resign from our board effective November 5, 2014, at which time all unvested awards will be forfeited.

Executive Compensation

Executive Summary

The primary objective of our compensation program is to provide competitive compensation and benefit plans that enable us to attract, motivate and retain highly qualified, experienced executives and reward them for performance that creates long-term shareholder value. We strive to reward our NEOs fairly and competitively through a mix of base salary, short- and long-term incentives, benefits, career growth and development opportunities. We believe this mix drives company performance and assists with employee retention. Our NEOs for fiscal 2014 were the following individuals:

• Douglas A. Milroy, Chairman and Chief Executive Officer;
• Jeffrey L. Wright, former Executive Vice President and Chief Financial Officer;
• Robert G. Wood, Chairman, G&K Services Canada;
• Timothy N. Curran, Senior Vice President, U.S. Field; and
• Jeffrey L. Cotter, Vice President, General Counsel and Corporate Secretary.

G&K delivered solid financial performance in fiscal 2014. We made progress on all elements of our strategic game plan. We believe that our management team's leadership and commitment to our strategic plan directly impacted our strong fiscal 2014 performance and that the compensation of our NEOs appropriately rewarded them for these achievements. In fiscal 2014, our adjusted earnings per diluted share from continuing operations increased 10% to \$2.90, up from \$2.63 in fiscal 2013. Adjusted operating margin increased 120 basis points to 11.1%, from 9.9% in the prior year. Adjusted return on invested capital increased 140 basis points to 10.2% from 8.8% in fiscal 2013. Our fiscal 2014 adjusted earnings per diluted share and operating margin excluded certain charges, primarily related to an increase in the company's estimated multi-employer pension plan withdrawal liability and the divestitures of the company's direct sale program business and an Irish subsidiary, partially offset by the benefit from a change in the estimated useful lives of certain in-service merchandise assets. Without these adjustments, our reported earnings per diluted share from continuing operations were \$2.78, and our reported operating margin was 10.7%. See Annex A for a table reconciling the reported amounts to the adjusted amounts.

In structuring the fiscal 2014 compensation program for our NEOs, the Compensation Committee of our Board of Directors considered a number of factors, including our financial and business results, the general economic outlook, individual performance and responsibilities, experience, competitive data and our board-approved financial plan for the fiscal year. Consistent with that financial plan, our Compensation Committee included in our fiscal 2014 executive compensation program challenging target financial performance objectives.

Within this framework, and reflecting its assessment of company and individual performance during fiscal 2014, our Compensation Committee took the following actions regarding compensation for our NEOs during fiscal 2014:

• approved increases to the base salaries of Messrs. Wright and Wood of 3% or less, Mr. Curran of 4%, and Messrs. Cotter and Milroy of 8%;
• approved annual cash incentive payouts for fiscal 2014 under our Management Incentive Plan (referred to as our MIP) that reflected performance at 95% of target for qualified performance-based measures;
• granted to Mr. Milroy long-term equity awards, the grant date fair value of which was allocated 65% restricted stock and 35% stock options and which was set at 100% of his target grant value;

• granted to Mr. Milroy a Dividend Equivalent Performance Unit Retention grant related to the Performance Stock Award granted to him in fiscal 2013, subject to certain performance goals and additional time-vested conditions; and
• granted to our other NEOs long-term equity awards whose grant date fair value was allocated 65% restricted stock and 35% stock options and in each case reflected 100% to 130% of the NEO's respective target grant value.

We believe that our compensation program is reasonable and market competitive, that it fairly reflects our performance over time and that it aligns the interests of our NEOs with the interests of our shareholders. We emphasize compensation opportunities that reward our executives when they meet or exceed targeted qualified performance measures and individual goals and objectives. The actual total compensation of each NEO varies depending upon individual performance and responsibilities, experience, competitive market data and the achievement of pre-established individual and corporate performance goals. Stock ownership guidelines and equity incentives serve to further align the interests of our executives with those of our shareholders and the long-term goals of the company.

Our executive compensation policies have enabled us to attract and retain talented and experienced senior executives and have benefited our company over time.

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the material elements of our total compensation program for our NEOs. Our NEOs consist of our Chief Executive Officer, our Executive Vice President and Chief Financial Officer, and the three most highly compensated executive officers, other than our Chief Executive Officer and our Executive Vice President and Chief Financial Officer, who were serving as our executive officers at the end of fiscal 2014. This discussion focuses on our compensation program and decisions in fiscal 2014, each as they relate to these individuals; we also address why we believe the program is right for our company and our shareholders, and we explain how compensation is determined.

Overview of Compensation

What person or group is responsible for determining the compensation levels of executive officers?

The Compensation Committee of our Board of Directors, which consists entirely of independent directors and whose membership is determined by our board, is responsible for:

- approving the design and implementation of our executive compensation program for both NEOs and non-NEO executives;
- receiving and evaluating input from the Compensation Committee's independent compensation consultant for the CEO's compensation and input from both management and the compensation consultant for the remaining NEOs' compensation;
- annually reviewing NEO compensation and developing compensation recommendations for our board, after which only our independent directors vote on NEO compensation;
- assessing risks arising from our compensation policies and practices for our employees;
- regularly reporting on committee actions and recommendations at board meetings; and
- working with the Audit and Corporate Governance Committees of our Board of Directors, as appropriate.

Our Compensation Committee engaged Towers Watson to serve as an independent compensation consultant for the committee starting in September 2012. The consulting and advisory services provided by Towers Watson to our Compensation Committee in connection with

executive and director compensation were described previously in this proxy statement in the section “Governance of the Company – Compensation Committee.” The Compensation Committee also works with our human resources, compensation and benefits and legal professionals on the design and implementation of executive compensation programs and retirement plans, including the following qualified plans: the G&K Services Pension Plan (which was frozen on December 31, 2006) and the G&K Services 401(k) Savings Incentive Plan, and the following non-qualified plans: the Supplemental Executive Retirement Plan (which was frozen on December 31, 2006) and the Executive Deferred Compensation Plan (our DEFACO plan). On behalf of our Compensation Committee, our Retirement Committee manages the administrative duties and responsibilities for our United States qualified and non-qualified retirement plans and serves as plan administrator of such qualified plans. Our Retirement Committee provides oversight to our Canada Pension Committee regarding the Canadian registered plans and retirement compensation arrangements and to our labor relations personnel with regard to union and multiemployer pension plan issues. Certain of our senior officers have roles in the compensation process, as follows:

Each NEO, other than the Chief Executive Officer, provides a self-evaluation prior to his performance review with Mr. Milroy;

Mr. Milroy conducts a performance review of each NEO to assess such NEO’s performance against business and individual performance objectives, to note any significant strengths and accomplishments, and to note challenges and areas for improvement;

Mr. Milroy recommends compensation actions (base salary and equity grant) with respect to our NEOs, other than for himself, and submits those recommendations to the Compensation Committee for review;

Mr. Milroy conducts an assessment of his performance during the fiscal year, which he reviews with the board;

- Mr. Milroy provides his perspective on recommendations provided by the Compensation Committee's consultant regarding compensation program design issues;

Our Vice President, Human Resources provides input on plan design, structure and cost, and assesses the implications of all recommendations on recruitment, retention and motivation of company employees, as well as company financial results; and

when requested by the Compensation Committee, other officers, such as our Executive Vice President and Chief Financial Officer, Vice President and Controller, and our Vice President and General Counsel, may also review recommendations on plan design, structure and cost, and provide a perspective to the Compensation Committee on how these recommendations may affect recruitment, retention and motivation of our employees, as well as our financial results.

Our independent directors also have roles in the compensation process, as follows:

Each independent director completes an evaluation of Mr. Milroy’s performance;

The Corporate Governance Committee summarizes the results and presents them to the board, which engages with Mr. Milroy in a discussion regarding his performance; and

The independent directors vote on all compensation recommendations, consistent with the requirements of Section 162(m) of the Internal Revenue Code, discussed more fully below.

Discussion and Analysis

The following discussion and analysis is limited to our NEO compensation program, focuses on the program and decisions for fiscal 2014 and specifically answers the following questions:

1. What are the objectives of our compensation program?
 2. What is our compensation program designed to reward?
 3. What is each element of compensation?
 4. Why do we choose to pay each element?
 5. How do we determine the amount/formula for each element?
 6. How does each element and our decision regarding that element fit into our overall compensation objectives and affect decisions regarding other elements?
 7. How do our compensation policies relate to our risk management practices and/or risk-taking incentives?
- What are the objectives of our compensation program?

The primary objective of our compensation program is to provide competitive compensation and benefit plans that enable us to attract, motivate and retain highly qualified, experienced executives and to reward them for performance that creates long-term shareholder value. We seek to increase shareholder value by rewarding performance with competitive compensation that ensures direct linkage between pay, company performance and results for our shareholders. Base salary, short- and long-term incentive opportunities will differ among NEOs due to the differing levels of roles and responsibilities of each NEO, experience, competitive market data and the achievement of individual and corporate performance goals. We strive to drive performance and reward employees fairly and competitively through a mix of base salary, short- and long-term incentives, benefits, career growth and development opportunities. We believe that our base pay, short- and long-term incentives and other benefits are sufficiently balanced between short-term and long-term performance and do not encourage unnecessary risk-taking.

What is our compensation program designed to reward?

Our compensation program strives to effectively utilize elements of compensation under a total reward philosophy that combines annual and multi-year reward opportunities designed to reward the achievement of company performance objectives, including long-term growth in shareholder value and successful execution of our strategic game plan, strong individual initiative and team performance.

What is each element of compensation and why do we choose to provide it?

There are five components of our executive compensation program:

- base salary;
- MIP (short-term incentives);
- long-term equity-based compensation;
- benefits and perquisites; and
- severance and change-in-control benefits.

We seek to allocate the mix of each of the above components to deliver a market-competitive total compensation package. Base salary and short- and long-term incentives are reviewed against external market data and peer group data to determine overall compensation levels. Short- and long-term incentives are expressed as a percentage of base compensation. For fiscal 2014, based on market data, we implemented a moderate increase in base salary and an increase in long-term incentives for Messrs. Curran, Milroy and Wood. Similarly, based on market data, in fiscal 2014, we made changes to

target bonus levels for Mr. Cotter. We made no other changes to our offered short-term incentives.

Base Salary

Base salary is fixed compensation designed to compensate NEOs for their level of experience and continued performance in their individual roles. Providing executives with competitive base salaries allows us to attract high-caliber talent and retain executives' on-going services by providing them with a level of financial certainty. We review executive base salary on an annual basis (generally comparing to the median of the competitive market for each position), and any increases are based on individual performance and responsibilities, experience and prevailing market conditions. During fiscal 2014, we awarded merit pay increases to our NEOs based on individual performance and overall company performance. Based on market data, our board approved base salary adjustments in fiscal 2014 for all five of our NEOs.

For fiscal 2014, each of our NEO's annual base salary set by the Compensation Committee (effective September 1, 2013) reflected the following percentage of the market median: Mr. Milroy – 102%; Mr. Wright – 105%; Mr. Wood – 110%; Mr. Curran – 108%; and Mr. Cotter – 100%. Each NEO's actual compensation position relationship to the market median differs due to job content and responsibilities, experience and individual performance.

Annual Management Incentive Plan (MIP)

Our MIP is a variable pay program tied to achievement of annual business goals. The MIP is designed to compensate NEOs for meeting specific company financial goals. MIP target incentive levels are based on competitive market data, job content and responsibilities. Cash incentive awards to our NEOs that are based on qualified performance-based measures may be settled in cash as performance awards under our Restated Equity Incentive Plan (2013), with terms similar to our MIP awards, so that any payments

will be deductible, as applicable, pursuant to Section 162(m) of the Internal Revenue Code. Such an award was granted to all of our NEOs for fiscal 2014. For ease of reference, we will refer to the

MIP-like awards under our Restated Equity Incentive Plan as MIP

awards in this discussion. Target incentive levels for 2014 are expressed as a percentage of base salary, as follows:

Position	Target Incentive (as a % of Base Salary)	
Douglas A. Milroy	100	%
Jeffrey L. Wright	60	%
Robert G. Wood	50	%
Timothy N. Curran	60	%
Jeffrey L. Cotter	50	%

As stated above, short-term incentive percentages are compared to market as well as to internal comparisons and will vary based on each NEO's position and responsibilities within the company.

Management Incentive Plan Payouts

In fiscal 2014, we designed our MIP to tie executive payouts solely to financial goals. This resulted in eliminating the subjective component of our MIP. We believe this change better aligns our executive compensation to a pay-for-performance market approach. Our fiscal 2014 MIP payout was calculated based on actual performance against financial goals set at the beginning of the fiscal year. The Compensation Committee chose the qualified performance-based financial measures of revenue, earnings per share (EPS) and return on invested capital (ROIC) as the key financial measures because they are consistent with our 12+ Plan previously communicated to our shareholders, best represent our primary short-term financial goals and align with and support the attainment of our long-term strategy. ROIC is calculated by dividing trailing 12-month adjusted net operating income from continuing operations after tax (assuming a 38.5% tax rate) by invested capital. Invested capital is equal to the sum of total debt and shareholders' equity, less cash. These measures were reviewed and approved by the Compensation Committee.

Plan Measures and Weights and Performance Targets

The MIP measures and weights for fiscal 2014, as well as the performance targets and results, are as follows:

Plan Measures	Weights CEO, EVP, President G&K Canada, SVP and VP	Performance Targets for Financial Measures			Results ⁽²⁾	
		Threshold - 0% Payout	Target - 100% Payout	Maximum - 200% Payout	Achievement	Payout Factor
Qualified Performance Measures:						
Revenue Achievement ⁽¹⁾	40%	\$867.5 million	\$922.9 million	\$950.5 million	99.6%	92.2%
EPS Achievement ⁽¹⁾	40%	\$2.31	\$2.89	\$3.11	100.0%	100.0%
ROIC Achievement ⁽¹⁾	20%	8.0%	10.0%	10.8%	98.5%	89.4%
Total	100%					

(1) In order to earn a payout for this objective, performance must be achieved above the threshold level.

At the Compensation Committee's discretion, certain adjustments were excluded for purposes of calculating performance measures under the MIP. These adjustments included the loss on divestiture of our direct sale program business and an Irish subsidiary, charges associated with the withdrawal from various multi-employer pension plans and the benefit of the change in estimated merchandise lives. For NEOs and other executives reporting to the CEO, payouts for consolidated total revenue, EPS and ROIC are determined based on a financial formula, as follows: no payout is made if consolidated total revenue is at or below 94% of target; if consolidated total revenue is above 94% and below 96% of target, for each additional 1% of achievement, the payout factor increases by 15%, after which each 1% of consolidated revenue results in a 17.5% increase in the payout factor.

(2) For above target achievement, if consolidated total revenue is between 100% and 102% of target, for each 1% of consolidated total revenue above target, the payout factor increases by 25% up to 150%, after which each 1% of consolidated revenue over target results in a 50% increase in the payout factor, up to a maximum payout of 200%. With respect to EPS and ROIC, no payout is made if EPS and ROIC are at or below 80% of target; if EPS and ROIC are above 80% and below 90% of target, for each additional 1% of achievement, the payout factor increases by 3%; if EPS and ROIC are above 90% of target for each additional 1% of achievement, the payout factor increases by 7%. For above target achievement, if EPS and ROIC are between 100% and 105% of target, for each 1% above the target, the payout factor increases by 10% up to 150%, after which each 0.5% increase over target results in a 10% increase to the payout factor, up to a maximum payout of 200%. Actual results are calculated against plan, and payouts are adjusted accordingly to recognize achievement above the threshold.

Plan measures and weights were carefully reviewed and approved by the Compensation Committee. Performance targets are recommended prior to each fiscal year based on business unit plans, expected progress toward long-term goals and anticipated market conditions. The annual performance targets for company revenue, EPS and ROIC are then presented to and approved by the Compensation Committee based on the company's overall financial plan approved by our board. MIP payouts for company financial measures are based on actual business results compared to the performance targets, which were approved at the beginning of the fiscal year, subject to certain limited adjustments, as noted in the "Executive Summary" section above and in the footnotes to the above table. We strive to recognize all achievement between the threshold and maximum levels of performance; therefore, actual results are calculated against plan, and payouts are adjusted accordingly to recognize achievement above the threshold. Achievement of the target yields a 100% payout of the incentive. Incentive payouts are calculated using a mathematical formula which provides a modest incremental payout for performance above threshold, but below target. Greater increments in the incentive payout are applied for performance above target to incentivize overachievement. For purposes of complying with applicable provisions of Section 162(m) of the Internal Revenue Code, the MIP payout for all NEOs is paid pursuant to our Restated Equity Incentive Plan (2013) that was approved by our shareholders.

MIP Calculation for Fiscal 2014

The payout for each qualified performance-based measure of an NEO's MIP calculation is determined by multiplying the following factors: the NEO's base salary, the NEOs target incentive percentage, the applicable measure weight and the payout factor. The total payout is equal to the sum of the payouts for each measure. Our Compensation Committee determines incentive compensation plan design for financial measures based generally on achievement of certain targets against an internal business plan approved annually by our board, subject to certain limited adjustments, as discussed in

“Executive Summary” above and in the footnotes to the table above. Over the past three years, the payout percentage has ranged from 95% to 155% of the target award opportunity for these measures, with an average payout percentage equal to approximately 127% of the target award opportunity. MIP payouts are currently capped at 200% of target.

Long-Term Equity Compensation

Long-term equity compensation supports strong organization performance over a period of three to five years, depending on the type of equity granted. Long-term equity compensation aligns NEOs' compensation with shareholders' interests, rewards NEOs for increasing long-term shareholder value and promotes executive retention. Similar with cash compensation, long-term equity award targets for each position are established each year based on competitive market data, while taking into account dilution and the rate at which equity grants deplete the number of shares available for grant. We also consider individual performance when granting equity awards.

In fiscal 2014, we granted three types of equity awards:

Non-Qualified Stock Options – each stock option represents the right to purchase a specified number of shares of our common stock at a price equal to the fair market value of the common stock on the date of grant. All options granted during fiscal 2014 vest and become exercisable in equal installments over three years, commencing on the first anniversary of the grant date, and have a term of ten years.

Restricted Stock – restricted stock represents the issuance of shares of common stock that are subject to vesting restrictions. All restricted stock granted during fiscal 2014 vests in equal installments over five years, commencing on the first anniversary of the grant date.

Dividend Equivalent Performance Grant for Mr. Milroy – in August 2013, our board granted Mr. Milroy a Dividend

Equivalent Performance Unit Retention grant (Performance DER). The board made the grant to ensure that Mr. Milroy receives the intended value of the restricted stock that is ultimately issued to him under the Performance Stock Award granted to him in fiscal 2013. The terms of the Performance DER award provide that if any stock is earned and issued under the Performance Stock Award, Mr. Milroy will receive a payment equal to the amount of the dividends that would have been paid on the stock if the stock had been owned by Mr. Milroy from August 2013 through the date the performance stock is earned by and issued to Mr. Milroy. The amount of the Performance DER will be calculated at the end of our 2015 fiscal year. Following the end of our 2015 fiscal year, the Performance DER will terminate, and consistent with how our restricted stock is treated, Mr. Milroy will thereafter receive dividends on the restricted stock actually issued to him under his Performance Stock Award.

Grant Targets and Mix

Our annual equity grant practice is to use a combination of stock options (to reward profitable growth) and restricted stock (to support retention). Each year, we establish target grant values taking into consideration market levels, while still managing annual run rate and shareholder dilution. For fiscal 2014, the grant date fair value of the long-term incentive awards for each of our NEOs consisted of the following percentage of the market median: Mr. Milroy – 176%; Mr. Wright – 84%; Mr. Wood – 147%; Mr. Curran – 85%; and Mr. Cotter 101%. With respect to the target expected value of equity compensation grants, for fiscal 2014 for each of our NEOs and CEO, the Compensation Committee approved an allocation of 35% stock options and 65% restricted stock. In each case, we believe these allocations appropriately encourage achievement of our objectives. After establishing the mix, the target grant dollar levels are converted into shares using the following formulas:

• Stock Options: (percentage allocated to stock options x target grant dollar level)/Black Scholes value

• Restricted Stock: (percentage allocated to restricted stock x target grant dollar level)/per share value of our common stock as of the date of the calculation

Based on the considerations outlined above, in fiscal 2014, each of our NEOs received equity grants equal to the following percentage of their respective target dollar value: Mr. Milroy – 100% of \$2,400,000 target; Mr. Wright – 100% of \$311,524 target; Mr. Wood – 110% of \$335,000 target; Mr. Curran – 130% of \$335,000 target; and Mr. Cotter – 120% of \$197,628 target. All grants are based on target values, and final amounts may vary based on each respective NEO's individual performance and responsibilities.

Grant Practice

We make our equity grants effective as of the date of our August board meeting, which occurs after our year-end earnings announcement. The Compensation Committee may also grant stock options or restricted stock to NEOs at times other than the annual grant date, e.g., upon hire or promotion, with the price set equal to the closing market price on the date of grant.

Equity Holding Guidelines

We believe that requiring executive officers to hold significant amounts of our common stock strengthens the alignment of our executive officers' interests with those of our shareholders and promotes achievement of long-term business objectives. Currently, our NEOs are allowed five years to achieve ownership targets, which are five times base salary for Mr. Milroy and three times base salary for the remaining NEOs. Additionally, our equity holding guidelines require NEOs to hold one-half of all shares granted, net of the

number of any shares required to cover estimated taxes and exercise costs, until ownership targets are met. The holding requirements apply to restricted stock at the time of vesting and stock options at the time of exercise. The Compensation Committee annually reviews the progress against the ownership guidelines. The five-year measurement period begins on the date of the first equity grant after the NEO is appointed to our Executive Team. Each of our NEOs has either achieved or is on track to achieve the requisite level of ownership.

Benefits

Benefits include health and welfare, retirement and perquisite programs that are intended to provide financial protection and security to NEOs and their families and to reward their dedication and long-term commitment to the company. Our sponsorship (coupled with competitive employee cost-sharing arrangements) of these plans is critical to our ability to attract and retain the talent we need to support our overall business objectives. NEOs have the opportunity to participate in the same retirement, health and welfare plans as our other salaried employees, as well as

the following supplemental benefits:

Supplemental Executive Retirement Plan (SERP) (this plan was frozen as of December 31, 2006; therefore Messrs. Milroy and Cotter do not participate, nor does Mr. Wood, as he is a Canadian employee and is not covered by the plan);

Executive Deferred Compensation Plan (DEFECO) (Mr. Wood is a Canadian employee and is not covered by the plan);

executive long-term disability insurance;

financial planning services

Chief Executive Officer – \$7,500 each calendar year

All other NEOs – \$5,000 each calendar year;

executive physical; and

weekly taxable car allowance: Mr. Milroy – \$375, Mr. Wood – \$413 CAD, Mr. Wright – \$375 and Mr. Curran – \$231.

Mr. Cotter does not receive a car allowance.

Severance and Change-in-Control Benefits: Employment Agreements

Severance and change-in-control benefits include salary and certain benefits that are paid in the event of termination of employment under certain circumstances, including following a change in control. Generally, severance compensation is paid and performance-based equity awards immediately vest if an NEO is terminated within a specified time period following a change in control. Additionally, restricted stock and stock options that are not performance based generally vest immediately upon a change in control, which allows the NEO to participate and realize benefits as an equity holder in the transaction resulting in the change in control. Severance and change-in-control benefits help attract executive talent and create an environment that provides for adequate business transition and knowledge transfer during times of change.

We have entered into employment agreements with Messrs. Milroy, and Curran that provide benefits to the executive if, among other things, the executive is terminated after a change in control of the company. We also have in place an Executive Severance and Change in Control Policy under which Mr. Cotter is entitled to certain benefits, including following certain termination and change in control events. These agreements and policy were put in place and the related triggers were selected to assure that we will have the continued dedication, undivided loyalty and objective advice and counsel from these key executives in the event of a proposed transaction, or the threat of a transaction, which could result in a change in control of the company. We also believe that these

agreements and policy are beneficial because, in consideration for these severance arrangements, the executives agree to noncompetition and non-solicitation covenants for a period of time following termination of employment.

Why do we choose to pay each element?

We strive to effectively utilize elements of compensation under a total reward philosophy that combines annual and multi-year reward opportunities. Our intent is to develop a compensation program that rewards the annual accomplishment of the company's goals and objectives, while supporting our long-term business strategy, and that encourages our executives to increase shareholder value.

How do we determine the amount/formula for each element?

Executive compensation is reviewed annually, as follows:

Compensation Committee meeting held in:	Agenda
February	Review and approve the peer group
June	Review market data; establish equity guidelines; review and approve MIP design and approve company financial performance targets for the upcoming fiscal year
August	Review executive equity holdings, review director compensation; review performance for prior year and recommend merit increases; recommend MIP payouts and equity grants for NEOs, provided that our independent directors approve all compensation actions for NEOs

Executive compensation is set at levels that the Compensation Committee believes to be competitive with those offered by selected employers of comparable size, growth and profitability, both in and outside our industry. Annually, the Compensation Committee reviews all elements of executive compensation, individually and in the aggregate, against market data for companies with which we compete for executive talent. The Compensation Committee's consultant works with our internal human resources and compensation and benefits professionals in conducting research and formulating recommendations for the Compensation Committee's consideration to determine the levels and components of compensation to be provided for the fiscal year. The consultant also provides background material for consideration by the Compensation Committee with respect to compensation for Mr. Milroy. The Compensation Committee evaluates our executive compensation based on competitive market information obtained from proxy data from a peer group of 17 publicly-traded companies that have one or more of the following factors in common with our company: similar industry sector (business services), similar size (revenue, capitalization, number of employees) or geographic proximity to our company. The Compensation Committee also evaluates competitive market information by reviewing general survey data from similarly sized companies.

We benchmark the total direct compensation of our NEOs against our peer group. In addition, our compensation department provides supporting market data and analysis to the Compensation Committee. While we consider data from both sources for setting compensation for all of our NEOs, we rely on peer group data more heavily for Messrs. Milroy and Wright, as the peer group has more reliable comparisons for their positions. When we deliver targeted financial results, we determine total direct compensation (base salary, cash bonus and equity awards) by considering both the 50th percentile of our peer group and the median of the market data. We assess our position against the 50th percentile or market median as a percent, 100% equating to the 50th percentile or market median. We seek to

pay our executives fairly and to directly link pay to performance, with incentive compensation based on the performance criteria previously discussed. For fiscal 2014, incentive compensation (annual cash bonus and equity awards) accounted for approximately 83% of the total direct compensation of Mr. Milroy and 58% of the average total direct compensation of our other NEOs.

Peer Group Data

The various total direct compensation elements of our executive compensation program for fiscal 2014 were benchmarked relative to the compensation provided to executives of the following companies:

- ▲Apogee Enterprises, Inc.
- ▲Arctic Cat, Inc.
- ▲Casella Waste Systems, Inc.

Cintas Corporation
Clean Harbors, Inc.
Deluxe Corporation
Donaldson Company, Inc.
Fair Isaac Corporation
Graco, Inc.
H.B. Fuller Company
Rollins, Inc.
Select Comfort Corporation
Stericycle, Inc.
Tennant Company
The Toro Company
TrueBlue Inc.
UniFirst Corporation

We annually review the peer group to ensure an appropriate mix of companies that are representative of the companies with which we compete for talent. During fiscal 2014, we reviewed the composition of the peer group and made no changes.

General Survey Data

We also compare NEO compensation against survey data based on job responsibility, generally using market median data from companies with comparable revenue. We analyze data from Mercer and Towers Watson to ensure that we have an accurate representation of the market. While we are able to reliably compare the compensation for Messrs. Milroy and Wright against our peer group, when assessing compensation for other NEOs, we consider a combination of survey data and peer group data. However, we do not utilize a specific formula to weight the different elements of data considered. We also review plan design, plan features and participant eligibility as part of our overall compensation analysis process.

Disparity among NEOs

There are no policy differences with respect to the compensation of individual NEOs. The compensation disparity among our NEOs is due to the fact that we also consider the following key variables in making NEO compensation decisions:

- size and scope of the position and level of responsibility;
- experience and capabilities of the NEO;
- time in current position;
- the NEO's performance and potential;
- internal equity;
- unique market premiums for key positions; and
- the NEO's compensation history.

How does each element and our decision regarding that element fit into our overall compensation objectives and affect decisions regarding other elements?

In general, each NEO's compensation at target is weighted more heavily on variable performance-based compensation than on fixed base compensation. This pay mix supports the role of the NEOs in enhancing shareholder value over the long-term. The variable pay components at target (annual and long-term incentives) represented more than one-half of the total pay opportunity for all NEOs, all of which is at risk. Through this mix of pay, performance has a significant effect on the amount of compensation actually received by NEOs; in making actual individual pay decisions related to performance, the Compensation Committee considers both company performance and individual NEO performance. Because we utilize market data, the specific mix of base pay, short- and long-term incentives varies by NEO. For fiscal 2014, each NEO's pay consisted of the following mix:

Name	Base Salary	Short-Term Incentive	Long-Term Incentive
Douglas A. Milroy	17%	16%	67%
Jeffrey L. Wright	42%	24%	34%
Robert G. Wood	42%	20%	38%
Timothy N. Curran	38%	22%	40%
Jeffrey L. Cotter	45%	21%	34%

Tax Considerations

Section 162(m) of the Internal Revenue Code limits the tax deductibility of compensation in excess of \$1 million paid to certain of our NEOs, unless the compensation constitutes "qualified performance-based compensation," as defined in this code section. While the Compensation Committee considers the deductibility of compensation arrangements as an important factor in compensation decisions for NEOs, deductibility is not the sole factor used in ascertaining appropriate levels or modes of compensation. The MIP payout for our NEOs is granted under our Restated Equity Incentive Plan (2013) to preserve deductibility of amounts paid.

How do our compensation policies relate to our risk management practices and/or risk-taking incentives?

We design our compensation programs to ensure they do not encourage excessive risk-taking and are compatible with effective internal controls and risk management practices of the company. We believe the balance between short- and long-term incentives supports our shareholders' desire that we deliver results while ensuring financial soundness of our company through various market cycles. Together with its consultant, in fiscal 2014, our Compensation Committee again evaluated the current risk profile of our executive and broad-based compensation programs. In doing so, our Compensation Committee considered those of our policies and

practices that serve to effectively manage or mitigate risk, including provisions of both our annual and long-term incentive plans.

Specifically, our Compensation Committee continued to rely on our multiple performance measures, discretion in granting stock awards, use of stock ownership guidelines and the ability of our Compensation Committee to incorporate claw back features in stock awards. Our Compensation Committee also noted our process of internal control over financial reporting that ensures our performance-based awards are based on accurate data, robust analysis of historical and anticipated payouts and our enterprise risk management function that assists with managing risk of all kinds. Based on this analysis, our Compensation Committee concluded that the architecture of our compensation programs, both executive and broad-based, provide multiple effective safeguards to protect against unnecessary risk-taking, effectively balancing risk and reward in the best interest of our shareholders.

2013 "Say on Pay" Advisory Vote on Executive Compensation

At our last annual meeting, we provided our shareholders with the opportunity to cast an advisory vote on executive compensation. At our 2013 shareholders' meeting, approximately 99% of the votes cast in the "say on pay" advisory vote, excluding abstentions, were "FOR" approval of our executive compensation. The Compensation Committee evaluated the results of the 2013 advisory vote, together with the other factors and data discussed in this "Compensation Discussion and Analysis," in determining executive compensation policies and decisions. The committee considered the vote results and did not make any changes to our executive compensation policies and decisions as a result of the 2013 advisory vote.

Compensation Committee Report

The Compensation Committee of our Board of Directors has furnished the following report:

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on that review and discussion, the Compensation Committee has recommended to the company's Board of Directors that the Compensation Discussion and Analysis be included in the company's proxy statement for the 2014 annual meeting of shareholders and incorporated by reference into our Annual Report on Form 10-K for fiscal 2014.

JOHN S. BRONSON

PATRICK J. DOYLE

WAYNE M. FORTUN

THOMAS R. GRECO

The Compensation Committee Report set forth above will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate such report by reference, and such report will not otherwise be deemed to be soliciting materials or to be filed under such acts.

Fiscal 2014 Summary Compensation Table

The table below shows the compensation of our NEOs for services in all capacities to the company in fiscal 2014. For a discussion of the amount of an NEO's salary and bonus in proportion to total compensation, see "Compensation Discussion and Analysis" on pages 10 to 16.

Name and Principal Position	Year	Salary (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽³⁾	Non-Equity Incentive Plan Compensation (\$) ⁽⁴⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) ⁽⁵⁾	All Other Compensation (\$) ⁽⁶⁾	Total (\$)
Douglas A. Milroy, Chairman and Chief Executive Officer	2014	667,329	1,762,384	928,839	639,448	—	⁽⁷⁾ 216,312	4,214,312
	2013	625,020	3,657,283	487,609	1,025,583	—	171,305	5,966,800
	2012	613,478	579,850	450,853	651,757	⁽⁸⁾ —	625,961	2,921,899
Jeffrey L. Wright, Former Executive Vice President and Chief Financial Officer	2014	394,479	200,831	109,031	225,223	83,186	107,353	1,120,103
	2013	383,270	243,892	85,671	333,724	—	104,749	1,151,306
	2012	373,922	205,277	76,470	287,893	123,711	365,698	1,432,971
Robert G. Wood, ⁽⁹⁾ Chairman, G&K Services Canada	2014	409,467	237,598	128,977	194,817	—	⁽¹⁰⁾ 78,763	1,049,622
	2013	425,300	197,551	69,391	307,443	—	80,098	1,079,783
	2012	425,770	182,893	68,136	273,026	—	84,477	1,034,302
Timothy N. Curran, Senior Vice President, U.S. Field	2014	420,649	280,793	152,423	240,512	25,104	73,657	1,193,138
	2013	398,477	256,817	90,214	382,246	—	65,552	1,193,306
	2012	345,002	219,477	81,765	254,237	36,719	214,715	1,151,915
Jeffrey L. Cotter, Vice President, General Counsel and Corporate Secretary	2014	309,231	152,897	83,003	148,156	—	⁽⁷⁾ 54,250	747,537
	2013	287,912	168,784	59,289	170,968	—	47,937	734,890
	2012	275,257	143,250	53,366	149,090	—	134,426	755,389

(1) Annual base salary rates approved reflect 52 weeks of pay.

(2) The dollar amounts represent the aggregate grant date fair value of restricted stock awards granted during each of the years presented and, with respect to Mr. Milroy, also include the grant date fair value of the Performance DER awarded to him in fiscal 2014. The grant date fair value of a restricted stock award is measured in accordance with FASB ASC Topic 718 using the valuation assumptions described in Note 11 to our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014. Accounting estimates of forfeitures are not included in these figures. The grant date fair value of the Performance DER is measured based on a \$2.15 present value of expected future dividend payments and assumes Mr. Milroy will achieve 100,000

shares under his Performance Stock Award. If the highest level of performance is achieved and 150,000 shares are earned, the value of the Performance DER would be \$322,500. The value of Mr. Milroy's fiscal 2013 stock awards includes \$2,974,000 for the value of the Performance Stock Award he received in fiscal 2013 and was calculated assuming he would achieve the target of 100,000 shares; the grant date fair value of the award, assuming the highest level of performance is achieved and 150,000 shares are earned, was \$4,461,000. Mr. Milroy's Performance Stock Award and Performance DER will vest in the future only if certain financial performance targets are achieved and if Mr. Milroy remains in our employ for the specified period.

The dollar amounts represent the aggregate grant date fair value of option awards granted during each of the years presented. The grant date fair value of an option award is measured in accordance with FASB ASC Topic 718 (3) using the valuation assumptions described in Note 11 to our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2014. Accounting estimates of forfeitures are not included in these figures.

(4) Includes MIP performance amounts earned for performance in fiscal years 2014, 2013 and 2012.

We do not pay above market earnings on deferred compensation. Therefore, no amounts are reported in this column for deferred compensation. For qualified and non-qualified pension plan benefits, the amount reported for each year represents (i) the actuarial present value of the accrued benefit as of June 30 of the applicable year and valued as of the same date, minus (ii) the actuarial present value of the accrued benefit as of June 30 of the (5) previous year and valued as of the same date. In fiscal 2014, Mr. Wright's change in pension value was \$24,294 and the change in SERP value was \$58,892; Mr. Curran's change in pension value was \$9,795 and the change in SERP value was \$15,309. In fiscal 2013, the pension calculation for Messrs. Wright and Curran resulted in a negative amount, which we have reported as zero, in accordance with SEC guidelines. The benefits have been valued assuming benefits commence at age 65 and using the FASB ASC Topic 715 assumptions for mortality, assumed payment form and discount rates in effect at the measurement dates.

(6) The value of perquisites and other personal benefits is provided in this column (see table below).

(7) Messrs. Milroy and Cotter do not participate in our SERP or our Pension Plan.

(8) Mr. Milroy's fiscal 2012 MIP was reduced pro rata to account for the time of Mr. Milroy's planned temporary medical leave of absence.

In the table above, Mr. Wood's base salary, non-equity incentive plan compensation and all other compensation (9) have been converted to U.S. Dollars using the following average exchange rates: for fiscal 2014 – .9349; for fiscal 2013 – .9957; and for fiscal 2012 – 0.9968.

Mr. Wood is not covered by our U.S. qualified and non-qualified retirement plans. Instead, he participates in a (10) Canadian pension program and a retirement compensation arrangement, which is reported in the All Other Compensation column.

Fiscal 2014 All Other Compensation

Name	Perquisites (\$) ⁽¹⁾	401(k) Match (\$) ⁽²⁾	DEFSCO Match (\$) ⁽³⁾	Taxable Life (\$) ⁽⁴⁾	Pension (\$) ⁽⁵⁾	Executive LTD (\$) ⁽⁶⁾	Total All Other Compensation (\$)
Douglas A. Milroy	21,738	10,400	184,174	—	—	—	216,312
Jeffrey L. Wright	23,658	10,408	73,287	—	—	—	107,353
Robert G. Wood	20,100	—	—	959	55,851	1,853	78,763
Timothy N. Curran	12,100	9,743	51,814	—	—	—	73,657
Jeffrey L. Cotter	2,226	10,226	41,798	—	—	—	54,250

Amounts reflect the following: Mr. Milroy – \$2,238 for financial planning and \$19,500 for his car allowance;

(1) Mr. Wright – \$1,695 for financial planning, \$19,500 for his car allowance and \$2,463 for his executive physical in excess of expenses covered by our health plan; Mr. Wood – \$20,100 for his car allowance; Mr. Curran – \$12,000 for his car allowance and \$100 for his executive physical in excess of expenses covered by our health plan; and Mr. Cotter – \$2,226 for financial planning. Financial planning amounts are reported for the fiscal year, which may result in the reported amount exceeding the calendar year cap.

(2) Includes company match on 401(k) and non-elective contributions.

(3) Includes company match on DEFSCO and non-elective contributions.

(4) Includes fees paid by us for taxable life insurance.

(5) Includes a company match to a Canadian retirement plan for Mr. Wood and contributions by us to a Canadian retirement compensation arrangement for Mr. Wood.

(6) Includes fees paid by us for an executive long-term disability plan for Mr. Wood.

Grants of Plan-Based Awards in Fiscal 2014

The following table shows the grants of plan-based awards to our NEOs in fiscal 2014. All awards identified by a grant date reflect equity awards made under our Restated Equity Incentive Plan (2013). Awards with no grant date reflect awards under our MIP, provided that our NEOs' MIP awards are paid through our Restated Equity Incentive Plan (2013). All restricted stock awards vest in equal increments over a five-year period, beginning with the first anniversary of the date of grant. All grants of options have a ten-year term and vest in equal increments over a three-year period, beginning with the first anniversary of the date of grant. Holders of restricted stock (both vested and unvested shares) possess the same rights with respect to those shares, including to receive dividends, as all other shareholders. In each of four quarters of fiscal 2014, we paid a dividend of \$0.27 per share. Additionally, on June 6, 2014, we paid a special dividend of \$6.00 per share.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (\$) ^{(1) (2)}			Estimated Future Payouts Under Equity Incentive Plan Awards (#) ⁽³⁾			All Other Stock Awards: Number of Shares or Units (#) ⁽⁴⁾	All Other Option Awards: Number of Shares or Units (#) ⁽⁵⁾	Exercise or Base Price of Option Awards (\$) ⁽⁶⁾	Grant Date Fair Value of Stock and Option Awards (\$) ⁽⁷⁾
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Douglas A. Milroy	08/22/13	—	675,021	1,350,042	—	—	—	28,408	72,227	54.47	2,691,223
Jeffrey L. Wright	08/22/13	—	237,753	475,506				3,687	9,375	54.47	309,862
Robert G. Wood	08/22/13	—	205,655	411,310				4,362	11,090	54.47	366,575
Timothy N. Curran	08/22/13	—	253,892	507,784				5,155	13,106	54.47	433,216
Jeffrey L. Cotter	08/22/13	—	156,398	312,795				2,807	7,137	54.47	235,900

(1) These columns reflect minimum, target, and maximum payouts under our MIP for fiscal 2014. Mr. Wood's target was converted to USD using an average exchange rate of 0.9349. For an explanation of how the payouts are calculated, see the "Plan Measures and Weights and Performance Targets" and "MIP Calculation for Fiscal 2014" discussions on page 13.

(2) As discussed in "Tax Considerations" above, subject to the applicable provisions of Section 162(m) of the Internal Revenue Code, payments to our NEOs under the MIP are made under the terms of our Restated Equity Incentive Plan (2013).

(3) Mr. Milroy received a Performance DER in fiscal 2014 to ensure he receives the intended value of the stock that may be issued to him under his Performance Stock Award granted during fiscal 2013. The Performance DER was granted under our Restated Equity Incentive Plan (2013), and the grant date fair value of the Performance DER is reported in the "Grant Date Fair Value of Stock and Option Awards" column of this table.

(4) The stock awards granted to NEOs in fiscal 2014 were restricted stock awards. Restricted stock awards are entitled to receive dividends at the same rate as our other outstanding common stock.

(5) Each stock option granted to an NEO in fiscal 2014 represents the right to purchase a share of our common stock at a specified exercise price, subject to the terms and conditions of the option agreement.

(6)

The exercise price is the fair market value of our common stock on the day the option was granted. Fair market value is set based on the closing price on the grant date. On June 6, 2014, the exercise price of the option awards was adjusted to \$48.47, in order to prevent the special dividend from diluting or enlarging the rights of the holders of outstanding stock options under our equity incentive plans.

This column represents the grant date fair value of each equity award granted during fiscal 2014, which is calculated in accordance with FASB ASC Topic 718. For information regarding our equity compensation grant (7) practices, see “Grant Practice” on page 14. The grant date fair value of the Performance DER is measured based on a \$2.15 present value of expected future dividend payments and assumes Mr. Milroy will achieve 100,000 shares under his Performance Stock Award.

For a discussion of the impact of certain of our NEO’s employment agreements on such NEO’s compensation, see “Potential Post-Employment Payments” on page 25.

Outstanding Equity Awards at Fiscal Year-End 2014

The following table shows the outstanding equity awards for each of the NEOs:

Name	Option Awards		Stock Awards					
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$) ⁽¹⁾	Option Expiration Date ⁽²⁾	Number of Shares or Units of Stock That Have Not Vested ⁽³⁾	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽⁴⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested ⁽⁵⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested ⁽⁶⁾
Douglas A. Milroy	9,000	—	27.97	11/20/16	73,214	3,788,092	150,000	8,083,500
	6,384	—	27.82	08/23/17				
	16,284	—	22.27	08/21/18				
	74,895	—	7.96	08/19/20				
	48,246	24,122	⁽⁷⁾ 14.15	08/25/21				
	25,357	50,713	⁽⁸⁾ 26.07	08/23/22				
	—	72,227	⁽⁹⁾ 48.47	08/22/23				
Jeffrey L. Wright	—	4,269	⁽⁷⁾ 14.15	08/25/21	21,162	1,094,922		
	—	9,051	⁽⁸⁾ 26.07	08/23/22				
	—	9,375	⁽⁹⁾ 48.47	08/22/23				
Robert G. Wood	—	3,803	⁽⁷⁾ 14.15	08/25/21	19,104	988,441		
	—	7,331	⁽⁸⁾ 26.07	08/23/22				
	—	11,090	⁽⁹⁾ 48.47	08/22/23				
Timothy N. Curran	4,002	—	30.97	09/01/15	22,214	1,143,355		
	5,481	—	21.11	09/01/16				
	3,006	—	27.82	08/23/17				
	5,655	—	22.27	08/21/18				
	5,000	—	23.92	09/23/18				
	15,904	—	7.96	08/19/20				
	9,132	4,564	⁽⁷⁾ 14.15	08/25/21				
	4,766	9,531	⁽⁸⁾ 26.07	08/23/22				
	—	13,106	⁽⁹⁾ 48.47	08/22/23				

Jeffrey						
L.	1,000	—	27.44	02/03/16	13,917	720,066
Cotter						
	492	—	21.11	09/01/16		
	477	—	27.82	08/23/17		
	3,972	—	22.27	08/21/18		
	5,960	2,979	⁽⁷⁾ 14.15	08/25/21		
	3,132	6,264	⁽⁸⁾ 26.07	08/23/22		
	—	7,137	⁽⁹⁾ 48.47	08/22/23		

The option exercise prices for all options awards with grant dates prior to April 27, 2012 reflect a reduction of \$6.00 from the original exercise price, which reduction was made to all outstanding option awards on such date, in order to prevent a special dividend declared in fiscal 2012 from diluting or enlarging the rights of the holders of outstanding stock options under our equity incentive plans. Similarly, the option exercises for all option awards with grant date prior to June 6, 2014 also reflect a \$6.00 reduction due to the special dividend declared in fiscal 2014.

(1) For each option shown, the expiration date is the tenth anniversary of the date the option was granted.

(2) The following table indicates the dates when the shares of restricted stock held by each NEO vest and are no longer subject to forfeiture:

Vesting Date	Douglas A. Milroy	Jeffrey L. Wright	Robert G. Wood	Timothy N. Curran	Jeffrey L. Cotter
08/19/14	4,729	2,188	2,095	2,095	1,399
08/20/14	5,000	2,303	1,428	1,428	813
08/22/14	5,682	738	873	1,031	562
08/23/14	4,261	1,521	1,232	1,601	1,052
08/25/14	4,435	1,570	1,399	1,679	1,096
08/19/15	4,728	2,190	2,094	2,094	1,401
08/22/15	5,681	737	872	1,031	561
08/23/15	4,262	1,521	1,232	1,602	1,053
08/25/15	4,434	1,570	1,398	1,678	1,095
08/22/16	5,682	738	873	1,031	562
08/23/16	4,261	1,521	1,232	1,601	1,052
08/25/16	4,436	1,570	1,400	1,679	1,096
08/22/17	5,681	737	872	1,031	561
08/23/17	4,260	1,521	1,232	1,602	1,053
08/22/18	5,682	737	872	1,031	561
Total	73,214	21,162	19,104	22,214	13,917

(4) Calculated by multiplying the number of restricted shares by \$51.74, the closing price of our common stock on June 27, 2014, the last fiscal 2014 trading day for our stock. Dividends are paid on these shares.

The number of shares reported for Mr. Milroy's Performance Stock Award assumes he will achieve the maximum award of 150,000 restricted shares. SEC rules require that because the company has already met the target ROIC, we must report the maximum award, even though Mr. Milroy's final award will be interpolated based on actual ROIC. Mr. Milroy's Performance Stock Award has a target level of 100,000 restricted shares, a maximum award of 150,000 restricted shares and a minimum award of 50,000 restricted shares, subject to attainment of financial performance goals and service conditions. The financial performance goals are based on ROIC, which will be determined as of the end of our 2015 fiscal year and is defined as trailing 12 month adjusted net operating income after tax, divided by the end of period sum of total debt plus shareholders' equity minus cash. The ROIC targets are as follows: ROIC of 8% to earn the minimum award; ROIC of 10% to receive the target award; and ROIC of 12% to receive the maximum award. ROIC achievement between minimum, target and maximum will be interpolated.

(5) Subject to Mr. Milroy's continued employment, under the service component of the Performance Stock Award, 33% of the Performance Stock Award will vest at the end of fiscal 2015, to the extent the financial performance component has been achieved. An additional 33% of the achieved Performance Stock Award will vest if Mr. Milroy remains employed by the company at the end of fiscal 2016, and the balance of the achieved Performance Stock Award will vest if Mr. Milroy remains employed by the Company at the end of fiscal 2017. Mr. Milroy's Performance DER will be calculated at the end of fiscal 2015 and will be paid in a lump sum with respect to dividends earned through August 2015 on actual shares achieved under the Performance Stock Award. Following the end of our 2015 fiscal year, the Performance DER will terminate, and consistent with how our restricted stock is treated, Mr. Milroy will thereafter receive dividends on the restricted stock actually issued to him under his Performance Stock Award.

(6) Calculated by multiplying the number of restricted shares by \$51.74, the closing price of our common stock on June 27, 2014, the last fiscal 2014 trading day for our stock. Additionally, with respect to Mr. Milroy's Performance DER, the fair value is measured based on a \$2.15 present value of expected future dividend payments and assumes Mr. Milroy will achieve 150,000 shares under his Performance Stock Award. SEC rules require that because the company has already met the target ROIC, we must report the maximum award, even though Mr. Milroy's final award will be interpolated based on actual ROIC.

(7) The remaining shares became exercisable on August 25, 2014.

(8) These options continue to vest and the remaining shares become exercisable in two equal installments on August 23, 2014 and 2015, assuming continued employment.

(9) These options continue to vest and the remaining shares become exercisable in three equal installments on August 22, 2014, 2015 and 2016, assuming continued employment.

Fiscal 2014 Option Exercises and Stock Vested

The following table lists the number of shares acquired and the value realized as a result of option exercises by the NEOs in fiscal 2014 and the value of any restricted stock units that vested in fiscal 2014:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) ⁽¹⁾	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽²⁾
Douglas A. Milroy	132,797	5,470,515	23,647	1,279,383
Jeffrey L. Wright	91,642	2,543,371	8,616	464,298
Robert G. Wood	12,771	388,903	7,093	381,673
Timothy N. Curran	4,000	115,061	7,228	389,313
Jeffrey L. Cotter	16,046	764,226	4,659	250,828

(1) Calculated by multiplying the difference between the exercise price and the closing price of our common stock on the NASDAQ Global Select Market on the date of exercise times the number of shares.

(2) Calculated by multiplying the closing price of our common stock on the NASDAQ Global Select Market on the date of vesting times the number of shares.

Fiscal 2014 Pension Benefits

The following table shows the present value as of June 30, 2014 of the benefit of the NEOs under our qualified and nonqualified defined benefit pension plans:

Name	Plan Name	Number of Years of Service Credited Under Plan at FAS Measurement Date (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Douglas A. Milroy ⁽¹⁾	G&K Services Pension Plan	N/A	N/A	N/A
	G&K Services SERP	N/A	N/A	N/A
Jeffrey L. Wright	G&K Services Pension Plan	8.00	113,896	—
	G&K Services SERP	8.00	281,647	—
Robert G. Wood ⁽²⁾	G&K Services Pension Plan	N/A	N/A	N/A
	G&K Services SERP	N/A	N/A	N/A
Timothy N. Curran	G&K Services Pension Plan	3.00	47,715	—
	G&K Services SERP	3.00	75,947	—
Jeffrey L. Cotter ⁽³⁾	G&K Services Pension Plan	N/A	N/A	N/A
	G&K Services SERP	N/A	N/A	N/A

(1) Mr. Milroy does not participate in our Pension Plan or our SERP.

(2) Mr. Wood is not covered by our U.S. qualified and non-qualified retirement plans.

(3) Mr. Cotter does not participate in our Pension Plan or our SERP.

Pension Plan

Two of our NEOs (Messrs. Wright and Curran) participate in our qualified Pension Plan. Effective December 31, 2006, benefits under this plan were frozen, meaning the accrual of future benefits under the plan was discontinued. The plan was established in 1970 to replace a portion of eligible employees' pre-retirement income following retirement. When the Pension Plan was frozen, our 401(k) plan was enhanced, based on a desire to decrease benefit costs and their volatility and to become more market competitive. Monthly benefits under the plan are the greater of the amounts determined under the 1989 pension formula or, if the participant is eligible, under the 1988 pension formula.

The 1989 pension formula provides for a monthly benefit equal to two-thirds of 1% of a participant's average compensation (defined as monthly eligible pay earned during the five highest consecutive years of compensation out of the last ten calendar years of employment with our company through December 31, 2006 (or termination, if

earlier)) plus one-half of 1% of average compensation in excess of monthly covered compensation (as defined below), multiplied by the number of years of benefit accrual service at December 31, 2006 (or termination, if earlier), not to exceed 30.

The 1988 pension formula:

Eligibility – if a participant had an accrued benefit under the Pension Plan as of December 31, 1988, and the participant was not a “Highly Compensated Employee” during the 1989 plan year, the participant is eligible to continue to earn benefits under the 1988 pension formula until the earliest of December 31, 2006, termination of employment, or the end of the year preceding the plan year in which the participant became a Highly Compensated Employee.

Formula – provides for a monthly benefit equal to 50% of the participant’s average compensation (defined as monthly eligible pay earned during the five highest consecutive years of

compensation out of the last ten calendar years of employment with our company through December 31, 2006 (or, if earlier, termination or the end of the year preceding the year in which the participant became a Highly Compensated Employee)), less 75% of the estimated primary monthly social security benefit, multiplied by years of benefit accrual service at December 31, 2006 (or, if earlier, termination or the end of the year preceding the year in which the participant became a Highly Compensated Employee), not to exceed 30, divided by 30.

Compensation generally means wages, salaries, and other amounts earned for services provided to us, including, among other items, commissions, incentives, bonuses, and pre-tax contributions to our 401(k) plan. Compensation excludes, among other items, deferrals to deferred compensation plans, amounts realized from restricted stock, stock options, and fringe benefits. Compensation is limited to the compensation thresholds set forth in Internal Revenue Code Section 401(a)(17). Average compensation is the monthly average compensation during the five highest consecutive years of compensation out of the ten consecutive years preceding December 31, 2006 (or termination, if earlier). Covered compensation is the average of social security taxable wage bases for the 35-year period ending with the participant's social security retirement age. An employee attains normal retirement age on the later of the date the employee attains age 65 or the fourth anniversary of the first day of the plan year in which the employee became a participant in the plan. A participant is vested after completing five years of vesting service and is then eligible for vested termination benefits. A vested terminated participant is eligible to commence benefits as early as age 55, in which case, benefits are reduced $6\frac{2}{3}\%$ for each of the first five years commencement precedes normal retirement age and $3\frac{1}{3}\%$ for each year thereafter. A participant is eligible for subsidized early retirement benefits if termination occurs after age 60 with at least 30 years of benefit accrual service, in which case, benefits are reduced 3% for each year commencement precedes normal retirement age.

Neither of Messrs. Wright or Curran is currently eligible for early retirement benefits. Mr. Wright's pension benefits will be determined at commencement of benefit payments. The normal payment form is the life only annuity. A variety of other payment forms are available, all equivalent in value if paid over an average lifetime.

The values displayed in the Pension Benefits Table and the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the Summary Compensation Table were determined using actuarial assumptions consistent with those used for financial reporting purposes under FASB ASC Topic 715 unless otherwise directed by SEC Regulation S-K. Those material assumptions are as follows:

- benefits were assumed to commence at age 65;

- 65% of the participants are assumed to elect the life only payment option at benefit commencement, and 35% are assumed to elect payment in the 100% joint and survivor payment form;

- all benefits and present values were determined as of June 30, the plan's FASB ASC Topic 715 measurement date; the discount rate used to determine values was 4.3%, 5.25% and 4.5% as of June 30, 2012, 2013 and 2014, respectively;

- no pre-retirement mortality, retirement, withdrawal or disability was assumed;

- post-retirement mortality for values reported as of June 30, 2013 or earlier were based on the RP-2000 sex distinct combined healthy mortality table projected to 2017 using Scale AA without an adjustment for collar; and

- post-retirement mortality for values reported as of June 30, 2014 were based on the RP-2000 sex distinct combined healthy mortality table projected to 2021 using Scale BB without an adjustment for collar.

Canadian Retirement Arrangements

Mr. Wood, a Canadian citizen, is not covered by our U.S. pension or SERP plans. Mr. Wood is covered by a defined contribution plan pursuant to which we contribute 2% of his base salary and match his contributions of up to 6% of base salary, and pursuant to which he directs investment of the funds. The Canadian government sets a limit for total contributions, which for calendar year 2014 is \$24,270 CAD, to be adjusted for inflation each year. If this limit is reached, Mr. Wood is covered by a retirement compensation arrangement, or RCA. Under the RCA, we continue to contribute an amount equal to 2% of Mr. Wood's salary and match Mr. Wood's contributions of up to 6% of base pay. One-half of the money contributed to the RCA is held by a trustee and is invested in widely available mutual funds. The other one-half is held by the Canadian government as a refundable tax. One-half of all earnings on funds invested by the trustee is also paid to the Canadian government and is also held as a refundable tax.

SERP

Two of our NEOs (Messrs. Wright and Curran) participate in our non-qualified SERP. Effective December 31, 2006, benefits under the plan were frozen, meaning the accrual of future benefits under the plan was discontinued. The plan was established in 1989 to provide selected executive and professional employees with added retirement benefits to supplement the Pension Plan. In 2006, the Pension Plan and the SERP were frozen, and our 401(k) and DEFCO plans were enhanced, based on a desire to decrease benefit costs and their volatility and to become more market competitive.

Monthly benefits under the SERP are determined as 50% of average compensation (defined as monthly eligible compensation during the five highest consecutive years of compensation within the last ten calendar years of employment through December 31, 2006 (or termination, if earlier)), multiplied by the ratio of years of benefit accrual service at December 31, 2006 (or termination, if earlier), divided by projected benefit accrual service to age 60 (no less than 30). If, at December 31, 2006 (or termination, if earlier), the participant was at least age 60, then the ratio is benefit accrual service at December 31, 2006 (or termination, if earlier), not to exceed 30, divided by 30. Benefits determined under this formula are reduced by benefits payable from the G&K Services Pension Plan.

Compensation is generally equal to the compensation used for purposes of our Pension Plan, but also includes any deferrals the participant made to a deferred compensation plan sponsored by the company. Compensation for SERP benefit purposes is not subject to the thresholds set forth in Internal Revenue Code Section 401(a)(17). Average compensation is the average monthly compensation during the five highest consecutive years of compensation out of the ten consecutive years preceding December 31, 2006 (or termination, if earlier). An employee attains normal retirement age on the date he or she attains age 65. A participant is vested after completing five years of participation service. A vested terminated participant is eligible to commence benefits as early as age 55. A participant is eligible for early retirement benefits if termination of employment occurs after attainment of age 55 and the participant is vested. In either case, the benefit determined for commencement prior to age 65 is the age 65 benefit, before reduction for our Pension Plan benefit offset, reduced $3\frac{1}{3}\%$ for each of the first five years commencement precedes age 65 and $6\frac{2}{3}\%$ for each year thereafter. This is also reduced by our

Pension Plan benefit as reduced for commencement under the terms of that plan as of the same date. The normal payment form is the life only annuity. A variety of other payment forms are available, all equivalent in value if paid over an average lifetime. Distributions are subject to compliance with Section 409A of the Internal Revenue Code. The SERP contains a non-compete provision. If the participant enters into competition with our company during the three-year period following termination of employment, benefits under the SERP are forfeited. This provision is waived for participants working with the company beyond age 65.

The values displayed in the Pension Benefits Table and the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the Summary Compensation Table were determined using actuarial assumptions consistent with those used for financial reporting purposes under FASB ASC Topic 715 unless otherwise required by SEC Regulation S-K. Those material assumptions are as follows:

• benefits were assumed to commence at age 65;

• 65% of the participants are assumed to elect the life only payment option at benefit commencement, and 35% are assumed to elect payment in the 100% joint and survivor payment form;

• all benefits and present values were determined as of June 30, the plan's FASB ASC Topic 715 measurement date; the discount rate used to determine values was 4.0%, 5.0% and 4.3% as of June 30, 2012, 2013 and 2014, respectively;

• no pre-retirement mortality, retirement, withdrawal or disability was assumed;

• post-retirement mortality for values reported as of June 30, 2013 or earlier based on the RP-2000 sex distinct combined healthy mortality table projected to 2017 using Scale AA without an adjustment for collar; and

• post-retirement mortality for values reported as of June 30, 2014 were based on the RP-2000 sex distinct combined healthy mortality table projected to 2021 using Scale BB without an adjustment for collar.

Mr. Wright's SERP benefits will be determined at commencement of benefit payments.

Non-Qualified Deferred Compensation (DEFECO)

Our DEFECO is a non-qualified plan that provides our executives and NEOs with the opportunity to defer up to 25% of base salary and

50% of incentive compensation. Amounts deferred are credited to an individual's contribution account and are fully vested at all times. We credit deferred accounts with additional amounts equal to the value of the matching contributions. We match 50% of a participant's deferrals into DEFECO, excluding deferrals in excess of 10% of a participant's compensation. In addition, we make company retirement contributions equal to 2.5% of eligible pay and an additional 4% of eligible pay over the IRS compensation limit (\$260,000 in calendar year 2014). A participant's employer contribution account is 100% vested upon attainment of age 60 as an active employee, or 10% per year for each plan year in which the participant works at least 1,000 hours. Participants may choose among eleven investment measurement funds in which to participate, and participants may change their investment mix at any time. Participants' deferred cash accounts earn a rate of return which tracks the investment return achieved under the participant-selected investment measurement funds. Each participant is an unsecured creditor for any benefit he or she will receive under DEFECO, as we have not created a fund for payment of DEFECO benefits that is protected from creditor claims.

Net cash used in investing activities

(3,547) (491) (4,038)

Cash flows from financing activities

Proceeds from issuance of common stock under Employee Stock Purchase Plan

8 8

Payments on long-term debt agreements and capital leases

(5,393) (225) (5,618)

Net (repayments) borrowings under revolving credit facility

(4,000) 202 (3,798)

Payment of deferred financing fees

(127) (127)

Advances to/from subsidiaries

4,258 (4,580) 322

Net cash provided by (used in) financing activities

131	(9,965)	299	(9,535)
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Effect of foreign currency translation on cash balances

3	3
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Net change in cash and cash equivalents

4,804 (757) 4,047

Cash and cash equivalents at beginning of period

9,527 12,380 21,907

Cash and cash equivalents at end of period

\$ 14,331 \$ 11,623 \$ 25,954

Table of Contents**Condensed Consolidating Statement of Cash Flows****Nine Months Ended****September 30, 2012****(Unaudited)**

(In thousands)	American Reprographics Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities					
Net cash (used in) provided by operating activities	\$ (10,636)	\$ 40,281	\$ 1,234	\$	\$ 30,879
Cash flows from investing activities					
Capital expenditures		(12,997)	(1,197)		(14,194)
Other		233	(100)		133
Net cash used in investing activities		(12,764)	(1,297)		(14,061)
Cash flows from financing activities					
Proceeds from stock option exercises		79			79
Proceeds from issuance of common stock under Employee Stock Purchase Plan		28			28
Payments on long-term debt agreements and capital leases		(10,866)	(1,175)		(12,041)
Net borrowings under revolving credit facilities			1,041		1,041
Payment of deferred financing fees	(839)				(839)
Advances to/from subsidiaries	11,475	(12,242)	767		
Net cash provided by (used in) financing activities	10,636	(23,001)	633		(11,732)
Effect of foreign currency translation on cash balances			11		11
Net change in cash and cash equivalents		4,516	581		5,097
Cash and cash equivalents at beginning of period		11,706	13,731		25,437
Cash and cash equivalents at end of period	\$	\$ 16,222	\$ 14,312	\$	\$ 30,534

Table of Contents**Consolidating Condensed Statement of Cash Flows****Nine Months Ended****September 30, 2011**

(In thousands)	American Reprographics Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from operating activities					
Net cash (used in) provided by operating activities	\$ (10,881)	\$ 41,255	\$ (884)	\$	\$ 29,490
Cash flows from investing activities					
Capital expenditures		(10,766)	(1,172)		(11,938)
Payment for swap transaction		(9,729)			(9,729)
Other		1,054	(129)		925
Net cash used in investing activities		(19,441)	(1,301)		(20,742)
Cash flows from financing activities					
Proceeds from stock option exercises		108			108
Proceeds from issuance of common stock under Employee Stock Purchase Plan		31			31
Excess tax benefit related to stock-based compensation		31			31
Payments on long-term debt agreements and capital leases		(18,718)	(1,001)		(19,719)
Net borrowings under revolving credit facilities	9,800		1,022		10,822
Payment of deferred loan fees	(668)				(668)
Advances to/from subsidiaries	1,749	(1,522)	(227)		
Net cash provided by (used in) financing activities	10,881	(20,070)	(206)		(9,395)
Effect of foreign currency translation on cash balances			308		308
Net change in cash and cash equivalents		1,744	(2,083)		(339)
Cash and cash equivalents at beginning of period		12,587	13,706		26,293
Cash and cash equivalents at end of period	\$	\$ 14,331	\$ 11,623	\$	\$ 25,954

11. Subsequent Events

Management believes customers are increasingly (1) adopting technology and digital document management practices, and (2) changing their document and printing needs. Therefore, the Company's revenue in large and small format printing at its service centers continues to decline. As a result, the Company initiated a restructuring plan in October of 2012. Barring any additional changes that may result from the Company's ongoing analysis, the restructuring plan includes the closure of 27 of the Company's service centers, which represents over 10% of the Company's total number of service center locations. In addition, as part of the restructuring plan, the Company reduced headcount in and middle management associated with its service center locations, streamlined the upper management team, and allocated more resources into growing sales categories such as managed print services and digital services. The restructuring plan provides for a headcount reduction of approximately 300 full-time employees, which represents approximately 10% of the Company's total workforce.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our interim Condensed Consolidated Financial Statements and the related notes and other financial information appearing elsewhere in this report as well as Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2011 Form 10-K and our Quarterly Report on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012.

Business Summary

ARC provides specialized document solutions to businesses of all types, and is the leading document solutions company for the non-residential segment of the architecture, engineering and construction (AEC) industry. ARC is the largest company of its kind in the United States and offers managed print services, digital color printing, proprietary document management technology products and services as well as conventional reprographic services.

Our products and services rely on our technology and expertise to enhance our customers' document workflow, reduce costs, shorten their document processing and distribution time, improve the quality of their document management tasks, and provide a secure, controlled environment in which to manage, distribute and produce their documents.

ARC offers three general categories of service which are reported as Reprographics Services, Facilities Management, and Equipment and Supplies.

Reprographics Services sales include operational activities provided at Company locations such as document management services, document logistics, large- and small-format print-on-demand services in color and black and white, and digital document management services.

Facilities Management sales are primarily composed of services executed at the customer's location (on-site services) where we provide document production equipment and sometimes staff in our customers' offices. These services include both (i) reprographics services or facilities management (FM), as well as (ii) managed print services (MPS). Under an MPS contract, we supply, maintain and manage a customer's entire print network, including office printing equipment, on an outsourced basis. In each case, ARC assumes all costs related to print, and issues a single invoice to its customers based on a contracted cost-per-printed page rate.

Equipment and Supplies sales involve the resale of printing and imaging equipment from a wide variety of suppliers.

We are diversifying our business beyond the services we have traditionally provided to the AEC industry, and we are expanding into managed print services, digital color printing to the non-AEC market, and technology-based document management services. We deliver both our traditional and newer services through a nationwide network of service centers, locally-based sales executives, technical specialists, and a national/regional sales force known as Global Solutions, which is managed from our corporate offices in Walnut Creek, California. Based on our analysis of our operating results, we estimate that sales to the AEC industry accounted for approximately 75% of our net sales for the nine months ended September 30, 2012, with the remaining 25% consisting of sales to non-AEC industries.

Acquisition activity during the last three years has been minimal and did not materially affect our overall business.

Historically, our local production facilities have operated under their acquired brand. In response to changes in our markets, consisting primarily of the consolidation of our larger customers and prospects, we branded all of our operations ARC in 2011 to highlight the scope and scale of our services. Our non-AEC digital color printing business is branded separately as Riot Creative Imaging to facilitate marketing to a specialized customer base.

We identify operating segments based on the various business activities that earn revenue and incur expense. Since operating segments have similar products and services, classes of customers, production processes and economic characteristics, we are deemed to operate as a single reportable segment. See Note 1 Description of Business and Basis of Presentation for further information.

Costs and Expenses. Our cost of sales consists primarily of paper, toner and other consumables, labor, and expenses for facilities and equipment. Facilities and equipment expenses include maintenance, repairs, rents, insurance, and depreciation. Paper is the largest component of our material cost. However, paper pricing typically does not significantly affect our operating margins due, in part, to our efforts to pass increased costs on to our customers. We closely monitor material cost as a percentage of net sales to measure volume and waste. We also track labor utilization, or net sales per employee, to measure productivity and determine staffing levels.

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We maintain low levels of inventory and other working capital. Our capital expenditure requirements are changing slightly as we are more frequently electing to purchase equipment for our facilities and on-site service installations rather than lease it. This practice reflects an increase of cash available to fund capital expenditures, and the lower cost of capital under our revolving credit facilities versus current capital lease rates.

Research and development costs consist mainly of the salaries, leased building space, and computer equipment that comprise our data storage and development centers in Fremont, California and Kolkata, India. Such costs are primarily recorded to cost of sales.

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One of the primary methods we have used to maintain our margins during periods of economic or industry decline has been to quickly and aggressively reduce our variable operating costs. The largest portions of our variable costs are labor-related. Given that we manage production capacity primarily through labor utilization during a given daily production schedule or shift, we achieve cost containment objectives through the reduction of full-time employees, and the close management of hourly schedules.

During the recent past we have seen customers increasingly adopt technology to manage construction documents and print fewer documents as a result. We believe this trend will continue in future periods, and therefore we initiated a restructuring plan in October of 2012 in order to position the Company to better serve the evolving document management needs of our customers to digital document management solutions, and away from traditional project-related printing. As part of the restructuring plan, we reduced headcount in our service centers and middle management, streamlined the upper management team, and allocated more resources into growing sales categories such as managed print services, and digital services.

Barring any additional changes that may result from the Company's ongoing analysis, our restructuring plan includes the closure of 27 of our service centers, which represents over 10% of our total number of service center locations. In addition, the restructuring plan provides for a headcount reduction of approximately 300 full-time employees, which represents approximately 10% of our total workforce. We are still assessing the anticipated impact of the restructuring charges on the Company's results for the fourth quarter of 2012. We believe that the implementation of the restructuring plan will lead to margin expansion in future periods.

Non-GAAP Financial Measures.

EBIT, EBITDA and related ratios presented in this report are supplemental measures of our performance that are not required by or presented in accordance with accounting principles generally accepted in the United States of America (GAAP). These measures are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income, income from operations, or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating, investing or financing activities as a measure of our liquidity.

EBIT represents net income before interest and taxes. EBITDA represents net income before interest, taxes, depreciation and amortization. EBIT margin is a non-GAAP measure calculated by dividing EBIT by net sales. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by net sales.

We present EBIT, EBITDA and related ratios because we consider them important supplemental measures of our performance and liquidity. We believe investors may also find these measures meaningful, given how our management makes use of them. The following is a discussion of our use of these measures.

We use EBIT and EBITDA to measure and compare the performance of our operating segments. Our operating segments' financial performance includes all of the operating activities except debt and taxation which are managed at the corporate level for U.S. operating segments. As a result, we believe EBIT is the best measure of operating segment profitability and the most useful metric by which to measure and compare the performance of our operating segments. We also use EBIT to measure performance for determining operating segment-level compensation and we use EBITDA to measure performance for determining consolidated-level compensation. In addition, we use EBIT and EBITDA to evaluate potential acquisitions and potential capital expenditures.

EBIT, EBITDA and related ratios have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are as follows:

They do not reflect our cash expenditures, or future requirements for capital expenditures and contractual commitments;

They do not reflect changes in, or cash requirements for, our working capital needs;

They do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;

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Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

Other companies, including companies in our industry, may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, EBIT, EBITDA, and related ratios should not be considered as measures of discretionary cash available to us to invest in business growth or to reduce our indebtedness. We compensate for these limitations by relying primarily on our GAAP results and using EBIT, EBITDA and related ratios only as supplements.

Our presentation of adjusted net income and adjusted EBITDA over certain periods is an attempt to provide meaningful comparisons to our historical performance for our existing and future investors. The unprecedented changes in our end markets over the past several years have required us to take measures that are unique in our history and specific to individual circumstances. Comparisons inclusive of these actions make normal financial and other performance patterns difficult to discern under a strict GAAP presentation. Each non-GAAP presentation, however, is explained in detail in the reconciliation tables below.

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Specifically, we have presented adjusted net (loss) income attributable to ARC and adjusted (loss) earnings per share attributable to ARC shareholders for the three and nine months ended September 30, 2012 and 2011 to reflect the exclusion of goodwill impairment charge, the amortization impact related specifically to the change in useful lives of trade names, interest rate swap related costs, the valuation allowance related to certain deferred tax assets and other discrete tax items. This presentation facilitates a meaningful comparison of our operating results for the three and nine months ended September 30, 2012 and 2011. We believe these charges were the result of our capital restructuring, or other items which are not indicative of our actual operating performance.

We presented adjusted EBITDA in the three and nine months ended September 30, 2012 to exclude the non-cash goodwill impairment charge of \$16.7 million and stock-based compensation expense of \$0.6 million and \$1.5 million, respectively. We presented adjusted EBITDA in the three and nine months ended September 30, 2011 to exclude the non-cash goodwill impairment charge of \$42.1 million and \$65.4 million, respectively, and stock-based compensation expense of \$0.5 million and \$3.8 million, respectively. This presentation is consistent with the definition of adjusted EBITDA in our credit agreement; therefore, we believe this information is useful to investors in assessing our financial performance.

The following is a reconciliation of cash flows provided by operating activities to EBIT, EBITDA, and net loss attributable to ARC:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cash flows provided by operating activities	\$ 14,029	\$ 17,617	\$ 30,879	\$ 29,490
Changes in operating assets and liabilities, net of effect of business acquisitions	(6,893)	(7,504)	(2,110)	19,078
Non-cash expenses, including depreciation and amortization	(27,230)	(51,809)	(54,628)	(178,688)
Income tax (benefit) provision	(84)	(2,392)	1,845	51,872
Interest expense, net	6,982	7,743	21,675	23,609
(Income) loss attributable to the noncontrolling interest	(18)	(61)	(213)	90
EBIT	(13,214)	(36,406)	(2,552)	(54,549)
Depreciation and amortization	8,989	11,711	30,510	36,363
EBITDA	(4,225)	(24,695)	27,958	(18,186)
Interest expense, net	(6,982)	(7,743)	(21,675)	(23,609)
Income tax benefit (provision)	84	2,392	(1,845)	(51,872)
Depreciation and amortization	(8,989)	(11,711)	(30,510)	(36,363)
Net loss attributable to ARC	\$ (20,112)	\$ (41,757)	\$ (26,072)	\$ (130,030)

The following is a reconciliation of net loss attributable to ARC to EBIT, EBITDA and adjusted EBITDA:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss attributable to ARC	\$ (20,112)	\$ (41,757)	\$ (26,072)	\$ (130,030)
Interest expense, net	6,982	7,743	21,675	23,609
Income tax (benefit) provision	(84)	(2,392)	1,845	51,872
EBIT	(13,214)	(36,406)	(2,552)	(54,549)
Depreciation and amortization	8,989	11,711	30,510	36,363
EBITDA	(4,225)	(24,695)	27,958	(18,186)
Goodwill impairment	16,707	42,109	16,707	65,444
Stock-based compensation	554	517	1,457	3,775

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Adjusted EBITDA	\$ 13,036	\$ 17,931	\$ 46,122	\$ 51,033
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The following is a reconciliation of net loss margin attributable to ARC to EBIT margin, EBITDA margin and adjusted EBITDA margin:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012(1)	2011(1)	2012(1)	2011(1)
Net loss margin attributable to ARC	(20.2)%	(39.8)%	(8.4)%	(40.5)%
Interest expense, net	7.0	7.4	7.0	7.4
Income tax (benefit) provision	(0.1)	(2.3)	0.6	16.2
EBIT margin	(13.3)	(34.7)	(0.8)	(17.0)
Depreciation and amortization	9.0	11.2	9.9	11.3
EBITDA margin	(4.2)	(23.6)	9.0	(5.7)
Goodwill impairment	16.8	40.2	5.4	20.4
Stock-based compensation	0.6	0.5	0.5	1.2
Adjusted EBITDA margin	13.1%	17.1%	14.9%	15.9%

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(1) Column does not foot due to rounding

The following is a reconciliation of net loss attributable to ARC to unaudited adjusted net income (loss) attributable to ARC:

(In thousands, except per share amounts)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Net loss attributable to ARC	\$ (20,112)	\$ (41,757)	\$ (26,072)	\$ (130,030)
Goodwill impairment	16,707	42,109	16,707	65,444
Change in trade name impact to amortization		2,368	3,158	7,106
Interest rate swap related costs	776	1,389	3,047	4,369
Income tax benefit related to above items	(4,230)	(6,866)	(6,279)	(14,745)
Deferred tax valuation allowance and other discrete tax items	5,142	3,832	8,575	67,040
Unaudited adjusted net (loss) income attributable to ARC	\$ (1,717)	\$ 1,075	\$ (864)	\$ (816)

Actual:

Loss per share attributable to ARC shareholders:

Basic	\$ (0.44)	\$ (0.92)	\$ (0.57)	\$ (2.87)
Diluted	\$ (0.44)	\$ (0.92)	\$ (0.57)	\$ (2.87)

Weighted average common shares outstanding:

Basic	45,716	45,416	45,641	45,366
Diluted	45,716	45,416	45,641	45,366

Adjusted:

(Loss) earnings per share attributable to ARC shareholders:

Basic	\$ (0.04)	\$ 0.02	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.04)	\$ 0.02	\$ (0.02)	\$ (0.02)

Weighted average common shares outstanding:

Basic	45,716	45,416	45,641	45,366
Diluted	45,716	45,448	45,641	45,366

Free Cash Flows

Free Cash Flows (FCF) is defined as cash flows from operating activities less capital expenditures. FCF is a useful measure in determining our ability to generate excess cash flows for reinvestment in the business in a variety of ways including acquisition opportunities, the potential return of value to shareholders through stock repurchases or the purchase of our own debt instruments. As such, we believe this measure provides relevant and useful information to our current and potential investors.

The following is reconciliation of cash flows provided by operating activities to FCF:

(In thousands)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Cash flows provided by operating activities	\$ 14,029	\$ 17,617	\$ 30,879	\$ 29,490
Capital expenditures	(4,932)	(4,316)	(14,194)	(11,938)
Free Cash Flows	\$ 9,097	\$ 13,301	\$ 16,685	\$ 17,552

Cash flows provided by operating activities for the nine months ended September 30, 2012 and 2011 includes a \$10.5 million semi-annual interest payment on the Company's 10.5% senior notes.

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(In millions, except percentages)	Three Months Ended				Nine Months Ended			
	September 30,		Increase (decrease)		September 30,		Increase (decrease)	
	2012	2011	\$	%	2012	2011	\$ (1)	%
Reprographics services	\$ 58.7	\$ 65.5	\$ (6.8)	(10.4)%	\$ 186.0	\$ 206.0	\$ (20.0)	(9.7)%
Facilities management	27.1	25.5	1.6	6.3%	81.3	75.3	6.0	7.9%
Equipment and supplies sales	13.6	13.8	(0.2)	(1.2)%	41.9	39.6	2.4	6.0%
Total net sales	\$ 99.4	\$ 104.8	\$ (5.4)	(5.1)%	\$ 309.2	\$ 320.9	\$ (11.7)	(3.6)%
Gross profit	\$ 29.2	\$ 33.9	\$ (4.7)	(13.8)%	\$ 94.9	\$ 103.0	\$ (8.1)	(7.9)%
Selling, general and administrative expenses	\$ 23.9	\$ 23.5	\$ 0.4	1.6%	\$ 71.3	\$ 78.2	\$ (6.8)	(8.7)%
Amortization of intangibles	\$ 1.8	\$ 4.7	\$ (2.8)	(60.3)%	\$ 9.2	\$ 14.1	\$ (4.9)	(34.5)%
Goodwill impairment	\$ 16.7	\$ 42.1	\$ (25.4)	(60.3)%	\$ 16.7	\$ 65.4	\$ (48.7)	(74.5)%
Interest expense, net	\$ 7.0	\$ 7.7	\$ (0.8)	(9.8)%	\$ 21.7	\$ 23.6	\$ (1.9)	(8.2)%
Income tax (benefit) provision	\$ (0.1)	\$ (2.4)	\$ 2.3	(96.5)%	\$ 1.8	\$ 51.9	\$ (50.0)	(96.4)%
Net loss attributable to ARC	\$ (20.1)	\$ (41.8)	\$ 21.6	(51.8)%	\$ (26.1)	\$ (130.0)	\$ 104.0	(79.9)%
EBITDA	\$ (4.2)	\$ (24.7)	\$ 20.5	(82.9)%	\$ 28.0	\$ (18.2)	\$ 46.1	(253.7)%
Adjusted EBITDA	\$ 13.0	\$ 17.9	\$ (4.9)	(27.3)%	\$ 46.1	\$ 51.0	\$ (4.9)	(9.6)%

(1) Column does not foot due to rounding

The following table provides information on the percentages of certain items of selected financial data compared to net sales for the periods indicated:

	As Percentage of Net Sales Three Months Ended September 30,		As Percentage of Net Sales Nine Months Ended September 30,	
	2012 (1)	2011 (1)	2012 (1)	2011 (1)
	Net Sales	100.0%	100.0%	100.0%
Cost of sales	70.6	67.6	69.3	67.9
Gross profit	29.4	32.4	30.7	32.1
Selling, general and administrative expenses	24.1	22.5	23.1	24.4
Amortization of intangibles	1.9	4.4	3.0	4.4
Goodwill impairment	16.8	40.2	5.4	20.4
Loss from operations	(13.3)	(34.7)	(0.8)	(17.1)
Interest expense, net	7.0	7.4	7.0	7.4
Loss before income tax (benefit) provision	(20.3)	(42.1)	(7.8)	(24.4)
Income tax (benefit) provision	(0.1)	(2.3)	0.6	16.2
Net loss	(20.2)	(39.8)	(8.4)	(40.6)
Income attributable to the noncontrolling interest		(0.1)	(0.1)	
Net loss attributable to ARC	(20.2)%	(39.8)%	(8.4)%	(40.5)%
EBITDA	(4.2)%	(23.6)%	9.0%	(5.7)%
Adjusted EBITDA	13.1%	17.1%	14.9%	15.9%

(1) Column does not foot due to rounding

Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011

Net Sales

Net sales for the three and nine months ended September 30, 2012 decreased by 5.1% and 3.6%, respectively. The decrease in net sales was due to a combination of (1) the decrease of private, non-residential construction activity, as compared to periods prior to the recent recession, and (2) our AEC customers are accelerating their adoption of technology and exerting greater central control over document production for their project teams

Reprographics services. Reprographics services sales decreased \$6.8 million, or 10.4%, and \$20.0 million, or 9.7%, during the three and nine months ended September 30, 2012, compared to the same periods in 2011, respectively.

Overall reprographics services sales nationwide were negatively affected by the lower volume of construction drawings produced through large-format black and white printing. Large-format black-and-white printing revenues represented approximately 31% of reprographics services for the three and nine months ended September 30, 2012, and decreased by approximately 15% compared to the same periods in 2011.

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Digital color printing comprised approximately 31% and 29% of our overall reprographics services sales for the three and nine months ended September 30, 2012, respectively. Net sales of digital color printing services decreased approximately 3.0% and approximately 5.0% for the three and nine months ended September 30, 2012 compared to the same periods in 2011. We attribute this decrease, in part, to an overall decline in color printing in the AEC industry, and temporary disruptions as we expand and enhance our digital color printing operations and sales force.

Our customers in the AEC industry prefer to receive documents in both analog (printed) and digital forms, but we have noted a growing adoption of digital services. Despite the decline in AEC activity, during the three and nine months ended September 30, 2012, digital service revenue remained consistent as compared to the same periods in 2011. As a percentage of overall sales, digital service revenue was approximately 9% for the three and nine months ended September 30, 2012, which was consistent with the same periods in 2011.

Facilities management. On-site sales for the three and nine months ended September 30, 2012, increased \$1.6 million, or 6.3%, and \$6.0 million, or 7.9%, respectively, as compared to the same periods in 2011. FM revenue is derived from two sources: (1) an engagement with the customer to place reprographics equipment that we own or lease in our customers' offices, typically referred to as a traditional FM, and (2) an arrangement by which our customers outsource their entire printing network to us, including all office printing, copying, and reprographics printing, typically referred to as managed print services or MPS. In both cases, we are paid a single cost per unit of material used, often referred to as a click charge.

The number of onsite services locations has grown to approximately 6,700 as of September 30, 2012, an increase of more than 800 locations compared to September 30, 2011, due to growth in new MPS placements. We believe this is a high growth area for us as demonstrated by the adoption of our MPS services by large, multi-national firms in the AEC space over the past several years. Our intention is to continue the expansion of our on-site service offering through our regional sales force and through Global Services, our national accounts group.

Equipment and supplies sales. Equipment and supplies sales for the three months ended September 30, 2012 decreased \$0.2 million, or 1.2%, as compared to the same period in 2011. Equipment and supplies sales for the nine months ended September 30, 2012 increased \$2.4 million, or 6.0%, as compared to the same period in 2011. For the three months ended September 30, 2012, the decrease in equipment and supplies sales was driven by a slight decline in equipment and supplies sales in our US operations compared to the same period in 2011. For the nine months ended September 30, 2012 the increase in equipment and supplies sales was primarily due to increased sales in UNIS Document Solutions Co. Ltd (UDS), our Chinese business venture with Beijing-based Unisplendour. To date, the Chinese market has shown a preference for owning reprographics equipment as opposed to using equipment through an on-site services or FM arrangement. Chinese operations had sales of equipment and supplies of \$5.3 million and \$16.2 million for the three and nine months ended September 30, 2012, respectively, as compared to \$5.3 million and \$12.2 million for the three and nine months ended September 30, 2011, respectively.

Gross Profit

During the three months ended September 30, 2012, gross profit and gross profit margin decreased to \$29.2 million, or 29.4%, as compared to \$33.9 million, or 32.4%, during the same period in 2011, on a sales decline of \$5.4 million.

During the nine months ended September 30, 2012, gross profit and gross profit margin decreased to \$94.9 million, or 30.7%, as compared to \$103.0 million, or 32.1%, during the same period in 2011, on a sales decline of \$11.7 million.

The primary reason for the decrease in gross margins was a decline in sales of traditional reprographics. As a result, material costs as a percentage of consolidated sales for the three and nine months ended September 30, 2012 were 150 and 160 basis points higher as compared to the same periods in 2011. With the decrease in higher-margin reprographics sales, lower-margin equipment and supplies sales in China became a greater portion of consolidated sales. For the three months ended September 30, 2012, an additional contributor to the decrease in gross margins was an increase of 80 basis points in labor as a percentage of sales compared to the same period in 2011. The increase in labor as a percentage of sales was due to the continuing decline in traditional reprographics services sales leading to decreased utilization at our service centers.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$0.4 million, or 1.6%, during the three months ended September 30, 2012, compared to the same period in 2011.

Selling, general and administrative expenses decreased \$6.8 million, or 8.7%, during the nine months ended September 30, 2012, compared to the same period in 2011.

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General and administrative expenses for the three and nine months ended September 30, 2012, decreased \$1.6 million, or 10.5%, and \$8.6 million, or 16.6% compared to the same periods in 2011. This decrease was primarily driven by the reconfiguration of our labor force to increase utilization in response to the decline in overall sales, and a decrease in stock-based compensation due to the vesting of awards in 2011.

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Selling expenses increased \$2.0 million and \$1.8 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The increases were primarily due to the hiring and training of new sales personnel to support our new sales initiatives, such as color sales and our MPS offering.

Amortization of Intangibles

Amortization of intangibles of \$1.8 million and \$9.2 million for the three and nine months ended September 30, 2012, respectively, decreased by \$2.8 million or 60.3% and \$4.9 million or 34.5% compared to same periods in 2011 primarily due to the completion of the phasing out of local trade names in April 2012 described below.

During the fourth quarter of 2010, we decided to phase out the use of our local trade names in North America over the following 18 months and revised the remaining estimated useful lives of our trade name intangible assets accordingly. Effective January 1, 2011, all divisions began using the ARC name, though some of the original brand names remained in circulation to ensure business recognition and the retention of existing customers. In April 2012, the trade names were fully transitioned to the ARC name and removed from the marketplace. This change in estimate was accounted for on a prospective basis, resulting in increased amortization expense over the revised useful lives for each trade name. The remaining useful lives of trade names prior to this change ranged from 11 to 18 years.

Goodwill Impairment

We assess goodwill at least annually for impairment as of September 30 or more frequently if events and circumstances indicate that goodwill might be impaired. Goodwill impairment testing is performed at the reporting unit level.

At September 30, 2012, we performed our annual goodwill impairment analysis, which indicated that seven of our 27 reporting units, six in the United States and one in Canada, had a goodwill impairment as of September 30, 2012. Accordingly, we recorded a pretax, non-cash charge for the three months ended September 30, 2012 to reduce the carrying value of goodwill by \$16.7 million.

At September 30, 2011, our annual goodwill impairment analysis indicated that nine of our 37 reporting units, eight in the United States and one in Canada, had a goodwill impairment as of September 30, 2011. Accordingly, we recorded a pretax, non-cash charge for the three months ended September 30, 2011 to reduce the carrying value of goodwill by \$42.1 million.

At June 30, 2011, we determined that there were sufficient indicators to trigger an interim goodwill impairment analysis. The indicators included, among other factors, the current economic environment; the performance against plan of reporting units which previously had goodwill impairment; and revised forecasted future earnings. The results of our analysis indicated that six of our reporting units, all of which are located in the United States, had a goodwill impairment as of June 30, 2011. Accordingly, we recorded a pretax, non-cash charge for the three and six months ended June 30, 2011 to reduce the carrying value of goodwill by \$23.3 million.

See *Critical Accounting Policies* section for further information related to our goodwill impairment test.

Interest Expense, Net

Net interest expense was \$7.0 million and \$21.7 million during the three and nine months ended September 30, 2012, respectively, compared to \$7.7 and \$23.6 million in the same periods in 2011. The decrease in interest expense was driven by a reduction in the average debt balance of \$13.9 million from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 and a reduction in interest expense reclassified from accumulated other comprehensive income resulting from a previously terminated interest rate swap agreement (refer to Note 8 *Derivatives and Hedging Transactions* for further information).

Income Taxes

We recorded an income tax benefit of \$84 thousand in relation to pretax loss of \$20.2 million for the three months ended September 30, 2012, and an income tax provision of \$1.8 million in relation to pretax loss of \$24.0 million for the nine months ended September 30, 2012. We recorded an income tax benefit of \$2.4 million in relation to a pretax loss of \$44.1 million, and an income tax provision of \$51.9 million in relation to a pretax loss of \$78.2 million for the three and nine months ended September 30, 2011, respectively.

For the three months ended September 30, 2012, the low income tax benefit was primarily due to an additional valuation allowance against certain deferred tax assets as a result of the pretax loss of \$20.2 million, which included a stock-based goodwill impairment charge of \$6.3

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million that is nondeductible for U.S. income tax purposes until the stock is fully disposed of. For the nine months ended September 30, 2012, the income tax provision of \$1.8 million was primarily due to the impact of amortization of tax basis goodwill in a deferred tax liability position which results in an additional valuation allowance.

For the three months ended September 30, 2011, the low income tax benefit was primarily due to the impact of a stock basis goodwill impairment charge of \$27.1 million, which is nondeductible for U.S. income tax purposes until the stock is disposed of, as well as an additional valuation allowance of \$1.4 million recorded against certain deferred tax assets recognized in the same period. For the nine months ended September 30, 2011, the income tax provision of \$51.9 million is primarily due to the establishment of a \$65.7 million non-cash valuation allowance against certain of our deferred tax assets. The deferred tax assets remain available to us for use in future profitable quarters.

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Net loss attributable to noncontrolling interest represents 35% of the loss of UDS and its subsidiaries, which together comprise our Chinese operations, which commenced operations on August 1, 2008.

Net Loss Attributable to ARC

Net loss attributable to ARC was \$20.1 million and \$26.1 million during the three and nine months ended September 30, 2012, respectively, compared to net loss attributable to ARC of \$41.8 million and \$130.0 million in the same periods in 2011. The net loss attributable to ARC in 2012 is primarily due to the decrease in sales and gross margins and the goodwill impairment charge, partially offset by the decrease in selling, general and administrative expenses, as noted above. The net loss attributable to ARC in 2011 is primarily due to the establishment of a valuation allowance and the goodwill impairment charges, as described above.

EBITDA

EBITDA margin increased to (4.2)% and 9.0% during the three and nine months ended September 30, 2012, compared to (23.6)% and (5.7) % during the same periods in 2011 due to the impact of the goodwill impairment in 2012 and 2011. Excluding the impact of goodwill impairment and stock based compensation, our adjusted EBITDA margin was 13.1% and 14.9% for the three and nine months ended September 30, 2012, as compared to 17.1% and 15.9% during the same periods in 2011. The decrease in our adjusted EBITDA margins in 2012 is primarily due to the decrease in gross profit margins noted above.

Impact of Inflation

Inflation has not had a significant effect on our operations. Price increases for raw materials, such as paper and fuel charges, typically have been, and we expect will continue to be, passed on to customers in the ordinary course of business.

Liquidity and Capital Resources

Our principal sources of cash have been operations and borrowings under our debt agreements. Our historical uses of cash have been for acquisitions of reprographics businesses, payment of principal and interest on outstanding debt obligations, and capital expenditures. Total cash as of September 30, 2012 was \$30.5 million. Of this amount, \$14.3 million was held in foreign countries. Specifically, \$12.5 million was held in China and is considered a permanent investment in UDS.

Supplemental information pertaining to our historical sources and uses of cash is presented as follows and should be read in conjunction with our interim Condensed Consolidated Statements of Cash Flows and notes thereto included elsewhere in this report.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net cash provided by operating activities	\$ 14,029	\$ 17,617	\$ 30,879	\$ 29,490
Net cash used in investing activities	\$ (4,615)	\$ (4,038)	\$ (14,061)	\$ (20,742)
Net cash used in financing activities	\$ (2,151)	\$ (9,535)	\$ (11,732)	\$ (9,395)

Operating Activities

Cash flows from operations are primarily driven by sales and net profit generated from these sales, excluding non-cash charges.

The overall increase in cash flows from operations during the nine months ended September 30, 2012 over the same period in 2011 was primarily due to the timing of trade payables and payroll, partially offset by our 2012 decline in operating results and an increase in inventory. The increase in inventory was primarily due to a build-up of inventory in our Chinese operations, as the fourth quarter is seasonally their strongest quarter. Days sales outstanding (DSO) remained consistent at 52 days as of September 30, 2012 compared to 52 days as of September 30, 2011. With the absence of significant growth in the construction industry, we will continue to focus on our accounts receivable collections and DSO. If the recent negative sales trends continue throughout 2012 and into 2013, it will significantly impact our cash flows from operations in future periods.

Investing Activities

Net cash used in investing activities of \$14.1 million for the nine months ended September 30, 2012 relates to capital expenditures of \$14.2 million and net cash inflows from other investing activities of \$0.1 million. Cash flows from other investing activities primarily relate cash proceeds generated from the sale of fixed assets, partially offset by the purchase of customer lists. Net cash used in investing activities for the nine months ended September 30, 2011 includes a \$9.7 million payment related to the termination our swap agreement.

Table of Contents*Financing Activities*

Net cash of \$11.7 million used in financing activities during the nine months ended September 30, 2012 primarily relates to scheduled payments under capital leases and seller notes of \$12.0 million, deferred financing fee payments related to our new revolving credit facility of \$0.8, and net borrowings under our foreign revolving credit facility of \$1.0 million.

Our cash position, working capital, and debt obligations as of September 30, 2012 and December 31, 2011 are shown below and should be read in conjunction with our Condensed Consolidated Balance Sheets and notes thereto contained elsewhere in this report.

(In thousands)	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 30,534	\$ 25,437
Working capital	\$ 43,793	\$ 40,405
Borrowings from senior secured credit facility and Notes (1)	\$ 196,694	\$ 196,241
Other debt obligations	27,538	30,023
Total debt obligations	\$ 224,232	\$ 226,264

(1) Notes, net of discount of **\$3,306** and \$3,759 at September 30, 2012 and December 31, 2011, respectively.

The increase of \$3.4 million in working capital in 2012 was primarily due to an increase in cash of \$5.1 million, an increase in accounts receivable of \$3.0 million, and a \$2.3 million increase in inventory. The increase was partially offset by an increase in accrued expenses of \$7.1 million. To manage our working capital, we focus on our number of days sales outstanding and monitor the aging of our accounts receivable, as receivables are the most significant element of our working capital.

We believe that our current cash balance of \$30.5 million, availability under our revolving credit facility and additional cash flows provided by operations should be adequate to cover the next twelve months of working capital needs, debt service requirements consisting of scheduled principal and interest payments, and planned capital expenditures, to the extent such items are known or are reasonably determinable based on current business and market conditions. In addition, we may elect to finance certain of our capital expenditure requirements through borrowings under our senior secured revolving credit facility, which had no debt outstanding as of September 30, 2012. See **Debt Obligations** section for further information related to our current credit facility.

We generate the majority of our revenue from sales of products and services provided to the AEC industry. As a result, our operating results and financial condition can be significantly affected by economic factors and business practices that influence the AEC industry, such as non-residential construction spending and the adoption of technology to manage construction documents. The effects of the current economic downturn in the United States have resulted in a downturn in construction spending in the AEC industry, which have affected our operating results. During the recent past we have also seen customers increasingly adopt technology to manage construction documents and print fewer documents as a result. The current diminished liquidity and credit availability in financial markets and the general economic downturn may adversely affect the ability of our customers and suppliers to obtain financing for significant operations and purchases, and to perform their obligations under their agreements with us. We believe the credit constraints in the financial markets are resulting in a decrease in, or cancellation of, existing business, could limit new business, and could negatively impact our ability to collect our accounts receivable on a timely basis. We are unable to predict the duration and severity of the current economic downturn or its effects on our business and results of operations, but the consequences may be materially adverse and more severe than other recent economic slowdowns.

We may buy our own bonds or equity securities from time to time in the open market or in private transactions. While we have not been actively seeking growth through acquisition during the current economic and industry downturn, the executive team continues to selectively evaluate potential acquisitions.

*Debt Obligations***10.5% Senior Notes due 2016**

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On December 1, 2010, we completed a private placement of 10.5% senior unsecured notes due 2016 (the Notes).

The Notes have an aggregate principal amount of \$200 million, and are general unsecured senior obligations and are subordinate to all of our existing and future senior secured debt to the extent of the assets securing such debt. We received gross proceeds of \$195.6 million from the Notes offering. Our obligations under the Notes are jointly and severally guaranteed by all of our domestic subsidiaries. The issue price was 97.824% with a yield to maturity of 11.0%. Interest on the Notes accrues at a rate of 10.5% per annum and is payable semiannually in arrears on June 15 and December 15 of each year, commencing on June 15, 2011. We will make each interest payment to the holders of record of the Notes on the immediately preceding June 1 and December 1.

Repurchase upon Change of Control. In connection with the issuance of the Notes, we entered into an indenture (the Indenture). Upon the occurrence of a change in control (as defined in the Indenture), each holder of the Notes may require us to repurchase all of the then-outstanding Notes in cash at a price equal to 101% of the aggregate principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

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Other Covenants. The Indenture contains covenants that limit, among other things, our company's and certain of our subsidiaries' ability to (1) incur certain additional debt and issue preferred stock, (2) make certain restricted payments, (3) consummate specified asset sales, (4) enter into certain transactions with affiliates, (5) create liens, (6) declare or pay any dividend or make any other distributions, (7) make certain investments, and (8) merge or consolidate with another person.

Events of Default. The Indenture provides for customary events of default (subject in certain cases to customary grace and cure periods), which include non-payment, breach of covenants in the Indenture, cross default and acceleration of other indebtedness, a failure to pay certain judgments and certain events of bankruptcy and insolvency. Generally, if an event of default occurs, the Trustee or holders of at least 25% in principal amount of the then outstanding Notes may declare the principal of and accrued but unpaid interest on all of the then-outstanding Notes to be due and payable.

Exchange Offer. Pursuant to a registered exchange offer in May 2011, we offered to exchange up to \$200.0 million aggregate principal amount of the Notes, for new notes that were registered under the Securities Act. The terms of the registered notes are the same as the terms of the Notes, except that they are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions are not applicable. We accepted the exchange of \$200.0 million aggregate principal amounts of the Notes that were properly tendered in the exchange offer.

2010 Credit Agreement

In connection with the issuance of the Notes, our company and certain of our subsidiaries also entered into the 2010 Credit Agreement that provided for a \$50.0 million senior secured revolving line of credit.

2012 Credit Agreement

On January 27, 2012, we entered into a new Credit Agreement (the "2012 Credit Agreement") and terminated the 2010 Credit Agreement. The 2012 Credit Agreement provides revolving loans in an aggregate principal amount not to exceed \$50.0 million, with a Canadian sublimit of \$5.0 million, based on inventory, accounts receivable and unencumbered equipment of our subsidiaries organized in the US and Canada ("Domestic Subsidiaries") that meet certain eligibility criteria. The 2012 Credit Agreement has a maturity date of June 15, 2016.

Amounts borrowed in US dollars under the 2012 Credit Agreement bear interest, in the case of LIBOR loans, at a per annum rate equal to the LIBOR plus the LIBOR Margin, which may range from 1.75% to 2.25%, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). All other amounts borrowed in US dollars that are not LIBOR loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds rate plus 0.5%, (B) the LIBOR (calculated based upon an interest period of three months and determined on a daily basis), plus 1.0% per annum, and (C) the rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its prime rate, plus (ii) the Base Rate Margin (as defined in the 2012 Credit Agreement), which may range from 0.75% to 1.25% percent, based on Average Daily Net Availability (as defined in the 2012 Credit Agreement). Amounts borrowed in Canadian dollars bear interest at a per annum rate equal to the Canadian Base Rate (as defined in the 2012 Credit Agreement) plus the LIBOR Margin, which may range from 1.75% to 2.25%, based on Average Daily Net Availability.

The 2012 Credit Agreement contains various loan covenants that restrict our ability to take certain actions, including restrictions on incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of our business. In addition, at any time when Excess Availability (as defined in the 2012 Credit Agreement) is less than \$10.0 million we are required to maintain a Fixed Charge Coverage Ratio (as defined in the 2012 Credit Agreement) of at least 1.0. Our obligations under the 2012 Credit Agreement are secured by substantially all of our assets pursuant to a Guaranty and Security Agreement.

As of and during the nine months ended September 30, 2012, we did not have any outstanding debt under the 2012 Credit Agreement.

As of September 30, 2012, based on inventory, accounts receivable and unencumbered equipment of our subsidiaries organized in the US and Canada, our borrowing availability under the 2012 Credit Agreement was \$47.5 million. Standby letters of credit aggregating \$2.9 million reduced our borrowing availability under the 2012 Credit Agreement to \$44.6 million as of September 30, 2012.

Foreign Credit Facility

In the third quarter of 2012, UDS, ARC's Chinese operations, entered into a one-year revolving credit facility. The facility provides for a maximum credit amount of 11.1 million Chinese Yuan Renminbi, which translates to U.S. \$1.8 million as of September 30, 2012. Draws on the

facility are limited to 30 day periods and incur a fee of 0.05% of the amount drawn and no additional interest is charged.

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Capital Leases

As of September 30, 2012, we had \$25.4 million of capital lease obligations outstanding, with a weighted average interest rate of 8.5% and maturities between 2012 and 2017.

Seller Notes

As of September 30, 2012, we had \$0.4 million of seller notes outstanding, with a weighted average interest rate of 6.0% and maturities between 2013 and 2014. These notes were issued in connection with prior acquisitions.

Off-Balance Sheet Arrangements

As of September 30, 2012, we did not have any off-balance-sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations and Other Commitments

Operating Leases. We have entered into various non-cancelable operating leases primarily related to facilities, equipment and vehicles used in the ordinary course of business.

Contingent Transaction Consideration. We have entered into earnout obligations in connection with prior acquisitions. If the acquired businesses generate sales and/or operating profits in excess of predetermined targets, we are obligated to make additional cash payments in accordance with the terms of such earnout obligations. As of September 30, 2012, we have potential future earnout obligations for acquisitions consummated before the adoption of ASC 805, *Business Combinations*, of approximately \$1.5 million through 2014 if predetermined financial targets are met or exceeded, and earnout obligations of \$0.3 million through 2014 consummated subsequent to the adoption of ASC 805. Earnout payments prior to the adoption of ASC 805 are recorded as additional purchase price (as goodwill) when the contingent payments are earned and become payable.

Legal Proceedings. On October 21, 2010, a former employee, individually and on behalf of a purported class consisting of all non-exempt employees who work or worked for American Reprographics Company, LLC and American Reprographics Company in the State of California at any time from October 21, 2006 through October 21, 2010, filed an action against us in the Superior Court of California for the County of Orange. The complaint alleges, among other things, that we violated the California Labor Code by failing to (i) provide meal and rest periods, or compensation in lieu thereof, (ii) timely pay wages due at termination, and (iii) that those practices also violate the California Business and Professions Code. The relief sought includes damages, restitution, penalties, interest, costs, and attorneys' fees and such other relief as the court deems proper. We have not accrued for any liability in our Consolidated Financial Statements in connection with this matter. We cannot reasonably estimate the amount or range of possible loss, if any, at this time.

In addition to the matter described above, we are involved in various additional legal proceedings and other legal matters from time to time in the normal course of business. We do not believe that the outcome of any of these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Critical Accounting Policies

Our management prepares financial statements in conformity with GAAP. When we prepare these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to accounts receivable, inventories, deferred tax assets, goodwill and intangible assets and long-lived assets. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Goodwill Impairment

In connection with acquisitions, we apply the provisions of ASC 805, *Business Combinations*, using the acquisition method of accounting. The excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired is recorded as goodwill.

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In accordance with ASC 350, *Intangibles – Goodwill and Other*, we assess goodwill for impairment annually as of September 30, and more frequently if events and circumstances indicate that goodwill might be impaired.

At September 30, 2012, absent the fact that we assess goodwill for impairment annually as of September 30, we determined that there were sufficient indicators to trigger a goodwill impairment analysis. The indicators included, among other factors: (1) our underperformance relative to our plan in the third quarter of 2012 (2) the performance against plan of reporting units which previously had goodwill impairment (3) the economic environment, and (4) the continued decrease in large and small format printing at our service centers, which our management believes is partly due to customers' increasing adoption of technology. Our analysis indicated that seven of our 27 reporting units, six in the United States and one in Canada, had a goodwill impairment as of September 30, 2012. Accordingly, we recorded a pretax, non-cash charge for the three months ended September 30, 2012 to reduce the carrying value of goodwill by \$16.7 million.

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At September 30, 2011, our annual goodwill impairment analysis indicated that nine of our 37 reporting units, eight in the United States and one in Canada, had a goodwill impairment as of September 30, 2011. Accordingly, we recorded a pretax, non-cash charge for the three months ended September 30, 2011 to reduce the carrying value of goodwill by \$42.1 million. Given the increased uncertainty in the timing of the recovery of the construction industry, and the increased uncertainty in the economy as a whole, as well as the significant decline in the price of our Notes (resulting in a higher yield) and a decline of our stock price during the third quarter of 2011, we concluded that it was appropriate to increase the estimated weighted average cost of capital (WACC) of our reporting units as of September 30, 2011. The increase in our WACC was the main driver in the decrease in the estimated fair value of reporting units during the third quarter of 2011, which in turn resulted in the goodwill impairment.

At June 30, 2011, we determined that there were sufficient indicators to trigger an interim goodwill impairment analysis. The indicators included, among other factors: (1) the economic environment, (2) the performance against plan of reporting units which previously had goodwill impairment, and (3) revised forecasted future earnings. The results of our analysis indicated that six of our 36 reporting units, all of which are located in the United States, had a goodwill impairment as of June 30, 2011. Accordingly, we recorded a pretax, non-cash charge for the three and six months ended June 30, 2011 to reduce the carrying value of goodwill by \$23.3 million.

Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

Goodwill impairment testing is a two-step process. Step one involves comparing the fair value of our reporting units to their carrying amount. If the carrying amount of a reporting unit is greater than zero and its fair value is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two involves calculating the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

We determine the fair value of our reporting units using an income approach. Under the income approach, we determined fair value based on estimated discounted future cash flows of each reporting unit. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and EBITDA margins, discount rates and future market conditions, among others. The estimated fair value of our reporting units were based upon a projected EBITDA margin, which was anticipated to have a slight increase from 2012 to 2013, followed by year over year increases of approximately 150 to 200 basis points in 2014 through 2016, with stabilization expected in 2017. These projections are driven, in part, by anticipated industry growth rates, anticipated GDP growth rates, customer composition and historical performance. These cash flows were discounted using a weighted average cost of capital ranging from 13% to 15%, depending upon the size and risk profile of the reporting unit. We considered market information in assessing the reasonableness of the fair value under the income approach described above.

The results of step one of the goodwill impairment test, as of September 30, 2012, were as follows:

(Dollars in thousands)	Number of Reporting Units	Representing Goodwill of
No goodwill balance	11	\$
Reporting units failing step one that continue to carry a goodwill balance	5	24,094
Fair value of reporting unit exceeds its carrying value by 11% - 20%	2	28,196
Fair value of reporting unit exceeds its carrying value by 20% - 40%	4	91,180
Fair value of reporting unit exceeds its carrying value by more than 40%	5	69,138
	27	\$ 212,608

Based upon a sensitivity analysis, a reduction of approximately 50 basis points of projected EBITDA in 2012 and beyond, assuming all other assumptions remain constant, no additional reporting units would proceed to step two of the analysis, although the change would result in an additional impairment charge of approximately \$2.3 million.

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Based upon a separate sensitivity analysis, a 50 basis point increase to the weighted average cost of capital would result in no additional reporting units proceeding to step two of the analysis, although the change would result in a further impairment of approximately \$2.0 million.

Given the current economic environment and the changing document and printing needs of our customers and the uncertainties regarding the impact on our business, there can be no assurance that the estimates and assumptions made for purposes of our goodwill impairment testing in 2012 will prove to be accurate predictions of the future. If our assumptions, including forecasted EBITDA of certain reporting units, are not achieved, we may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the third quarter of 2013, or on an interim basis, if any such change constitutes a triggering event (as defined under ASC 350) outside of the quarter when we regularly perform our annual goodwill impairment test. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

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Income Taxes

Deferred tax assets and liabilities reflect temporary differences between the amount of assets and liabilities for financial and tax reporting purposes. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized. Changes in tax laws or accounting standards and methods may affect recorded deferred taxes in future periods.

When establishing a valuation allowance, we consider future sources of taxable income such as future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards and tax planning strategies. A tax planning strategy is an action that: is prudent and feasible; an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused; and would result in realization of deferred tax assets. In the event we determine the deferred tax assets, more likely than not, will not be realized in the future, the valuation adjustment to the deferred tax assets will be charged to earnings in the period in which we make such a determination.

During 2011 and the nine months of 2012, we determined that cumulative losses for the preceding twelve quarters constituted sufficient objective evidence (as defined by ASC 740-10) that a valuation allowance on certain deferred tax assets was needed. As of September 30, 2012, the valuation allowance against certain deferred tax assets was \$75.3 million.

In future quarters, we will evaluate our results to determine whether we will generate sufficient taxable income to utilize our deferred tax assets, and whether a partial or full valuation allowance will be required. Should we generate sufficient taxable income, however, we may reverse a portion or all of the then current valuation allowance.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Income taxes have not been provided on certain undistributed earnings of foreign subsidiaries because such earnings are considered to be permanently reinvested.

The amount of taxable income or loss we report to the various tax jurisdictions is subject to ongoing audits by federal, state and foreign tax authorities. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. We use a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We record a liability for the difference between the benefit recognized and measured and tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. We report tax-related interest and penalties as a component of income tax expense.

For further information regarding the accounting policies that we believe to be critical accounting policies and that affect our more significant judgments and estimates used in preparing our interim Condensed Consolidated Financial Statements see our 2011 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 1, *Description of Business and Basis of Presentation* to our interim Condensed Consolidated Financial Statements for disclosure on recent accounting pronouncements.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Historically, our primary exposure to market risk is interest rate risk associated with our debt instruments. We use both fixed and variable rate debt as sources of financing. Historically, we have entered into derivative instruments to manage our exposure to changes in interest rates. These instruments allow us to raise funds at floating rates and effectively swap them into fixed rates, without the exchange of the underlying principal amount.

As of September 30, 2012, we had \$224.2 million of total debt, net of discount, and capital lease obligations, none of which bore interest at variable rates.

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We have not, and do not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of September 30, 2012, we had no significant material exposure to market risk, including foreign exchange risk and commodity risks.

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Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended (the Exchange Act), are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2012. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2012, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

This information is included under the caption "Legal Proceedings" in Note 6 to our Condensed Consolidated Financial Statements in Part 1, Item 1 of this Form 10-Q.

Item 1A. *Risk Factors*

Information concerning certain risks and uncertainties appears in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. You should carefully consider those risks and uncertainties, which could materially affect our business, financial condition and results of operations. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents**Item 6. Exhibits**

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, 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.*
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101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *

* Filed herewith

** Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised pursuant to Rule 406T of Regulation S-T that the interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and is otherwise not subject to liability under these sections. The financial information contained in the XBRL-related documents is unaudited or unreviewed.

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SIGNATURES

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

Date: November 8, 2012

AMERICAN REPROGRAPHICS COMPANY

/s/ KUMARAKULASINGAM SURIYAKUMAR
Kumarakulasingam Suriyakumar
Chairman, President and Chief Executive Officer

/s/ JOHN TOTH
John Toth
Chief Financial Officer, Secretary

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