UNIFIRST CORP
Form 10-Q
January 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **November 28, 2015**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission file number: **001-08504**

UNIFIRST CORPORATION

(Exact name of Registrant as Specified in Its Charter)

Massachusetts	**04-2103460**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
68 Jonspin Road, Wilmington, MA	**01887**
(Address of Principal Executive Offices)	(Zip Code)

(978) 658-8888
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Smaller Reporting Company Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at December 31, 2015 were 15,271,579 and 4,854,519, respectively.

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Quarterly Report on Form 10-Q

For the Quarter ended November 28, 2015

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Statements of Income

UniFirst Corporation and Subsidiaries

(Unaudited)

Thirteen weeks ended	**November 28,**	**November 29,**
(In thousands, except per share data)	**2015**	**2014**
Revenues	$ 373,384	$ 370,361
Operating expenses:		
Cost of revenues (1)	222,603	219,353
Selling and administrative expenses (1)	72,749	72,382
Depreciation and amortization	19,738	18,037
Total operating expenses	315,090	309,772
Income from operations	58,294	60,589
Other (income) expense:		
Interest expense	221	188
Interest income	(764)	(804)
Foreign exchange loss	479	371
Total other (income) expense	(64)	(245)
Income before income taxes	58,358	60,834
Provision for income taxes	22,468	23,421
Net income	$ 35,890	$ 37,413
Income per share – Basic:		
Common Stock	$ 1.88	$ 1.96
Class B Common Stock	$ 1.50	$ 1.57
Income per share – Diluted:		
Common Stock	$ 1.78	$ 1.85
Income allocated to – Basic:		

Common Stock	$ 28,539	$ 29,649
Class B Common Stock	$ 7,193	$ 7,434
Income allocated to – Diluted:		
Common Stock	$ 35,741	$ 37,101
Weighted average number of shares outstanding – Basic:		
Common Stock	15,218	15,128
Class B Common Stock	4,795	4,741
Weighted average number of shares outstanding – Diluted:		
Common Stock	20,132	20,008
Dividends per share:		
Common Stock	$ 0.0375	$ 0.0375
Class B Common Stock	$ 0.0300	$ 0.0300

(1) Exclusive of depreciation on the Company's property, plant and equipment and amortization on its intangible assets.

The accompanying notes are an integral part of these

Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

UniFirst Corporation and Subsidiaries

(Unaudited)

Thirteen weeks ended **(In thousands)**	**November 28, 2015**	**November 29, 2014**
Net income	$ 35,890	$ 37,413
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(1,572)	(6,323)
Pension benefit liabilities, net of income taxes	(218)	(1,266)
Change in fair value of derivatives, net of income taxes	(223)	—
Derivative financial instruments reclassified to earnings	(72)	—
Other comprehensive (loss) income	(2,085)	(7,589)
Comprehensive income	33,805	29,824

The accompanying notes are an integral part of these

Consolidated Financial Statements.

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Consolidated Balance Sheets

UniFirst Corporation and Subsidiaries

(Unaudited)

(In thousands, except share and par value data)	**November 28, 2015**	**August 29, 2015(a)**
Assets		
Current assets:		
Cash and cash equivalents	$311,532	$276,553
Receivables, less reserves of $8,573 and $6,007	168,924	151,851
Inventories	76,856	80,449
Rental merchandise in service	141,489	140,384
Prepaid and deferred income taxes	198	204
Prepaid expenses and other current assets	14,670	12,382
Total current assets	713,669	661,823
Property, plant and equipment, net of accumulated depreciation of $632,116 and $618,269	516,457	513,853
Goodwill	313,062	313,133
Customer contracts, net	36,125	38,024
Other intangible assets, net	1,843	2,025
Deferred income taxes	1,453	1,475
Other assets	3,076	2,904
Total assets	$1,585,685	$1,533,237
Liabilities and shareholders' equity		
Current liabilities:		
Loans payable	$601	$1,385
Accounts payable	58,654	50,826
Accrued liabilities	107,391	113,022
Accrued and deferred income taxes	33,706	18,878
Total current liabilities	200,352	184,111
Accrued liabilities	55,551	54,566
Accrued and deferred income taxes	52,843	52,352
Total liabilities	308,746	291,029
Commitments and contingencies (Note 10)		
Shareholders' equity:		

Preferred Stock, $1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, $0.10 par value; 30,000,000 shares authorized; 15,264,922 and 15,246,588 shares issued and outstanding as of November 28, 2015 and August 29, 2015, respectively	1,526	1,525
Class B Common Stock, $0.10 par value; 20,000,000 shares authorized; 4,854,519 shares issued and outstanding as of November 28, 2015 and August 29, 2015	485	485
Capital surplus	69,254	67,611
Retained earnings	1,232,172	1,197,000
Accumulated other comprehensive (loss) income	(26,498)	(24,413)
Total shareholders' equity	1,276,939	1,242,208
Total liabilities and shareholders' equity	$1,585,685	$1,533,237

(a) Derived from audited financial statements

The accompanying notes are an integral part of these

Consolidated Financial Statements

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Consolidated Statements of Cash Flows

UniFirst Corporation and Subsidiaries

(Unaudited)

Thirteen weeks ended **(In thousands)**	**November 28, 2015**	**November 29, 2014**
Cash flows from operating activities:		
Net income	$ 35,890	$ 37,413
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	17,643	15,865
Amortization of intangible assets	2,095	2,172
Amortization of deferred financing costs	52	52
Share-based compensation	1,260	1,615
Accretion on environmental contingencies	167	151
Accretion on asset retirement obligations	199	194
Deferred income taxes	26	21
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(17,376)	(16,039)
Inventories	3,452	645
Rental merchandise in service	(1,280)	(1,744)
Prepaid expenses and other current assets	(2,286)	(6,847)
Accounts payable	7,913	559
Accrued liabilities	(4,967)	(2,796)
Prepaid and accrued income taxes	14,853	21,587
Net cash provided by operating activities	57,641	52,848
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(73)	(10,846)
Capital expenditures	(21,049)	(17,453)
Other	223	100
Net cash used in investing activities	(20,899)	(28,199)
Cash flows from financing activities:		
Proceeds from loans payable and long-term debt	—	2,008
Payments on loans payable and long-term debt	(764)	(3,508)
Proceeds from exercise of Common Stock options, including excess tax benefits	383	1,750
Payment of cash dividends	(717)	(715)
Net cash used in financing activities	(1,098)	(465)
Effect of exchange rate changes	(665)	(2,979)

Net increase in cash and cash equivalents	34,979	21,205
Cash and cash equivalents at beginning of period	276,553	191,769
Cash and cash equivalents at end of period	$ 311,532	$ 212,974

The accompanying notes are an integral part of these

Consolidated Financial Statements.

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UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Basis of Presentation

These Consolidated Financial Statements of UniFirst Corporation ("Company") have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the information furnished reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim period.

It is suggested that these Consolidated Financial Statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 29, 2015. There have been no material changes in the accounting policies followed by the Company during the current fiscal year. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

2. Recent Accounting Pronouncements

In May 2014, the FASB issued updated accounting guidance for revenue recognition, which they have subsequently modified. This modified update provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. This guidance will be effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2017 and will be required to be applied retrospectively (full or modified), with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company is currently evaluating the adoption method it will apply and the impact that this guidance will have on its financial statements and related disclosures.

In February 2015, the FASB issued updated accounting guidance on consolidation requirements. This update changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Accordingly, the standard

will be effective for the Company on August 28, 2016. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

In April 2015, the FASB issued updated guidance on the presentation of debt issuance costs. This update changes the guidance with respect to presenting such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 28, 2016. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

In May 2015, the FASB issued updated guidance to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, and is to be applied retrospectively to all periods presented, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 28, 2016. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

In July 2015, the FASB issued updated guidance which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail inventory method. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, and is to be applied prospectively, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 27, 2017. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

In September 2015, the FASB issued updated guidance that requires an entity to recognize adjustments made to provisional amounts that are identified in a business combination in the period such adjustments are determined, rather than retrospectively adjusting previously reported amounts. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, and is to be applied prospectively, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 28, 2016. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

In November 2015, the FASB issued updated guidance on the presentation of deferred income taxes. This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 and is to be applied prospectively, and may also be applied retrospectively to all periods presented, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 27, 2017. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

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3. Business Acquisitions

During the thirteen weeks ended November 28, 2015, the Company completed one business acquisition with an aggregate purchase price of approximately $0.1 million. The results of operations of this acquisition have been included in the Company's consolidated financial results since its acquisition date. This acquisition was not significant in relation to the Company's consolidated financial results and, therefore, pro forma financial information has not been presented.

4. Fair Value Measurements

US GAAP establishes a framework for measuring fair value and establishes disclosure requirements about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We considered non-performance risk when determining fair value of our derivative financial instruments.

The fair value hierarchy prescribed under US GAAP contains three levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

All financial assets or liabilities that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The assets or liabilities measured at fair value on a recurring basis are summarized in the tables below (in thousands):

	As of November 28, 2015			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	$51,795	$—	$ —	$51,795
Pension plan assets	—	4,634	—	4,634
Foreign currency forward contracts	—	705	—	705
Total assets at fair value	$51,795	$5,339	$ —	$57,134

	As of August 29, 2015			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	$42,093	$—	$ —	$42,093
Pension plan assets	—	4,757	—	4,757
Foreign currency forward contracts	—	524	—	524
Total assets at fair value	$42,093	$5,281	$ —	$47,374

The Company's cash equivalents listed above represent money market securities and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company does not adjust the quoted market price for such financial instruments.

The Company's pension plan assets listed above represent guaranteed deposit accounts that are maintained and operated by Prudential Retirement Insurance and Annuity Company ("PRIAC"). All assets are merged with the general assets of PRIAC and are invested predominantly in privately placed securities and mortgages. At the beginning of each calendar year, PRIAC notifies the Company of the annual rates of interest which will be applied to the amounts held in the guaranteed deposit account during the next calendar year. In determining the interest rate to be applied, PRIAC considers the investment performance of the underlying assets of the prior year; however, regardless of the investment performance the Company is contractually guaranteed a minimum rate of return.

The Company's foreign currency forward contracts represent contracts the Company has entered into to exchange Canadian dollars for U.S. dollars at fixed exchange rates in order to manage its exposure related to certain forecasted Canadian dollar denominated sales of one of its subsidiaries. These contracts were included in other assets as of November 28, 2015. The fair value of the forward contracts is based on similar exchange traded derivatives and are, therefore, included within Level 2 of the fair value hierarchy.

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5. Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments to mitigate its exposure to fluctuations in foreign currencies on certain forecasted transactions denominated in foreign currencies. US GAAP requires that all our derivative instruments be recorded on the balance sheet at fair value. All subsequent changes in a derivative's fair value are recognized in income, unless specific hedge accounting criteria are met.

Derivative instruments that qualify for hedge accounting are classified as a hedge of the variability of cash flows to be received or paid related to a recognized asset, liability or forecasted transaction. Changes in the fair value of a derivative that is highly effective and designated as a cash flow hedge are recognized in accumulated other comprehensive (loss) income until the hedged item or forecasted transaction is recognized in earnings. We perform an assessment at the inception of the hedge and on a quarterly basis thereafter, to determine whether our derivatives are highly effective in offsetting changes in the value of the hedged items. Any changes in the fair value resulting from hedge ineffectiveness are immediately recognized as income or expense.

In January 2015, the Company entered into sixteen forward contracts to exchange Canadian dollars ("CAD") for U.S. dollars at fixed exchange rates in order to manage its exposure related to certain forecasted CAD denominated sales of one of its subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of the Company's domestic subsidiaries each fiscal quarter, beginning in the third fiscal quarter of 2015 and continuing through the second fiscal quarter of 2019. In total, the Company will sell approximately 31.0 million CAD at an average Canadian-dollar exchange rate of 0.7825 over these quarterly periods. The Company concluded that the forward contracts met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, the Company has reflected all changes in the fair value of the forward contracts in accumulated other comprehensive (loss) income, a component of shareholders' equity. Upon the maturity of each foreign exchange forward contract, the gain or loss on the contract will be recorded as an adjustment to revenues.

As of November 28, 2015, the Company had forward contracts with a notional value of approximately 23.5 million CAD outstanding and recorded the fair value of the contracts of $0.7 million in other long-term assets and a corresponding gain in accumulated other comprehensive (loss) income of $0.4 million, which was recorded net of tax. During the thirteen weeks ended November 28, 2015, the Company reclassified $0.1 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of November 28, 2015 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

6. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and may make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended November 28, 2015 and November 29, 2014 were $3.7 million and $4.1 million, respectively.

Pension Plans and Supplemental Executive Retirement Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amounts charged to expense related to these plans for both the thirteen weeks ended November 28, 2015 and November 29, 2014 were $0.9 million.

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7. Net Income Per Share

The Company calculates net income per share in accordance with US GAAP, which requires the Company to allocate income to its unvested participating securities as part of its earnings per share ("EPS") calculations. The following table sets forth the computation of basic earnings per share using the two-class method for amounts attributable to the Company's shares of Common Stock and Class B Common Stock (in thousands, except per share data):

	Thirteen weeks ended	
	November 28, 2015	**November 29, 2014**
Net income available to shareholders	$35,890	$ 37,413
Allocation of net income for Basic:		
Common Stock	$28,539	$ 29,649
Class B Common Stock	7,193	7,434
Unvested participating shares	158	330
	$35,890	$ 37,413
Weighted average number of shares for Basic:		
Common Stock	15,218	15,128
Class B Common Stock	4,795	4,741
Unvested participating shares	95	192
	20,108	20,061
Earnings per share for Basic:		
Common Stock	$1.88	$ 1.96
Class B Common Stock	$1.50	$ 1.57

The Company is required to calculate diluted EPS for Common Stock using the more dilutive of the following two methods:

- The treasury stock method; or
- The two-class method assuming a participating security is not exercised or converted.

For the thirteen weeks ended November 28, 2015 and November 29, 2014, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen weeks ended November 28, 2015 and November 29, 2014 (in thousands, except per share data):

	Thirteen weeks ended November 28, 2015			**Thirteen weeks ended November 29, 2014**		
	Earnings to Common shareholders	**Common Shares**	**EPS**	**Earnings to Common shareholders**	**Common Shares**	**EPS**
As reported - Basic	$28,539	15,218	$1.88	$29,649	15,128	$1.96
Add: effect of dilutive potential common shares						
Share-Based Awards	—	119		—	139	
Class B Common Stock	7,193	4,795		7,434	4,741	
Add: Undistributed earnings allocated to unvested participating shares	154	—		323	—	
Less: Undistributed earnings reallocated to unvested participating shares	(145)	—		(305)	—	
Diluted EPS – Common Stock	$35,741	20,132	$1.78	$37,101	20,008	$1.85

Share-based awards that would result in the issuance of 8,761 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended November 28, 2015 because they were anti-dilutive. Share-based awards that would result in the issuance of 635 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended November 29, 2014 because they were anti-dilutive.

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8. Inventories

Inventories are stated at the lower of cost or market value, net of any reserve for excess and obsolete inventory. Judgments and estimates are used in determining the likelihood that new goods on hand can be sold to customers or used in rental operations. Historical inventory usage and current revenue trends are considered in estimating both excess and obsolete inventories. If actual product demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required. The Company uses the first-in, first-out ("FIFO") method to value its inventories.

The components of inventory as of November 28, 2015 and August 29, 2015 were as follows (in thousands):

	November 28, 2015	August 29, 2015
Raw materials	$ 14,884	$ 17,658
Work in process	2,918	2,415
Finished goods	59,054	60,376
Total inventories	$ 76,856	$ 80,449

9. Asset Retirement Obligations

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company continues to depreciate, on a straight-line basis, the amount added to property, plant and equipment and recognizes accretion expense in connection with the discounted liability over the various remaining lives which range from approximately five to twenty-eight years.

A reconciliation of the Company's asset retirement liability is as follows (in thousands):

	November 28, 2015

Beginning balance as of August 29, 2015	$ 12,381
Accretion expense	199
Effect of exchange rate changes	(179)
Asset retirement liabilities settled	(144)
Ending balance as of November 28, 2015	$ 12,257

Asset retirement obligations are included in long-term accrued liabilities in the accompanying Consolidated Balance Sheets.

10. Commitments and Contingencies

The Company and its operations are subject to various federal, state and local laws and regulations governing, among other things, air emissions, wastewater discharges, and the generation, handling, storage, transportation, treatment and disposal of hazardous waste and other substances. In particular, industrial laundries use and must dispose of detergent waste water and other residues, and, in the past used perchloroethylene and other dry cleaning solvents. The Company is attentive to the environmental concerns surrounding the disposal of these materials and has, through the years, taken measures to avoid their improper disposal. In the past, the Company has settled, or contributed to the settlement of, actions or claims brought against the Company relating to the disposal of hazardous materials and there can be no assurance that the Company will not have to expend material amounts to remediate the consequences of any such disposal in the future.

US GAAP requires that a liability for contingencies be recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Significant judgment is required to determine the existence of a liability, as well as the amount to be recorded. The Company regularly consults with attorneys and outside consultants in its consideration of the relevant facts and circumstances before recording a contingent liability. Changes in enacted laws, regulatory orders or decrees, management’s estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments, the input of the Company’s attorneys and outside consultants or other factual circumstances could have a material impact on the amounts recorded for environmental and other contingent liabilities.

Under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on, or in, or emanating from, such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of, or was responsible for the presence of such hazardous or toxic substances. There can be no assurances that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon the Company under such laws or expose the Company to third-party actions such as tort suits. The Company continues to address environmental conditions under terms of consent orders or otherwise negotiated with the applicable environmental authorities with respect to sites located in or related to Woburn, Massachusetts, Somerville, Massachusetts, Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites related to former operations in Williamstown, Vermont, as well as sites located in Goldsboro, North Carolina, Wilmington, North Carolina and Landover, Maryland.

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The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company has potential exposure related to a parcel of land (the "Central Area") related to the Woburn, Massachusetts site discussed above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided the Company and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. The Company, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA's comments remain to be resolved. The Company has accrued costs to perform certain work responsive to EPA's comments. The Company is also in discussions with EPA concerning its invoices for oversight costs with respect to the Woburn site and the Central Area. The Company has implemented mitigation measures and continues to monitor environmental conditions at the Somerville, Massachusetts site.

The Company routinely reviews and evaluates sites that may require remediation and monitoring and determines its estimated costs based on various estimates and assumptions. These estimates are developed using its internal sources or by third party environmental engineers or other service providers. Internally developed estimates are based on:

- Management's judgment and experience in remediating and monitoring the Company's sites;
- Information available from regulatory agencies as to costs of remediation and monitoring;
- The number, financial resources and relative degree of responsibility of other potentially responsible parties ("PRPs") who may be liable for remediation and monitoring of a specific site; and
- The typical allocation of costs among PRPs.

There is usually a range of reasonable estimates of the costs associated with each site. In accordance with US GAAP, the Company's accruals reflect the amount within the range that it believes is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using current risk-free interest rates. As of November 28, 2015, the risk-free interest rates utilized by the Company ranged from 2.2% to 3.0%.

For environmental liabilities that have been discounted, the Company includes interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the Company's environmental liabilities for the thirteen weeks ended November 28, 2015 are as follows (in thousands):

	November 28, 2015
Beginning balance as of August 29, 2015	$ 23,307
Costs incurred for which reserves had been provided	(341)
Insurance proceeds	8
Interest accretion	167
Change in discount rates	(148)
Balance as of November 28, 2015	$ 22,993

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of November 28, 2015, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Estimated costs – current dollars	$7,072	$1,829	$1,476	$1,309	$1,361	$ 12,493	$25,540
Estimated insurance proceeds	(151)	(173)	(159)	(173)	(159)	(1,293)	(2,108)
Net anticipated costs	$6,921	$1,656	$1,317	$1,136	$1,202	$ 11,200	$23,432
Effect of inflation							7,422
Effect of discounting							(7,861)
Balance as of November 28, 2015							$22,993

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately $0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of November 28, 2015, the balance in this escrow account, which is held in a trust and is not recorded in the Company's accompanying Consolidated Balance Sheet, was approximately $3.2 million. Also included in estimated insurance proceeds are amounts the Company is entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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The Company's nuclear garment decontamination facilities are licensed by the Nuclear Regulatory Commission ("NRC"), or, in certain cases, by the applicable state agency, and are subject to regulation by federal, state and local authorities. The Company also has nuclear garment decontamination facilities in the United Kingdom and the Netherlands. These facilities are licensed and regulated by the respective country's applicable federal agency. There can be no assurance that such regulation will not lead to material disruptions in the Company's garment decontamination business.

From time to time, the Company is also subject to legal proceedings and claims arising from the conduct of its business operations, including personal injury claims, customer contract matters, employment claims and environmental matters as described above.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits and environmental contingencies, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts covered by insurance have been properly accrued in accordance with US GAAP. It is possible, however, that the future financial position or results of operations for any particular period could be materially affected by changes in the Company's assumptions or strategies related to these contingencies or changes out of the Company's control.

11. Income Taxes

The Company's effective income tax rate was 38.5% for both the thirteen weeks ended November 28, 2015 and the thirteen weeks ended November 29, 2014. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense which is consistent with the recognition of these items in prior reporting periods. During the thirteen weeks ended November 28, 2015, there were no material changes in the amount of unrecognized tax benefits or the amount accrued for interest and penalties.

U.S. and Canadian federal income tax statutes have lapsed for filings up to and including fiscal years 2011 and 2007, respectively, and the Company has concluded an audit of U.S. federal income taxes for 2010 and 2011. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2010. The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change significantly in the next 12 months.

12. Long-Term Debt

On May 5, 2011, the Company entered into a $250.0 million unsecured revolving credit agreement (the “Credit Agreement”) with a syndicate of banks, which matures on May 4, 2016. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on, at the Company’s election, the Eurodollar rate or a base rate, plus in each case a spread based on the Company’s consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. At November 28, 2015, the interest rates applicable to the Company’s borrowings under the Credit Agreement would be calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of November 28, 2015, the Company had no outstanding borrowings, outstanding letters of credit amounting to $53.0 million and $197.0 million available for borrowing under the Credit Agreement. The Company expects to replace the Credit Agreement prior to its maturity with a new revolving line of credit on appropriate terms.

As of November 28, 2015, the Company was in compliance with all covenants under the Credit Agreement.

13. Accumulated Other Comprehensive (Loss) Income

The changes in each component of accumulated other comprehensive (loss) income, net of tax, for the thirteen weeks ended November 28, 2015 and November 29, 2014 were as follows (in thousands):

	Thirteen Weeks Ended November 28, 2015			
	Foreign Currency Translation	Pension-related	Derivative Financial Instruments	Total Accumulated Other Comprehensive (Loss) Income
Balance as of August 29, 2015	$(20,423)	$(4,719)	$ 729	$ (24,413)
Other comprehensive (loss) income before reclassification	(1,572)	(261)	(223)	(2,056)
Amounts reclassified from accumulated other comprehensive (loss) income	—	43	(72)	(29)
Net current period other comprehensive (loss) income	(1,572)	(218)	(295)	(2,085)
Balance as of November 28, 2015	$(21,995)	$(4,937)	$ 434	$ (26,498)

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	Thirteen Weeks Ended November 29, 2014			
	Foreign Currency Translation	Pension-related	Derivative Financial Instruments	Total Accumulated Other Comprehensive (Loss) Income
Balance as of August 30, 2014	$2,711	$(5,244)	$ —	$ (2,533)
Other comprehensive (loss) income before reclassification	(6,323)	(1,417)	—	(7,740)
Amounts reclassified from accumulated other comprehensive (loss) income	—	151	—	151
Net current period other comprehensive (loss) income	(6,323)	(1,266)	—	(7,589)
Balance as of November 29, 2014	$(3,612)	$(6,510)	$ —	$ (10,122)

Amounts reclassified from accumulated other comprehensive (loss) income, net of tax, for the thirteen weeks ended November 28, 2015 and November 29, 2014 were as follows (in thousands):

	Thirteen weeks ended	
	November 28, 2015	November 29, 2014
Pension benefit liabilities, net:		