

UNIFIRST CORP  
Form 10-Q  
April 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 **February 27, 2016**

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)

<b>Massachusetts</b>	<b>04-2103460</b>
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

<b>68 Jonspin Road, Wilmington, MA</b>	<b>01887</b>
(Address of Principal Executive Offices)	(Zip Code)

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

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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 April 1, 2016 were 15,288,535 and 4,854,519, respectively.



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**UniFirst Corporation**

**Quarterly Report on Form 10-Q**

**For the Quarter ended February 27, 2016**

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<b>(In thousands, except per share data)</b>	<b>Thirteen weeks ended</b>		<b>Twenty-six weeks ended</b>	
	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>
Revenues	\$363,097	\$361,462	\$736,481	\$731,823
Operating expenses:				
Cost of revenues (1)	229,672	223,874	452,275	443,227
Selling and administrative expenses (1)	75,423	77,245	148,172	149,627
Depreciation and amortization	19,809	18,792	39,547	36,829
Total operating expenses	324,904	319,911	639,994	629,683
Income from operations	38,193	41,551	96,487	102,140
Other (income) expense:				
Interest expense	218	239	439	427
Interest income	(892 )	(944 )	(1,656 )	(1,748 )
Foreign exchange (gain) loss	(132 )	880	347	1,251
Total other (income) expense	(806 )	175	(870 )	(70 )
Income before income taxes	38,999	41,376	97,357	102,210
Provision for income taxes	15,501	15,930	37,969	39,351
Net income	\$23,498	\$25,446	\$59,388	\$62,859
<b>Income per share – Basic:</b>				
Common Stock	\$1.23	\$1.33	\$3.10	\$3.29
Class B Common Stock	\$0.98	\$1.06	\$2.48	\$2.63

**Income per share – Diluted:**

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Common Stock	\$1.16	\$1.26	\$2.94	\$3.11
<b>Income allocated to – Basic:</b>				
Common Stock	\$18,691	\$20,182	\$47,232	\$49,834
Class B Common Stock	\$4,704	\$5,041	\$11,896	\$12,472
<b>Income allocated to – Diluted:</b>				
Common Stock	\$23,401	\$25,235	\$59,141	\$62,335
<b>Weighted average number of shares outstanding – Basic:</b>				
Common Stock	15,241	15,185	15,230	15,156
Class B Common Stock	4,795	4,741	4,795	4,741
<b>Weighted average number of shares outstanding – Diluted:</b>				
Common Stock	20,138	20,065	20,127	20,028
<b>Dividends per share:</b>				
Common Stock	\$0.0375	\$0.0375	\$0.0750	\$0.0750
Class B Common Stock	\$0.0300	\$0.0300	\$0.0600	\$0.0600

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

The accompanying notes are an integral part of these

Consolidated Financial Statements.

Table Of Contents**UniFirst Corporation and Subsidiaries****Consolidated Statements of Comprehensive Income***(Unaudited)*

<b>(In thousands)</b>	<b>Thirteen weeks ended</b>		<b>Twenty-six weeks ended</b>	
	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>
Net Income	\$23,498	\$25,446	\$59,388	\$62,859
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(2,011)	(10,569)	(3,583)	(16,892)
Pension benefit liabilities, net of income taxes	—	—	(218)	(1,266)
Change in fair value of derivatives, net of income taxes	175	(644)	(48)	(644)
Derivative financial instruments gain reclassified	(93)	—	(165)	—
Other comprehensive (loss) income	(1,929)	(11,213)	(4,014)	(18,802)
Comprehensive income	\$21,569	\$14,233	\$55,374	\$44,057

The accompanying notes are an integral part of these

Consolidated Financial Statements.

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<b>(In thousands, except share and par value data)</b>	<b>February 27,  2016(a)</b>	<b>August 29,  2015(b)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$334,992	\$276,553
Receivables, less reserves of \$9,617 and \$6,007	157,947	151,851
Inventories	75,566	80,449
Rental merchandise in service	136,605	140,384
Prepaid and deferred income taxes	2,460	204
Prepaid expenses and other current assets	13,327	12,382
Total current assets	720,897	661,823
Property, plant and equipment, net of accumulated depreciation of \$641,328 and \$618,269	521,324	513,853
Goodwill	313,033	313,133
Customer contracts, net	33,960	38,024
Other intangible assets, net	1,642	2,025
Deferred income taxes	—	1,475
Other assets	2,978	2,904
Total assets	\$1,593,834	\$1,533,237
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Loans payable	\$277	\$1,385
Accounts payable	50,652	50,826
Accrued liabilities	112,603	113,022
Accrued and deferred income taxes	—	18,878
Total current liabilities	163,532	184,111
Accrued liabilities	57,247	54,566
Accrued and deferred income taxes	73,344	52,352
Total liabilities	294,123	291,029
Commitments and contingencies (Note 10)		
Shareholders' equity:		

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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; 15,286,674 and 15,246,588 shares issued and outstanding as of February 27, 2016 and August 29, 2015, respectively	1,529	1,525
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,854,519 shares issued and outstanding as of February 27, 2016 and August 29, 2015	485	485
Capital surplus	71,173	67,611
Retained earnings	1,254,951	1,197,000
Accumulated other comprehensive (loss) income	(28,427 )	(24,413 )
Total shareholders' equity	1,299,711	1,242,208
Total liabilities and shareholders' equity	\$1,593,834	\$1,533,237

(a) In the second fiscal quarter of 2016, the Company adopted updated accounting guidance on the presentation of deferred income taxes. This adoption required that deferred tax liabilities and assets be classified as noncurrent in the Consolidated Balance Sheet. The Company elected to account for this change in presentation prospectively and prior periods were not retroactively adjusted.

(b) Derived from audited financial statements

The accompanying notes are an integral part of these

Consolidated Financial Statements.

Table Of Contents**UniFirst Corporation and Subsidiaries****Consolidated Statements of Cash Flows***(Unaudited)*

<b>Twenty-six weeks ended</b>	<b>February 27,</b>	<b>February 28,</b>
<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Net income	\$ 59,388	\$ 62,859
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	35,297	32,495
Amortization of intangible assets	4,250	4,334
Amortization of deferred financing costs	104	104
Share-based compensation	2,537	3,369
Accretion on environmental contingencies	334	302
Accretion on asset retirement obligations	398	316
Deferred income taxes	5,978	7,040
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(6,528 )	(11,048 )
Inventories	4,733	(6,578 )
Rental merchandise in service	3,477	718
Prepaid expenses and other current assets	(851 )	(7,187 )
Accounts payable	(79 )	(1,384 )
Accrued liabilities	1,574	11,605
Prepaid and accrued income taxes	(5,131 )	10,092
Net cash provided by operating activities	105,481	107,037
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(73 )	(15,086 )
Capital expenditures	(44,028 )	(45,542 )
Other	111	(202 )
Net cash used in investing activities	(43,990 )	(60,830 )
Cash flows from financing activities:		
Proceeds from loans payable and long-term debt	—	4,937
Payments on loans payable and long-term debt	(1,046 )	(6,887 )
Proceeds from exercise of share-based awards, including excess tax benefits	1,026	4,975
Payment of cash dividends	(1,436 )	(1,433 )
Net cash (used in) provided by financing activities	(1,456 )	1,592
Effect of exchange rate changes	(1,596 )	(8,107 )

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Net increase in cash and cash equivalents	58,439	39,692
Cash and cash equivalents at beginning of period	276,553	191,769
Cash and cash equivalents at end of period	\$334,992	\$231,461

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.

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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. The Company adopted this standard prospectively on February 27, 2016 and prior periods were not retroactively adjusted.

In January 2016, the FASB issued updated guidance for the recognition, measurement, presentation, and disclosure of certain financial assets and liabilities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

In February 2016, the FASB issued updated guidance that improves transparency and comparability among companies by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Accordingly, the standard will be effective for the Company on September 1, 2019. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

In March 2016, the FASB issued updated guidance that simplifies several aspects of accounting for share-based payment transactions. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 and, depending on the amendment, must be applied using a prospective transition method, retrospective transition method, modified retrospective transition method, prospectively and/or retroactively, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 27, 2017. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

### **3. Business Acquisitions**

During the twenty-six weeks ended February 27, 2016, 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.

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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 February 27, 2016**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets:</b>				
Cash equivalents	\$51,575	\$—	\$ —	\$51,575
Pension plan assets	—	4,679	—	4,679
Foreign currency forward contracts	—	838	—	838
Total assets at fair value	\$51,575	\$5,517	\$ —	\$57,092

**As of August 29, 2015**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets:</b>				
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. As such, the Company's pension plan assets are included within Level 2 of the fair value hierarchy.

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. 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.

## **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 of its 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. The Company performs an assessment at the inception of the hedge and on a quarterly basis thereafter, to determine whether its 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 February 27, 2016, the Company had forward contracts with a notional value of approximately 21.2 million CAD outstanding and recorded the fair value of the contracts of \$0.5 million in other long-term assets and \$0.3 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.5 million, which was recorded net of tax. During the twenty-six weeks ended February 27, 2016, the Company reclassified \$0.2 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 February 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.



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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 February 27, 2016 and February 28, 2015 were \$3.6 million and \$3.8 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended February 27, 2016 and February 28, 2015 were \$7.3 million and \$7.9 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 February 27, 2016 and February 28, 2015 were \$0.9 million. The amounts charged to expense related to these plans for both the twenty-six weeks ended February 27, 2016 and February 28, 2015 were \$1.7 million.

**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):

<b>Thirteen weeks ended</b>		<b>Twenty-six weeks ended</b>	
<b>February 27,</b>	<b>February 28,</b>	<b>February 27,</b>	<b>February 28,</b>
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>

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Net income	\$23,498	\$25,446	\$59,388	\$62,859
Allocation of net income for Basic:				
Common Stock	\$18,691	\$20,182	\$47,232	\$49,834
Class B Common Stock	4,704	5,041	11,896	12,472
Unvested participating shares	103	223	260	553
	\$23,498	\$25,446	\$59,388	\$62,859
Weighted average number of shares for Basic:				
Common Stock	15,241	15,185	15,230	15,156
Class B Common Stock	4,795	4,741	4,795	4,741
Unvested participating shares	96	192	95	192
	20,132	20,118	20,120	20,089
Earnings per share for Basic:				
Common Stock	\$1.23	\$1.33	\$3.10	\$3.29
Class B Common Stock	\$0.98	\$1.06	\$2.48	\$2.63

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.

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For the thirteen and twenty-six weeks ended February 27, 2016, 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 as it was the more dilutive of the two methods. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and twenty-six weeks ended February 27, 2016 (in thousands, except per share data):

	<b>Thirteen weeks</b>			<b>Twenty-six weeks</b>		
	<b>ended February 27, 2016</b>			<b>ended February 27, 2016</b>		
	<b>Earnings</b>	<b>Common</b>	<b>EPS</b>	<b>Earnings</b>	<b>Common</b>	<b>EPS</b>
	<b>to</b>	<b>Shares</b>		<b>to</b>	<b>Shares</b>	
	<b>Common</b>			<b>Common</b>		
	<b>Shareholders</b>			<b>Shareholders</b>		
As reported - Basic	\$18,691	15,241	\$1.23	\$47,232	15,230	\$3.10
Add: effect of dilutive potential common shares						
Share-based awards	—	102		—	102	
Class B Common Stock	4,704	4,795		11,896	4,795	
Add: Undistributed earnings allocated to unvested participating shares	100	—		253	—	
Less: Undistributed earnings reallocated to unvested participating shares	(94 )	—		(240 )	—	
Diluted EPS – Common Stock	\$23,401	20,138	\$1.16	\$59,141	20,127	\$2.94

Share-based awards that would result in the issuance of 700 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended February 27, 2016 because they were anti-dilutive. Share-based awards that would result in the issuance of 3,909 shares of Common Stock were excluded from the calculation of diluted earnings per share for the twenty-six weeks ended February 27, 2016 because they were anti-dilutive.

For the thirteen and twenty-six weeks ended February 28, 2015, 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 as it was the more dilutive of the two methods. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and twenty-six weeks ended February 28, 2015 (in thousands, except per share data):

	<b>Thirteen weeks</b>			<b>Twenty-six weeks</b>		
	<b>ended February 28, 2015</b>			<b>ended February 28, 2015</b>		
	<b>Earnings</b>			<b>Earnings</b>		
	<b>to</b>	<b>Common</b>	<b>EPS</b>	<b>to</b>	<b>Common</b>	<b>EPS</b>
	<b>Common</b>	<b>Shares</b>		<b>Common</b>	<b>Shares</b>	
	<b>Shareholders</b>			<b>Shareholders</b>		
As reported - Basic	\$20,182	15,185	\$1.33	\$49,834	15,156	\$3.29
Add: effect of dilutive potential common shares						
Share-based awards	—	139		—	131	
Class B Common Stock	5,041	4,741		12,472	4,741	
Add: Undistributed earnings allocated to unvested participating shares	217	—		540	—	
Less: Undistributed earnings reallocated to unvested participating shares	(205 )	—		(511 )	—	
Diluted EPS – Common Stock	\$25,235	20,065	\$1.26	\$62,335	20,028	\$3.11

Share-based awards that would result in the issuance of 25,901 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended February 28, 2015 because they were anti-dilutive. Share-based awards that would result in the issuance of 11,903 shares of Common Stock were excluded from the calculation of diluted earnings per share for the twenty-six weeks ended February 28, 2015 because they were anti-dilutive.

Table Of Contents**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 February 27, 2016 and August 29, 2015 were as follows (in thousands):

	<b>February 27, 2016</b>	<b>August 29, 2015</b>
Raw materials	\$ 13,958	\$ 17,658
Work in process	3,572	2,415
Finished goods	58,036	60,376
Total inventories	\$ 75,566	\$ 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 roll forward of the Company’s asset retirement liability is as follows (in thousands):

**February  
27,  
2016**



Beginning balance as of August 29, 2015	\$ 12,381
Accretion expense	398
Effect of exchange rate changes	(120 )
Asset retirement liabilities settled	(269 )
Ending balance as of February 27, 2016	\$ 12,390

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 mentioned 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. In addition, the Company has reserved for costs it expects to incur associated with the construction of a planned municipal transit station in the area of its Somerville 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 February 27, 2016, the risk-free interest rates utilized by the Company ranged from 1.8% to 2.6%.

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 twenty-six weeks ended February 27, 2016 are as follows (in thousands):

	<b>February 27, 2016</b>
Beginning balance as of August 29, 2015	\$ 23,307
Costs incurred for which reserves had been provided	(505 )
Insurance proceeds	31
Interest accretion	334
Change in discount rates	630
Balance as of February 27, 2016	\$ 23,797

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Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of February 27, 2016, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

<b>(In thousands)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Thereafter</b>	<b>Total</b>
Estimated costs – current dollars	\$6,908	\$1,829	\$1,476	\$1,309	\$1,361	\$ 12,494	\$25,377
Estimated insurance proceeds	(128 )	(173 )	(159 )	(173 )	(159 )	(1,293 )	(2,085 )
Net anticipated costs	\$6,780	\$1,656	\$1,317	\$1,136	\$1,202	\$ 11,201	\$23,292
Effect of inflation							7,589
Effect of discounting							(7,084 )
Balance as of February 27, 2016							\$23,797

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 February 27, 2016, 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.

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 39.7% and 39.0% for the thirteen and twenty-six weeks ended February 27, 2016 respectively, as compared to 38.5% for both the thirteen and twenty-six weeks ended February 28, 2015. 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 twenty-six weeks ended February 27, 2016, 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 February 27, 2016, 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 February 27, 2016, 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 is currently in the process of finalizing an amendment and extension to this Credit Agreement which it expects to execute in the third fiscal quarter of 2016.

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As of February 27, 2016, 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 and twenty-six weeks ended February 27, 2016 and February 28, 2015 were as follows (in thousands):

	<b>Thirteen Weeks Ended February 27, 2016</b>			<b>Total</b>
	<b>Foreign Currency Translation</b>	<b>Pension- related</b>	<b>Derivative Financial Instruments</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>
Balance as of November 28, 2015	\$(21,995)	\$(4,937 )	\$ 434	\$ (26,498 )
Other comprehensive (loss) income before reclassification	(2,011 )	—	175	(1,836 )
Amounts reclassified from accumulated other comprehensive loss	—	—	(93 )	(93 )
Net current period other comprehensive (loss) income	(2,011 )	—	82	(1,929 )
Balance as of February 27, 2016	\$(24,006)	\$(4,937 )	\$ 516	\$ (28,427 )

	<b>Twenty-six Weeks Ended February 27, 2016</b>			<b>Total</b>
	<b>Foreign Currency Translation</b>	<b>Pension- related</b>	<b>Derivative Financial Instruments</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>
Balance as of August 29, 2015	\$(20,423)	\$(4,719 )	\$ 729	\$ (24,413 )
Other comprehensive (loss) income before reclassification	(3,583 )	(261 )	(48 )	(3,892 )
Amounts reclassified from accumulated other comprehensive loss	—	43	(165 )	(122 )
Net current period other comprehensive (loss) income	(3,583 )	(218 )	(213 )	(4,014 )

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Balance as of February 27, 2016 \$ (24,006) \$ (4,937 ) \$ 516 \$ (28,427 )

**Thirteen Weeks Ended February 28, 2015**  
**Total**

	<b>Foreign Currency Translation</b>	<b>Pension- related</b>	<b>Derivative Financial Instruments</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>
Balance as of November 29, 2014	\$ (3,612 )	\$ (6,510 )	\$ —	\$ (10,122 )
Other comprehensive (loss) income before reclassification	(10,569)	—	(644 )	(11,213 )
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive (loss) income	(10,569)	—	(644 )	(11,213 )
Balance as of February 28, 2015	\$ (14,181)	\$ (6,510 )	\$ (644 )	\$ (21,335 )

**Twenty-six Weeks Ended February 28, 2015**  
**Total**

	<b>Foreign Currency Translation</b>	<b>Pension- related</b>	<b>Derivative Financial Instruments</b>	<b>Accumulated Other Comprehensive (Loss) Income</b>
Balance as of August 30, 2014	\$2,711	\$ (5,244 )	\$ —	\$ (2,533 )
Other comprehensive (loss) income before reclassification	(16,892)	(1,417 )	(644 )	(18,953 )
Amounts reclassified from accumulated other comprehensive loss	—	151	—	151
Net current period other comprehensive (loss) income	(16,892)	(1,266 )	(644 )	(18,802 )
Balance as of February 28, 2015	\$ (14,181)	\$ (6,510 )	\$ (644 )	\$ (21,335 )



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Amounts reclassified from accumulated other comprehensive income, net of tax, for the thirteen and twenty-six weeks ended February 27, 2016 and February 28, 2015 were as follows (in thousands):

	<b>Thirteen weeks ended</b>		<b>Twenty-six weeks ended</b>	
	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>
Pension benefit liabilities, net:				
Actuarial losses	\$—	\$ —	\$43 (a)	\$ 151
Total, net of tax	—	—	43	151
Derivative financial instruments, net:				
Forward contracts	(93)(b)	—	(165)(b)	—
Total, net of tax	(93)	—	(165)	—
Total amounts reclassified, net of tax	(93)	—	(122)	151

(a) Amounts included in selling and administrative expenses in the accompanying Consolidated Statements of Income.

(b) Amounts included in revenues in the accompanying Consolidated Statements of Income.

#### 14. Segment Reporting

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the Company's chief executive officer. The Company has six operating segments based on the information reviewed by its chief executive officer: US Rental and Cleaning, Canadian Rental and Cleaning, Manufacturing ("MFG"), Corporate, Specialty Garments Rental and Cleaning ("Specialty Garments") and First Aid. The US Rental and Cleaning and Canadian Rental and Cleaning operating segments have been combined to form the US and Canadian Rental and Cleaning reporting segment, and as a result, the Company has five reporting segments.

The US and Canadian Rental and Cleaning reporting segment purchases, rents, cleans, delivers and sells, uniforms and protective clothing and non-garment items in the United States and Canada. The laundry locations of the US and Canadian Rental and Cleaning reporting segment are referred to by the Company as "industrial laundries" or "industrial laundry locations."

The MFG operating segment designs and manufactures uniforms and non-garment items primarily for the purpose of providing these goods to the US and Canadian Rental and Cleaning reporting segment. MFG revenues are generated when goods are shipped from the Company's manufacturing facilities, or its subcontract manufacturers, to other Company locations. These revenues are recorded at a transfer price which is typically in excess of the actual manufacturing cost. Manufactured products are carried in inventory until placed in service at which time they are amortized at this transfer price. On a consolidated basis, intercompany revenues and income are eliminated and the carrying value of inventories and rental merchandise in service is reduced to the manufacturing cost. Income before income taxes from MFG net of the intercompany MFG elimination offsets the merchandise amortization costs incurred by the US and Canadian Rental and Cleaning reporting segment as the merchandise costs of this reporting segment are amortized and recognized based on inventories purchased from MFG at the transfer price which is above the Company's manufacturing cost.

The Corporate operating segment consists of costs associated with the Company's distribution center, sales and marketing, information systems, engineering, materials management, manufacturing planning, finance, budgeting, human resources, other general and administrative costs and interest expense. The revenues generated from the Corporate operating segment represent certain direct sales made by the Company directly from its distribution center. The products sold by this operating segment are the same products rented and sold by the US and Canadian Rental and Cleaning reporting segment. The majority of expenses accounted for within the Corporate segment relate to costs of the US and Canadian Rental and Cleaning segment, with the remainder of the costs relating to the Specialty Garment and First Aid segments.

The Specialty Garments operating segment purchases, rents, cleans, delivers and sells, specialty garments and non-garment items primarily for nuclear and cleanroom applications and provides cleanroom cleaning services at limited customer locations. The First Aid operating segment sells first aid cabinet services and other safety supplies as well as maintains wholesale distribution and pill packaging operations.

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The Company refers to the US and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as its “Core Laundry Operations,” which is included as a subtotal in the following tables (in thousands):

Thirteen weeks ended	US and Canadian		Net Interco MFG Elim	Corporate	Subtotal Core Laundry Operations	Specialty Garments	First Aid	Total
	Rental and Cleaning	MFG						
<b>February 27, 2016</b>								
Revenues	\$ 326,101	\$ 42,436	\$(42,436 )	\$ 5,264	\$ 331,365	\$ 20,451	\$ 11,281	\$ 363,097
Income (loss) from operations	\$ 43,117	\$ 14,051	\$ 1,752	\$(22,791 )	\$ 36,129	\$ 1,146	\$ 918	\$ 38,193
Interest (income) expense, net	\$(818 )	\$—	\$—	\$ 144	\$(674 )	\$—	\$—	\$(674 )
Income (loss) before taxes	\$ 43,948	\$ 14,098	\$ 1,752	\$(23,040 )	\$ 36,758	\$ 1,323	\$ 918	\$ 38,999
<b>February 28, 2015</b>								
Revenues	\$ 327,950	\$ 50,844	\$(50,844 )	\$ 4,118	\$ 332,068	\$ 18,661	\$ 10,733	\$ 361,462
Income (loss) from operations	\$ 51,691	\$ 17,003	\$(443 )	\$(27,327 )(a)	\$ 40,924	\$(435 )	\$ 1,062	\$ 41,551
Interest (income) expense, net	\$(901 )	\$—	\$—	\$ 196	\$(705 )	\$—	\$—	\$(705 )
Income (loss) before taxes	\$ 52,605	\$ 17,054	\$(443 )	\$(27,654 )	\$ 41,562	\$(1,248 )	\$ 1,062	\$ 41,376
<b>Twenty-six weeks ended</b>								
<b>February 27, 2016</b>								
Revenues	\$ 655,881	\$ 88,251	\$(88,251 )	\$ 10,521	\$ 666,402	\$ 47,221	\$ 22,858	\$ 736,481
Income (loss) from operations	\$ 99,843	\$ 30,595	\$ 1,701	\$(43,038 )	\$ 89,101	\$ 5,432	\$ 1,954	\$ 96,487

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Interest (income) expense, net	\$(1,562 )	\$—	\$—	\$ 345	\$(1,217 )	\$—	\$—	\$(1,217 )
Income (loss) before taxes	\$ 101,441	\$ 30,634	\$ 1,701	\$(43,618 )	\$ 90,158	\$ 5,245	\$ 1,954	\$ 97,357
<b>February 28, 2015</b>								
Revenues	\$ 658,851	\$ 102,672	\$(102,672)	\$ 9,064	\$ 667,915	\$ 41,137	\$ 22,771	\$ 731,823
Income (loss) from operations	\$ 114,990	\$ 35,234	\$(2,132 )	\$(50,295 )(a)	\$ 97,797	\$ 1,833	\$ 2,510	\$ 102,140
Interest (income) expense, net	\$(1,671 )	\$—	\$—	\$ 350	\$(1,321 )	\$—	\$—	\$(1,321 )
Income (loss) before taxes	\$ 116,689	\$ 35,326	\$(2,132 )	\$(50,901 )	\$ 98,982	\$ 718	\$ 2,510	\$ 102,210

The Company increased its environmental contingency reserves during its second fiscal quarter of 2015 by \$3.6 million. This increase was due mainly to additional costs the Company expects to incur associated with the (a) construction of a planned municipal transit station in the area of its Somerville site. To a lesser extent, the Company's reserves also were increased due to the effect of lower interest rates on the discounting of its environmental liabilities.

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

**SAFE HARBOR FOR FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q and any documents incorporated by reference contain forward looking statements within the meaning of the federal securities laws. Forward looking statements contained in this Quarterly Report on Form 10-Q and any documents incorporated by reference are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by words such as “estimates,” “anticipates,” “projects,” “plans,” “expects,” “intends,” “believes,” “seeks,” “could,” “should,” “may,” “will,” or variations thereof, and similar expressions and by the context in which they are used. Such forward looking statements are based upon our current expectations and speak only as of the date made. Such statements are highly dependent upon a variety of risks, uncertainties and other important factors that could cause actual results to differ materially from those reflected in such forward looking statements. Such factors include, but are not limited to, our ability to compete successfully without any significant degradation in our margin rates, uncertainties caused by the continuing adverse worldwide economic conditions and their impact on our customers’ businesses and workforce levels, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, any adverse outcome of pending or future contingencies or claims, uncertainties regarding our ability to consummate and successfully integrate acquired businesses, our ability to preserve positive labor relationships and avoid becoming the target of corporate labor unionization campaigns that could disrupt our business, the continuing increase in domestic healthcare costs, including the ultimate impact of the Affordable Care Act, our retention of customers and renewal of customer contracts, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the negative effect on our business from sharply depressed oil prices, fluctuation on our revenue and net income from our specialty garments segment, the effect of currency fluctuations on our results of operations and financial condition, rampant criminal activity and instability in Mexico where our principal garment manufacturing plants are located, the impact on our goodwill and intangibles that might result from adverse financial and economic changes, our ability to properly and efficiently design, construct, implement and operate our new customer relationship management (“CRM”) computer system, interruptions or failures of our information technology systems, including as a result of cyber-attacks, failure to comply with other state and federal regulations that might result in penalties or costs, seasonal and quarterly fluctuations in business levels, any loss of key management or other personnel, our dependence on third parties to supply us with raw materials, increased costs as a result of any future changes in federal or state laws, rules and regulations or governmental interpretation of such laws, rules and regulations, demand and prices for our products and services, economic and other developments associated with the war on terrorism and its impact on the economy, general economic conditions and other factors described under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended August 29, 2015 and in our other filings with the Securities and Exchange Commission. We undertake no obligation to update any forward looking statements to reflect events or circumstances arising after the date on which such statements are made.

**Business Overview**

UniFirst Corporation, together with its subsidiaries, hereunder referred to as “we”, “our”, the “Company”, or “UniFirst”, is one of the largest providers of workplace uniforms and protective work wear clothing in the United States. We design, manufacture, personalize, rent, clean, deliver, and sell a wide range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks, aprons and specialized protective wear, such as flame resistant and high visibility garments. We also rent and sell industrial wiping products, floor mats, facility service products and other non-garment items, and provide restroom and cleaning supplies and first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies.

We serve businesses of all sizes in numerous industry categories. Typical customers include automobile service centers and dealers, delivery services, food and general merchandise retailers, food processors and service operations, light manufacturers, maintenance facilities, restaurants, service companies, soft and durable goods wholesalers, transportation companies, and others who require employee clothing for image, identification, protection or utility purposes. We also provide our customers with restroom and cleaning supplies, including air fresheners, paper products and hand soaps.

At certain specialized facilities, we also decontaminate and clean work clothes and other items that may have been exposed to radioactive materials and service special cleanroom protective wear and facilities. Typical customers for these specialized services include government agencies, research and development laboratories, high technology companies and utilities operating nuclear reactors.

We continue to expand into additional geographic markets through acquisitions and organic growth. We currently service more than 275,000 customer locations in the United States, Canada and Europe from more than 225 customer service, distribution and manufacturing facilities.

As mentioned and described in Note 14 to the Consolidated Financial Statements, we have five reporting segments: US and Canadian Rental and Cleaning, Manufacturing (“MFG”), Corporate, Specialty Garments Rental and Cleaning (“Specialty Garments”) and First Aid. We refer to the laundry locations of the US and Canadian Rental and Cleaning reporting segment as “industrial laundries” or “industrial laundry locations”, and to the US and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as our “Core Laundry Operations.”

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Table Of Contents**Critical Accounting Policies and Estimates**

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, the most important and pervasive accounting policies used and areas most sensitive to material changes from external factors. See Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended August 29, 2015 for additional discussion regarding our application of these and other accounting policies.

**Results of Operations**

The following table presents certain selected financial data, including the percentage of revenues represented by each item, for the thirteen and twenty-six weeks ended February 27, 2016 and the thirteen and twenty-six weeks ended February 28, 2015.

(In thousands, except percentages)	Thirteen weeks ended					Twenty-six weeks ended				
	February 27, 2016	% of Rev.	February 28, 2015	% of Rev.	% Change	February 27, 2016	% of Rev.	February 28, 2015	% of Rev.	% Change
Revenues	\$363,097	100.0%	\$361,462	100.0%	0.5 %	\$736,481	100.0%	\$731,823	100.0%	0.6 %
Operating expenses:										
Cost of revenues (1)	229,672	63.3	223,874	61.9	2.6	452,275	61.4	443,227	60.6	2.0
Selling and administrative expenses (1)	75,423	20.8	77,245	21.4	(2.4 )	148,172	20.1	149,627	20.4	(1.0 )
Depreciation and	19,809	5.5	18,792	5.2	5.4	39,547	5.4	36,829	5.0	7.4

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amortization										
Total operating expenses	324,904	89.5	319,911	88.5	1.6	639,994	86.9	629,683	86.0	1.6
Income from operations	38,193	10.5	41,551	11.5	(8.1 )	96,487	13.1	102,140	14.0	(5.5 )
Other (income) expense	(806 )	(0.2 )	175	0.0	560.6	(870 )	(0.1 )	(70 )	0.0	1142.9
Income before income taxes	38,999	10.7	41,376	11.4	(5.7 )	97,357	13.2	102,210	14.0	(4.7 )
Provision for income taxes	15,501	4.3	15,930	4.4	(2.7 )	37,969	5.2	39,351	5.4	(3.5 )
Net income	\$23,498	6.5 %	\$25,446	7.0 %	(7.7 )%	\$59,388	8.1 %	\$62,859	8.6 %	(5.5 )%

(1) Exclusive of depreciation on our property, plant and equipment and amortization on our intangible assets.

*General*

We derive our revenues through the design, manufacture, personalization, rental, cleaning, delivering, and selling of a wide range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks and aprons and specialized protective wear, such as flame resistant and high visibility garments. We also rent industrial wiping products, floor mats, facility service products, other non-garment items, and provide restroom and cleaning supplies and first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies. We have five reporting segments, US and Canadian Rental and Cleaning, Manufacturing (“MFG”), Corporate, Specialty Garments Rental and Cleaning (“Specialty Garments”), and First Aid. We refer to the US and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as our “Core Laundry Operations.”

Cost of revenues include the amortization of rental merchandise in service and merchandise costs related to direct sales as well as labor and other production, service and delivery costs, and distribution costs associated with operating our Core Laundry Operations, Specialty Garments facilities, and First Aid locations. Selling and administrative costs include costs related to our sales and marketing functions as well as general and administrative costs associated with our corporate offices, non-operating environmental sites and operating locations including information systems, engineering, materials management, manufacturing planning, finance, budgeting, and human resources.



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We have a substantial number of plants and conduct a significant portion of our business in energy producing regions in the U.S and Canada. The price of oil has declined dramatically over the past year, which has directly affected our customers in the oil industry as they have curtailed their level of operations. In addition, this decline has also had a corresponding effect on our customers in businesses which service or supply the oil industry as well as our customers in unrelated businesses located in areas which had benefited from the economic expansion generated by the robust growth driven by the higher oil prices in prior years. As a result, our organic growth has been impacted by elevated headcount reductions in our wearer base as well as increased lost accounts, which will also have an impact on organic growth throughout fiscal 2016. On the other hand, we have benefited from lower costs of the gasoline used to fuel our vehicles and the natural gas used to operate our plants. Since there are substantial uncertainties regarding the extent, timing and effect of lower oil prices, it is difficult to quantify the positive and negative impacts on our future financial results from lower oil prices. Nevertheless, the negative impact on our results from the cutbacks by our customers in the oil industry and other affected businesses have and will continue to outweigh the benefits from lower energy costs.

The cost of healthcare that we provide to our employees has grown over the last few years at a rate in excess of our revenue growth and as a result, has negatively impacted our operating results. In fiscal 2015, the Affordable Care Act (“ACA”) required us to modify one of the healthcare plans we provided to our employees. In addition, we will incur additional costs related to ACA transitional reinsurance fees that will be paid in fiscal years 2016 and 2017. There remains considerable uncertainty as to the impact of the ACA on our healthcare costs, including the effect of the plan modifications on the behavior of our employees as well as the potential for increased enrollment in our plans. Although uncertainty exists, we anticipate that our future operating results will continue to be further adversely impacted by increasing healthcare costs.

We are currently undertaking a company-wide initiative to update our customer relationship management systems. As of February 27, 2016, we have capitalized \$46.8 million related to our CRM project (“Unity 20/20”). Although we will not deploy this system in fiscal 2016, our future operating results will be impacted by the eventual depreciation of our Unity 20/20 investment. In addition, our results from operations are being affected by higher costs related to additional investments in our IT infrastructure, including headcount, to help support Unity 20/20 as well as other technology initiatives.

A portion of our sales is derived from international markets, including Canada. Revenues denominated in currencies other than the U.S. dollar represented approximately 8.0% of total consolidated revenues for both the thirteen and twenty-six weeks ended February 27, 2016. Revenues denominated in currencies other than the U.S. dollar represented approximately 8.5% and 8.8% of total consolidated revenues for the thirteen and twenty-six weeks ended February 28, 2015, respectively. The operating results of our international subsidiaries are translated into U.S. dollars and such results are affected by movements in foreign currencies relative to the U.S. dollar. In addition, fluctuations in the Canadian dollar may have an effect on the margins of our Canadian business because a weaker Canadian dollar will increase the cost of merchandise and other operational inputs that are sourced from outside of Canada. Our operating results in future years could be negatively impacted by any devaluation, as compared to the U.S. dollar, of the Canadian dollar or any of the currencies of the other countries in which we operate.

In January 2015, we entered into sixteen forward contracts to exchange Canadian dollars (“CAD”) for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of our domestic subsidiaries each fiscal quarter, beginning in the third fiscal quarter of 2015 and continuing through the second fiscal quarter of 2019. In total, we will sell approximately 31.0 million CAD at an average Canadian-dollar exchange rate of 0.7825 over these quarterly periods. We concluded that the forward contracts met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, we have 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 February 27, 2016, we had forward contracts with a notional value of approximately 21.2 million CAD outstanding and recorded the fair value of the contracts of \$0.5 million in other long-term assets and \$0.3 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.5 million, which was recorded net of tax. During the twenty-six weeks ended February 27, 2016, we reclassified \$0.2 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 February 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

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Table Of Contents**Thirteen weeks ended February 27, 2016 compared with thirteen weeks ended February 28, 2015***Revenues*

<b>(In thousands, except percentages)</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Core Laundry Operations	\$331,365	\$332,068	\$(703 )	(0.2 )%
Specialty Garments	20,451	18,661	1,790	9.6
First Aid	11,281	10,733	548	5.1
Consolidated total	\$363,097	\$361,462	\$ 1,635	0.5 %

For the thirteen weeks ended February 27, 2016, our consolidated revenues increased \$1.6 million from the comparable period in fiscal 2015, or 0.5%. Core Laundry Operations' revenues decreased to \$331.4 million for the thirteen weeks ended February 27, 2016 from \$332.1 million for the comparable period of fiscal 2015, or 0.2%. Excluding the negative effect of a weaker Canadian dollar of 1.0%, as well as the positive effect of acquisitions of 0.3%, organic growth was 0.5%. Organic growth consists primarily of new sales, price increases, and net changes in the wearer levels at our existing customers, offset by lost accounts. Organic growth during the thirteen weeks ended February 27, 2016 was negatively impacted by reductions at our customers that directly or indirectly support oil or other energy production in the United States and Canada during the previous year.

Specialty Garments' revenues increased to \$20.5 million in the second fiscal quarter of 2016 from \$18.7 million in the comparable period of fiscal 2015, an increase of \$1.8 million, or 9.6%. This segment's results are often affected by the timing and length of its customers' power reactor outages as well as its project-based activities. First Aid revenues increased to \$11.3 million in the second quarter of 2016 from \$10.7 million in the comparable period of fiscal 2015, an increase of \$0.5 million, or 5.1%.

*Cost of Revenues*

For the thirteen weeks ended February 27, 2016, cost of revenues increased to 63.3% of revenues, or \$229.7 million, from 61.9% of revenues, or \$223.9 million, for the thirteen weeks ended February 28, 2015. This increase was primarily due to higher merchandise amortization as well as higher healthcare claims incurred during the quarter compared to the prior year period. In addition, bad debt expense, payroll and other production costs increased as a percent of revenues during the thirteen weeks ended February 27, 2016 primarily due to the lack of revenue growth.

These higher costs were partially offset by lower fuel costs associated with our fleet of delivery vehicles and lower natural gas costs used to operate our plants compared to the prior year period.

*Selling and Administrative Expense*

For the thirteen weeks ended February 27, 2016, selling and administrative expenses decreased to 20.8% of revenues, or \$75.4 million, from 21.4% of revenues, or \$77.2 million, for the thirteen weeks ended February 28, 2015. This decrease was primarily due to additional reserves of \$3.6 million we recorded related to our environmental contingencies during the thirteen weeks ended February 28, 2015. The effect of this item was partially offset by higher healthcare claims and payroll costs during the thirteen weeks ended February 27, 2016, compared to the prior year period.

*Depreciation and Amortization*

Our depreciation and amortization expense was \$19.8 million, or 5.5% of revenues, for the thirteen weeks ended February 27, 2016 compared to \$18.8 million, or 5.2% of revenues, for the thirteen weeks ended February 28, 2015. The increase in depreciation and amortization expense was due to capital expenditure and acquisition activity in earlier periods.

*Income (Loss) from Operations*

For the thirteen weeks ended February 27, 2016 and February 28, 2015, changes in our revenues and costs as mentioned above resulted in the following changes in our income (loss) from operations:

<b>(In thousands, except percentages)</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Core Laundry Operations	\$ 36,129	\$ 40,924	\$(4,795 )	(11.7 )%
Specialty Garments	1,146	(435 )	1,581	364.1
First Aid	918	1,062	(144 )	(13.6 )
Consolidated total	\$ 38,193	\$ 41,551	\$(3,358 )	(8.1 )%



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Other (income) expense, which includes interest expense, interest income and exchange rate loss, was \$0.8 million of income in the thirteen weeks ended February 27, 2016 compared to \$0.2 million of expense during the thirteen weeks ended February 28, 2015. This change was primarily due to foreign currency gains of \$0.1 million during the thirteen weeks ended February 27, 2016 compared to foreign currency losses of \$0.9 million during the thirteen weeks ended February 28, 2015.

*Provision for Income Taxes*

Our effective income tax rate was 39.7% for the thirteen weeks ended February 27, 2016 compared to 38.5% for the thirteen weeks ended February 28, 2015. The increase in our effective tax rate was due to a change in the mix of our jurisdictional earnings.

**Twenty-six weeks ended February 27, 2016 compared with twenty-six weeks ended February 28, 2015***Revenues*

<b>(In thousands, except percentages)</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
Core Laundry Operations	\$666,402	\$667,915	\$(1,513)	(0.2)	)%
Specialty Garments	47,221	41,137	6,084	14.8	
First Aid	22,858	22,771	87	0.4	
Consolidated total	\$736,481	\$731,823	\$4,658	0.6	%

For the twenty-six weeks ended February 27, 2016, our consolidated revenues increased by \$4.7 million from the comparable period in fiscal 2015, or 0.6%. Core Laundry Operations' revenues decreased to \$666.4 million for the twenty-six weeks ended February 27, 2016 from \$667.9 million for the comparable period of fiscal 2015, a decrease of 0.2%. Excluding the effect of acquisitions and a weaker Canadian dollar, Core Laundry Operations' revenues grew 0.4% organically. Organic growth consists primarily of new sales, price increases, and net changes in the wearer levels at our existing customers, offset by lost accounts. Organic growth in the first half of fiscal 2016 was negatively

impacted by reductions in wearer levels at our customers that directly or indirectly support oil or other energy production in the United States and Canada during the previous year.

Specialty Garments' revenues increased to \$47.2 million in the twenty-six weeks ended February 27, 2016 from \$41.1 million in the comparable period of 2015, an increase of 14.8%. This increase was primarily the result of increased power reactor business in North America compared to a year ago. This segment's results are affected by the timing and length of its customers' power reactor outages as well as its project-based activities. First Aid's revenues increased to \$22.9 million for the twenty-six weeks ended February 27, 2016 from \$22.8 million for the comparable period of fiscal 2015, an increase of 0.4%.

#### *Cost of Revenues*

For the twenty-six weeks ended February 27, 2016, cost of revenues increased to 61.4% of revenues, or \$452.3 million, from 60.6% of revenues, or \$443.2 million, for the twenty-six weeks ended February 28, 2015. This increase was primarily due to higher merchandise amortization and healthcare claims incurred during the first half of the fiscal year compared to the comparable period in the prior year. In addition, payroll and other production costs increased as a percent of revenues compared to the twenty-six weeks ended February 28, 2015 primarily due to the lack of revenue growth. These higher costs were partially offset by lower fuel costs associated with our fleet of delivery vehicles and lower natural gas costs used to operate our plants compared to the prior year period.

#### *Selling and Administrative Expense*

Our selling and administrative expenses decreased to 20.1% of revenues, or \$148.2 million, for the twenty-six weeks ended February 27, 2016 from 20.4% of revenues, or \$149.6 million, for the twenty-six weeks ended February 28, 2015. This decrease was primarily due to additional reserves of \$3.6 million we recorded related to our environmental contingencies during the thirteen weeks ended February 28, 2015. The effect of this item was partially offset by higher healthcare claims and payroll costs during the first half of 2016 compared to the comparable period in the prior year.

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Table Of Contents*Depreciation and Amortization*

Our depreciation and amortization expense was \$39.5 million, or 5.4% of revenues, for the twenty-six weeks ended February 27, 2016 compared to \$36.8 million, or 5.0% of revenues, for the twenty-six weeks ended February 28, 2015. Depreciation and amortization expense increased due to capital expenditure and acquisition activity in earlier periods.

*Income from Operations*

For the twenty-six weeks ended February 27, 2016 and February 28, 2015, the revenue growth in our operations, as well as the change in our costs as mentioned above, resulted in the following changes in our income from operations:

<b>(In thousands, except percentages)</b>	<b>February 27, 2016</b>	<b>February 28, 2015</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Core Laundry Operations	\$ 89,101	\$97,797	\$(8,696 )	(8.9 )%
Specialty Garments	5,432	1,833	3,599	196.3
First Aid	1,954	2,510	(556 )	(22.1 )
Consolidated total	\$ 96,487	\$ 102,140	\$(5,653 )	(5.5 )%

*Other (Income) Expense*

Other (income) expense, which includes interest expense, interest income and foreign currency exchange loss, was \$0.9 million of income for the twenty-six weeks ended February 27, 2016 as compared to \$0.1 million of income for the twenty-six weeks ended February 28, 2015. This change was primarily due to foreign currency losses of \$0.3 million during the twenty-six weeks ended February 27, 2016 compared to foreign currency losses of \$1.3 million during the twenty-six weeks ended February 28, 2015.

*Provision for Income Taxes*



Our effective income tax rate was 39.0% for the twenty-six weeks ended February 27, 2016 compared to 38.5% for the twenty-six weeks ended February 28, 2015. The increase in our effective tax rate was due to a change in the mix of our jurisdictional earnings.

## **Liquidity and Capital Resources**

### *General*

Cash and cash equivalents totaled \$335.0 million as of February 27, 2016, an increase of \$58.4 million from August 29, 2015 when the amount totaled \$276.6 million. Our working capital was \$557.4 million as of February 27, 2016 compared to \$477.7 million as of August 29, 2015. In addition, we generated \$105.5 million and \$226.9 million in cash from operating activities in the twenty-six weeks ended February 27, 2016 and the full fiscal year ended August 29, 2015, respectively. We believe that our current cash and cash equivalent balances, our cash generated from future operations and amounts available under our Credit Agreement (defined below) will be sufficient to meet our current anticipated working capital and capital expenditure requirements for at least the next 12 months.

We have accumulated \$56.2 million in cash outside the United States that is expected to be invested indefinitely in our foreign subsidiaries. If these funds were distributed to the U.S. in the form of dividends, we would likely be subject to additional U.S. income taxes. However, we do not believe that any resulting taxes payable would have a material impact on our liquidity.

Cash flows provided by operating activities have historically been the primary source of our liquidity. We generally use these cash flows to fund most, if not all, of our operations, capital expenditure and acquisition activities as well as dividends on our common stock. We may also use cash flows provided by operating activities, as well as proceeds from loans payable and long-term debt, to fund growth and acquisition opportunities, as well as other cash requirements.

### *Cash Provided by Operating Activities*

Cash provided by operating activities for the twenty-six weeks ended February 27, 2016 was \$105.5 million, a decrease of \$1.6 million from the comparable period in the prior year when cash provided by operating activities was \$107.0 million. This net decrease was primarily driven by decreases in net income, adjusted for non-cash items.



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*Cash Used in Investing Activities*

Cash used in investing activities for the twenty-six weeks ended February 27, 2016 was \$44.0 million, a decrease of \$16.8 million from the twenty-six weeks ended February 28, 2015 when cash used in investing activities was \$60.8 million. The net decrease in cash used in investing activities was primarily driven by a decrease in cash outflows of \$15.0 million for the acquisition of businesses.

*Cash (Used in) Provided by Financing Activities*

Cash used in financing activities for the twenty-six weeks ended February 27, 2016 was \$1.5 million compared to cash provided by financing activities of \$1.6 million from the twenty-six weeks ended February 28, 2015. This change was primarily due to a decrease in proceeds received from the exercise of share based awards.

*Long-Term Debt and Borrowing Capacity*

On May 5, 2011, we 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, we are able to borrow funds at variable interest rates based on, at our election, the Eurodollar rate or a base rate, plus in each case a spread based on our 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. We test our compliance with these financial covenants on a fiscal quarterly basis. At February 27, 2016, the interest rates applicable to our borrowings under the Credit Agreement would be calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of February 27, 2016, we had no outstanding borrowings, letters of credit amounting to \$53.0 million and \$197.0 million available for borrowing under the Credit Agreement. We are currently in the process of finalizing an amendment and extension to this Credit Agreement which we expect to execute in our third fiscal quarter of 2016.

As of February 27, 2016, we were in compliance with all covenants under the Credit Agreement.

*Derivative Instruments and Hedging Activities*

In January 2015, we entered into sixteen forward contracts to exchange Canadian dollars (“CAD”) for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of our domestic subsidiaries each fiscal quarter, beginning in the third fiscal quarter of 2015 and continuing through the second fiscal quarter of 2019. In total, we will sell approximately 31.0 million CAD at an average Canadian-dollar exchange rate of 0.7825 over these quarterly periods. We concluded that the forward contracts met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, we have 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 February 27, 2016, we had forward contracts with a notional value of approximately 21.2 million CAD outstanding and recorded the fair value of the contracts of \$0.5 million in other long-term assets and \$0.3 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.5 million, which was recorded net of tax. During the twenty-six weeks ended February 27, 2016, we reclassified \$0.2 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 February 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

#### *Commitments and Contingencies*

We 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 wastes and other substances. In particular, industrial laundries currently use and must dispose of detergent waste water and other residues, and, in the past, used perchloroethylene and other dry cleaning solvents. We are attentive to the environmental concerns surrounding the disposal of these materials and have, through the years, taken measures to avoid their improper disposal. Over the years, we have settled, or contributed to the settlement of, actions or claims brought against us relating to the disposal of hazardous materials and there can be no assurance that we 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. We regularly consult with attorneys and outside consultants in our consideration of the relevant facts and circumstances before recording a contingent liability. Changes in enacted laws, regulatory orders or decrees, our estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments, the input of our attorneys and outside consultants or other factual circumstances could have a material impact on the amounts recorded for our environmental and other contingent liabilities.



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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 our Company under such laws or expose our Company to third party actions such as tort suits. We continue 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.

We have accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. We have potential exposure related to a parcel of land (the “Central Area”) related to the Woburn, Massachusetts site mentioned 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 us 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. We, 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. We have accrued costs to perform certain work responsive to EPA’s comments. We are also in discussions with EPA concerning its invoices for oversight costs with respect to the Woburn site and the Central Area. We have implemented mitigation measures and continue to monitor environmental conditions at the Somerville, Massachusetts site. In addition, we have reserved for costs we expect to incur associated with the construction of a planned municipal transit station in the area of our Somerville site.

We routinely review and evaluate sites that may require remediation and monitoring and determine our estimated costs based on various estimates and assumptions. These estimates are developed using our 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 our 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, our accruals represent the amount within the range that we believe is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. When we believe that both the amount of a particular liability and the timing of the payments are reliably determinable, we adjust the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discount the cost to present value using current risk-free interest rates. As of February 27, 2016, the risk-free interest rates we utilized ranged from 1.8% to 2.6%.

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For environmental liabilities that have been discounted, we include interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the amounts of our environmental liabilities for the twenty-six weeks ended February 27, 2016 were as follows (in thousands):

	<b>February 27, 2016</b>
Beginning balance as of August 29, 2015	\$ 23,307
Costs incurred for which reserves have been provided	(505 )
Insurance proceeds	31
Interest accretion	334
Change in discount rates	630
Balance as of February 27, 2016	\$ 23,797

Anticipated payments and insurance proceeds relating to currently identified environmental remediation liabilities as of February 27, 2016, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

<b>(In thousands)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Thereafter</b>	<b>Total</b>
Estimated costs – current dollars	\$6,908	\$1,829	\$1,476	\$1,309	\$1,361	\$ 12,494	\$25,377
Estimated insurance proceeds	(128 )	(173 )	(159 )	(173 )	(159 )	(1,293 )	(2,085 )
Net anticipated costs	\$6,780	\$1,656	\$1,317	\$1,136	\$1,202	\$ 11,201	\$23,292
Effect of inflation							7,589
Effect of discounting							(7,084 )
Balance as of February 27, 2016							\$23,797

Estimated insurance proceeds are primarily received from an annuity received as part of our 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 our 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 February 27, 2016, the balance in this escrow account, which is held in a trust and is not recorded in our Consolidated Balance Sheet, was approximately \$3.2 million. Also included in estimated insurance proceeds are amounts we are entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.



Our 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. We also have 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 our garment decontamination business.

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

While it is impossible for us to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits and environmental contingencies, we believe that the aggregate amount of such liabilities, if any, in excess of amounts covered by insurance have been properly accrued in accordance with accounting principles generally accepted in the United States. It is possible, however, that the future financial position and/or results of operations for any particular future period could be materially affected by changes in our assumptions or strategies related to these contingencies or changes out of our control.

#### *Off-Balance Sheet Arrangements*

As of February 27, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission Regulation S-K.

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### *Seasonality*

Historically, our revenues and operating results have varied from quarter to quarter and are expected to continue to fluctuate in the future. These fluctuations have been due to a number of factors, including: general economic conditions in our markets; the timing of acquisitions and of commencing start-up operations and related costs; our effectiveness in integrating acquired businesses and start-up operations; the timing of nuclear plant outages; capital expenditures; seasonal rental and purchasing patterns of our customers; and price changes in response to competitive factors. In addition, our operating results historically have been lower during the second and fourth fiscal quarters than during the other quarters of the fiscal year. The operating results for any historical quarter are not necessarily indicative of the results to be expected for an entire fiscal year or any other interim periods.

### *Effects of Inflation*

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

### *Contractual Obligations and Other Commercial Commitments*

As of February 27, 2016, there were no material changes in our contractual obligations that were disclosed in our Annual Report on Form 10-K for the year ended August 29, 2015.

## **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 us on August 26, 2018. We are currently evaluating the adoption method we will apply and the impact that this guidance will have on our 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 us on August 28, 2016. We expect that adoption of this guidance will not have a material impact on our 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 us on August 28, 2016. We expect that adoption of this guidance will not have a material impact on our 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 us on August 28, 2016. We expect that adoption of this guidance will not have a material impact on our 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 us on August 27, 2017. We expect that adoption of this guidance will not have a material impact on our financial statements.

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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 us on August 28, 2016. We expect that adoption of this guidance will not have a material impact on our 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. We adopted this standard prospectively on February 27, 2016 and prior periods were not retroactively adjusted.

In January 2016, the FASB issued updated guidance for the recognition, measurement, presentation, and disclosure of certain financial assets and liabilities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Accordingly, the standard will be effective for us on August 26, 2018. We expect that adoption of this guidance will not have a material impact on our financial statements.

In February 2016, the FASB issued updated guidance that improves transparency and comparability among companies by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Accordingly, the standard will be effective for us on September 1, 2019. We are currently evaluating the impact that this guidance will have on our financial statements and related disclosures.

In March 2016, the FASB issued updated guidance that simplifies several aspects of accounting for share-based payment transactions. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 and, depending on the amendment, must be applied using a prospective transition method, retrospective transition method, modified retrospective transition method, prospectively and/or retroactively, with early adoption permitted. Accordingly, the standard will be effective for us on August 27, 2017. We are currently evaluating the impact that this guidance will have on our financial statements and related disclosures.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Foreign Currency Exchange Risk*

We have determined that all of our foreign subsidiaries operate primarily in local currencies that represent the functional currencies of such subsidiaries. All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars using the exchange rate prevailing at the balance sheet date. The effects of exchange rate fluctuations on the translation of assets and liabilities are recorded as a component of shareholders' equity. Revenues and expenses are translated at the average exchange rates in effect during each month of the fiscal year. As such, our financial condition and operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries. Revenues denominated in currencies other than the U.S. dollar represented approximately 8.0% of total consolidated revenues for both the thirteen and twenty-six weeks ended February 27, 2016, and total assets denominated in currencies other than the U.S. dollar represented approximately 8.2% and 8.9% of total consolidated assets at February 27, 2016 and August 29, 2015, respectively. If exchange rates had increased or decreased by 10% from the actual rates in effect during the thirteen and twenty-six weeks ended and as of February 27, 2016, our revenues would have increased or decreased by approximately \$2.9 million and \$5.9 million, respectively, and assets as of February 27, 2016 would have increased or decreased by approximately \$13.1 million.

In January 2015, we entered into sixteen forward contracts to exchange Canadian dollars ("CAD") for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of our domestic subsidiaries each fiscal quarter, beginning in the third fiscal quarter of 2015 and continuing through the second fiscal quarter of 2019. In total, we will sell approximately 31.0 million CAD at an average Canadian-dollar exchange rate of 0.7825 over these quarterly periods. We concluded that the forward contracts met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, we have 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 February 27, 2016, we had forward contracts with a notional value of approximately 21.2 million CAD outstanding and recorded the fair value of the contracts of \$0.5 million in other long-term assets and \$0.3 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.5 million, which was recorded net of tax. During the thirteen weeks ended February 27, 2016, we reclassified \$0.2 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 February 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

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Other than the forward contracts, mentioned above, we do not operate a hedging program to mitigate the effect of a significant change in the value of our foreign subsidiaries functional currencies, which include the Canadian dollar, euro, British pound, Mexican peso and Nicaraguan Cordoba, as compared to the U.S. dollar. Any losses or gains resulting from unhedged foreign currency transactions, including exchange rate fluctuations on intercompany accounts are reported as transaction losses (gains) in our other (income) expense. The intercompany payables and receivables are denominated in Canadian dollars, euros, British pounds, Mexican pesos and Nicaraguan Cordoba. During the thirteen weeks ended February 27, 2016, transaction gains included in other (income) expense were approximately \$0.1 million. During the twenty-six weeks ended February 27, 2016, transaction losses included in other (income) expense were approximately \$0.3 million. If the exchange rates had increased or decreased by 10% during the thirteen and twenty-six weeks ended February 27, 2016, we would have recognized exchange gains or losses of approximately \$1.0 million and \$0.8 million, respectively.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company required to be disclosed by the Company in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. We continue to review our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the second quarter of fiscal year 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are subject to legal proceedings and claims arising from the current conduct of our business operations, including personal injury, customer contract, employment claims and environmental matters as described in our Consolidated Financial Statements. We maintain insurance coverage providing indemnification against many of such claims, and we do not expect that we will sustain any material loss as a result thereof. Refer to Note 10, “Commitments and Contingencies,” to the Consolidated Financial Statements, as well as Item 1A. Risk Factors below, for further discussion.

### **ITEM 1A. RISK FACTORS**

To our knowledge, there have been no material changes in the risk factors described in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended August 29, 2015. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors mentioned in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended August 29, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

\*31.1 Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Croatti

\*31.2 Rule 13a-14(a)/15d-14(a) Certification of Steven S. Sintros

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

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

101 The following materials from UniFirst Corporation's Quarterly Report on Form 10-Q for the quarter ended February 27, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.



*\*Filed herewith*

*\*\*Furnished herewith*

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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.

UniFirst Corporation

/s/ Ronald D. Croatti

April 7, 2016 By: Ronald D. Croatti

President and Chief Executive Officer

/s/ Steven S. Sintros

April 7, 2016 By: Steven S. Sintros

Senior Vice President and Chief Financial Officer

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