

UNIFIRST CORP  
Form 10-Q  
July 10, 2014  
Table Of Contents

---

---

**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 **May 31, 2014**

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)

Edgar Filing: UNIFIRST CORP - Form 10-Q

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 July 3, 2014 were 15,181,460 and 4,860,519, respectively.



Table Of Contents

**UniFirst Corporation**

**Quarterly Report on Form 10-Q**

**For the Quarter ended May 31, 2014**

**Table of Contents**

**Part I – FINANCIAL INFORMATION**

Item 1 – Financial Statements

Consolidated Statements of Income for the Thirteen and Thirty-nine Weeks ended May 31, 2014 and May 25, 2013

Consolidated Statements of Comprehensive Income for the Thirteen and Thirty-nine Weeks ended May 31, 2014 and May 25, 2013

Consolidated Balance Sheets as of May 31, 2014 and August 31, 2013

Consolidated Statements of Cash Flows for the Thirty-nine Weeks ended May 31, 2014 and May 25, 2013

Notes to Consolidated Financial Statements

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Item 4 – Controls and Procedures

**Part II – OTHER INFORMATION**

Item 1 – Legal Proceedings

Item 1A – Risk Factors

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Item 3 – Defaults Upon Senior Securities

Item 4 – Mine Safety Disclosures

Item 5 – Other Information

Item 6 – Exhibits

Signatures

Exhibit Index

Certifications

Ex-31.1 Section 302 Certification of CEO

Ex-31.2 Section 302 Certification of CFO

Ex-32.1 Section 906 Certification of CEO

Ex-32.2 Section 906 Certification of CFO

---

Table Of Contents**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UniFirst Corporation and Subsidiaries****Consolidated Statements of Income***(Unaudited)*

<b>(In thousands, except per share data)</b>	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>May 31,</b>	<b>May 25,</b>	<b>May 31</b>	<b>May 25</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues	\$352,238	\$335,764	\$1,042,909	\$1,002,639
Operating expenses:				
Cost of revenues (1)	216,644	208,066	640,341	618,038
Selling and administrative expenses (1)	67,996	64,786	203,478	194,891
Depreciation and amortization	18,109	17,115	53,237	51,065
Total operating expenses	302,749	289,967	897,056	863,994
Income from operations	49,489	45,797	145,853	138,645
Other (income) expense:				
Interest expense	109	464	533	1,324
Interest income	(773 )	(781 )	(2,415 )	(2,472 )
Exchange rate loss	39	283	41	321
Total other (income) expense	(625 )	(34 )	(1,841 )	(827 )
Income before income taxes	50,114	45,831	147,694	139,472
Provision for income taxes	19,170	17,109	56,641	53,348
Net income	\$30,944	\$28,722	\$91,053	\$86,124
<b>Income per share – Basic:</b>				
Common Stock	\$1.62	\$1.51	\$4.78	\$4.53
Class B Common Stock	\$1.30	\$1.21	\$3.82	\$3.63
<b>Income per share – Diluted:</b>				
Common Stock	\$1.53	\$1.43	\$4.52	\$4.29

**Income allocated to – Basic:**

Common Stock	\$24,493	\$22,638	\$71,971	\$67,793
Class B Common Stock	\$6,127	\$5,647	\$17,962	\$16,880

**Income allocated to – Diluted:**

Common Stock	\$30,637	\$28,307	\$89,992	\$84,747
--------------	----------	----------	----------	----------

**Weighted average number of shares outstanding – Basic:**

Common Stock	15,102	14,993	15,069	14,960
Class B Common Stock	4,722	4,675	4,701	4,656

**Weighted average number of shares outstanding – Diluted:**

Common Stock	19,977	19,820	19,921	19,751
--------------	--------	--------	--------	--------

**Dividends per share:**

Common Stock	\$0.0375	\$0.0375	\$0.1125	\$0.1125
Class B Common Stock	\$0.0300	\$0.0300	\$0.0900	\$0.0900

(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>Thirty-nine weeks ended</b>	
	<b>May 31,</b>	<b>May 25,</b>	<b>May 31,</b>	<b>May 25,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net Income	\$30,944	\$28,722	\$91,053	\$86,124
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	2,338	(1,084 )	(2,077 )	(3,574 )
Pension benefit liabilities, net (1)	—	—	—	50
Other comprehensive income (loss)	2,338	(1,084 )	(2,077 )	(3,524 )
Comprehensive income	\$33,282	\$27,638	\$88,976	\$82,600

(1) Net of less than \$0.1 million of tax expense for the thirty-nine weeks ended May 25, 2013.

The accompanying notes are an integral part of these

Consolidated Financial Statements.



Table Of Contents**UniFirst Corporation and Subsidiaries****Consolidated Balance Sheets***(Unaudited)*

<b>(In thousands, except share and per share data)</b>	<b>May 31, 2014</b>	<b>August 31, 2013(a)</b>
Assets		
Current assets:		
Cash and cash equivalents	\$ 151,021	\$ 197,479
Receivables, less reserves of \$8,469 and \$4,894 at May 31, 2014 and August 31, 2013, respectively	153,723	142,217
Inventories	69,974	74,351
Rental merchandise in service	141,225	132,630
Prepaid and deferred income taxes	474	7,099
Prepaid expenses	9,727	7,618
Total current assets	526,144	561,394
Property, plant and equipment:		
Land, buildings and leasehold improvements	391,067	376,222
Machinery and equipment	504,953	474,402
Motor vehicles	166,669	153,219
Total property, plant and equipment	1,062,689	1,003,843
Less -- accumulated depreciation	577,034	546,157
Total property, plant and equipment, net	485,655	457,686
Goodwill	302,627	302,363
Customer contracts, net	41,536	47,397
Other intangible assets, net	1,323	1,947
Deferred income taxes	1,387	1,417
Other assets	2,271	2,658
Total assets	\$ 1,360,943	\$ 1,374,862
Liabilities and shareholders' equity		
Current liabilities:		
Loans payable and current maturities of long-term debt	\$9,334	\$ 111,253
Accounts payable	42,724	54,221
Accrued liabilities	89,713	86,994
Accrued and deferred income taxes	12,722	12,506
Total current liabilities	154,493	264,974

Edgar Filing: UNIFIRST CORP - Form 10-Q

Long-term liabilities:		
Long-term debt, net of current maturities	155	155
Accrued liabilities	48,414	45,037
Accrued and deferred income taxes	51,005	51,298
Total long-term liabilities	99,574	96,490
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, \$0.10 par value; 30,000,000 shares authorized; 15,180,960 and 15,129,524 issued and outstanding as of May 31, 2014 and August 31, 2013, respectively	1,518	1,513
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,860,519 and 4,873,277 issued and outstanding as of May 31, 2014 and August 31, 2013, respectively	486	487
Capital surplus	58,089	51,445
Retained earnings	1,047,415	958,508
Accumulated other comprehensive (loss) income	(632 )	1,445
Total shareholders' equity	1,106,876	1,013,398
Total liabilities and shareholders' equity	\$1,360,943	\$1,374,862

(a) 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>Thirty-nine weeks ended</b>	<b>May 31,</b>	<b>May 25,</b>
<b>(In thousands)</b>	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net income	\$91,053	\$86,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	46,432	43,718
Amortization of intangible assets	6,805	7,347
Amortization of deferred financing costs	156	178
Share-based compensation	4,541	5,051
Accretion on environmental contingencies	537	407
Accretion on asset retirement obligations	756	497
Deferred income taxes	(134 )	79
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(11,573 )	(12,099 )
Inventories	4,550	3,070
Rental merchandise in service	(8,882 )	4,332
Prepaid expenses	(2,108 )	(3,824 )
Accounts payable	(11,445 )	3,279
Accrued liabilities	4,874	8,255
Prepaid and accrued income taxes	6,713	(6,914 )
Net cash provided by operating activities	132,275	139,500
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(841 )	(1,953 )
Capital expenditures	(74,466 )	(81,087 )
Other	480	(185 )
Net cash used in investing activities	(74,827 )	(83,225 )
Cash flows from financing activities:		
Proceeds from loans payable and long-term debt	7,107	10,523
Payments on loans payable and long-term debt	(109,383)	(6,443 )
Proceeds from exercise of Common Stock options, including excess tax benefit	5,630	2,750
Taxes withheld and paid related to net share settlement of equity awards	(3,527 )	(3,332 )
Payment of cash dividends	(2,145 )	(2,138 )
Net cash (used in) provided by financing activities	(102,318)	1,360
Effect of exchange rate changes	(1,588 )	(2,167 )
Net (decrease) increase in cash and cash equivalents	(46,458 )	55,468

Edgar Filing: UNIFIRST CORP - Form 10-Q

Cash and cash equivalents at beginning of period	197,479	120,123
Cash and cash equivalents at end of period	\$ 151,021	\$ 175,591

The accompanying notes are an integral part of these  
Consolidated Financial Statements.

---

Table Of Contents

**UniFirst Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Basis of Presentation**

These Consolidated Financial Statements of UniFirst Corporation (the “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 financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2013. 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.

The Company has recorded certain immaterial classification adjustments to its August 31, 2013 balance sheet and May 25, 2013 statement of cash flows. These classification adjustments did not impact current or historical net income or shareholders' equity.

**2. Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (“FASB”) issued updated accounting guidance that improves the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this updated guidance require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under US GAAP that provide additional detail about those amounts. This guidance was effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2012

and was to be applied prospectively, with early adoption permitted. The Company adopted this guidance on September 1, 2013 and the adoption did not have a material impact on its financial statements.

In July 2013, the FASB issued updated accounting guidance on the presentation of unrecognized tax benefits. This update provides that an entity's unrecognized tax benefits, or a portion of its unrecognized tax benefits, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2013 and is to be applied prospectively, with early adoption permitted. The Company does not expect this guidance to have a material impact on its financial statements.

In May 2014, the FASB issued updated accounting guidance on revenue recognition. This 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 is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2016 and allows for either full retrospective or modified retrospective application, with early adoption not permitted. Accordingly, the standard is effective for the Company on August 27, 2017. 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.

### **3. Business Acquisitions**

During the thirty-nine weeks ended May 31, 2014, the Company completed four business acquisitions with an aggregate purchase price of approximately \$0.8 million. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. These acquisitions were 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.



Table Of Contents

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

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

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

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

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

**As of May 31, 2014**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets:</b>				
Cash equivalents	\$47,640	\$ —	\$ —	\$47,640
Total	\$47,640	\$ —	\$ —	\$47,640

**As of August 31, 2013**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets:</b>				
Cash equivalents	\$33,325	\$ —	\$ —	\$33,325
Total	\$33,325	\$ —	\$ —	\$33,325

The Company's cash equivalents listed above represents 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.

**5. Employee Benefit Plans**



*Defined Contribution Retirement Savings Plan*

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and may make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended May 31, 2014 and May 25, 2013 were \$4.0 million and \$4.3 million, respectively. Contributions charged to expense under the plan for the thirty-nine weeks ended May 31, 2014 and May 25, 2013 were \$12.2 million and \$12.9 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 amount charged to expense related to these plans for the thirteen weeks ended May 31, 2014 and May 25, 2013 was \$0.6 million for each period. The amounts charged to expense related to these plans for the thirty-nine weeks ended May 31, 2014 and May 25, 2013 were \$1.9 million and \$1.7 million, respectively.

---

Table Of Contents**6. 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>Thirty-nine weeks ended</b>	
	<b>May 31,</b>	<b>May 25,</b>	<b>May 31,</b>	<b>May 25,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	\$30,944	\$28,722	\$91,053	\$86,124
Allocation of net income for Basic:				
Common Stock	\$24,493	\$22,638	\$71,971	\$67,793
Class B Common Stock	6,127	5,647	17,962	16,880
Unvested participating shares	324	437	1,120	1,451
	\$30,944	\$28,722	\$91,053	\$86,124
Weighted average number of shares for Basic:				
Common Stock	15,102	14,993	15,069	14,960
Class B Common Stock	4,722	4,675	4,701	4,656
Unvested participating shares	229	331	268	366
	20,053	19,999	20,038	19,982
Earnings per share for Basic:				
Common Stock	\$1.62	\$1.51	\$4.78	\$4.53
Class B Common Stock	\$1.30	\$1.21	\$3.82	\$3.63

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.

Edgar Filing: UNIFIRST CORP - Form 10-Q

For the thirteen and thirty-nine weeks ended May 31, 2014, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and thirty-nine weeks ended May 31, 2014 as follows (in thousands, except per share data):

	Thirteen weeks			Thirty-nine weeks		
	ended May 31, 2014			ended May 31, 2014		
	Earnings			Earnings		
	to	Common	EPS	to	Common	EPS
	Common	Shares		Common	Shares	
	Shareholders			Shareholders		
As reported - Basic	\$24,493	15,102	\$1.62	\$71,971	15,069	\$4.78
Add: effect of dilutive potential common shares						
Share-based awards	—	153		—	151	
Class B Common Stock	6,127	4,722		17,962	4,701	
Add: Undistributed earnings allocated to unvested participating shares	317	—		1,095	—	
Less: Undistributed earnings reallocated to unvested participating shares	(300 )	—		(1,036 )	—	
Diluted EPS – Common Stock	\$30,637	19,977	\$1.53	\$89,992	19,921	\$4.52

Share-based awards that would result in the issuance of 168 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended May 31, 2014 because they were anti-dilutive. Share-based awards that would result in the issuance of 193 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirty-nine weeks ended May 31, 2014 because they were anti-dilutive.

Table Of Contents

For the thirteen and thirty-nine weeks ended May 25, 2013, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and thirty-nine weeks ended May 25, 2013 as follows (in thousands, except per share data):

	<b>Thirteen weeks</b>			<b>Thirty-nine weeks</b>		
	<b>ended May 25, 2013</b>			<b>ended May 25, 2013</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	\$22,638	14,993	\$1.51	\$67,793	14,960	\$4.53
Add: effect of dilutive potential common shares						
Share-based awards	—	152		—	135	
Class B Common Stock	5,647	4,675		16,880	4,656	
Add: Undistributed earnings allocated to unvested participating shares	426	—		1,415	—	
Less: Undistributed earnings reallocated to unvested participating shares	(404 )	—		(1,341 )	—	
Diluted EPS – Common Stock	\$28,307	19,820	\$1.43	\$84,747	19,751	\$4.29

Share-based awards that would result in the issuance of 27,347 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended May 25, 2013 because they were anti-dilutive. There were no share-based awards that were excluded from the calculation of diluted earnings per share for the thirty-nine weeks ended May 25, 2013 because they were anti-dilutive.

**7. 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 May 31, 2014 and August 31, 2013 were as follows (in thousands):

	<b>May 31,</b>	<b>August 31,</b>
	<b>2014</b>	<b>2013</b>
Raw materials	\$ 15,985	\$ 16,673
Work in process	3,549	2,366
Finished goods	50,440	55,312
Total inventories	\$ 69,974	\$ 74,351

## 8. 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 seven to thirty years.

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

	<b>May 31, 2014</b>
Beginning balance as of August 31, 2013	\$ 10,796
Accretion expense	756
Effect of exchange rate changes	68
Ending balance as of May 31, 2014	\$ 11,620

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



Table Of Contents

**9. 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, insurance proceeds, participation by other parties, the timing of payments and the input of outside consultants and attorneys based on changing legal or 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.

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 an additional parcel of land (the "Central Area") related to the Woburn, Massachusetts site discussed above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided the Company and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of

environmental conditions in the Central Area. The Company, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA's comments remain to be resolved. The Company has accrued costs to perform certain work responsive to EPA's comments. The Company has implemented mitigation measures and continues to monitor environmental conditions at the Somerville, Massachusetts site. The Company also expects to incur monitoring and mitigation costs associated with the planned construction of a transit station in the area.

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 May 31, 2014, the risk-free interest rates utilized by the Company ranged from 2.5% to 3.3%.

---



Table Of Contents

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 thirty-nine weeks ended May 31, 2014 are as follows (in thousands):

	<b>May 31, 2014</b>
Beginning balance as of August 31, 2013	\$19,680
Payments made for which reserves had been provided	(1,460 )
Insurance proceeds received	631
Interest accretion	537
Revision in estimates	(21 )
Change in discount rates	647
 Balance as of May 31, 2014	 \$20,014

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of May 31, 2014, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

<b>(In thousands)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>	<b>Total</b>
Estimated costs – current dollars	\$4,308	\$2,620	\$1,887	\$865	\$797	\$ 12,421	\$22,898
Estimated insurance proceeds	—	(173 )	(159 )	(173 )	(159 )	(1,592 )	(2,256 )
Net anticipated costs	\$4,308	\$2,447	\$1,728	\$692	\$638	\$ 10,829	\$20,642
Effect of inflation							7,591
Effect of discounting							(8,219 )
 Balance as of May 31, 2014							 \$20,014

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 May 31, 2014, the balance in this escrow account, which is held in a trust and is not recorded in the Company's Consolidated Balance Sheet, was approximately \$3.0 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. 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 litigation related to charges for certain ancillary services on invoices, 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.

As previously disclosed, on December 31, 2012 the Company received an indemnity demand from counsel for New England Compounding Center ("NECC") regarding claims made against NECC, including those related to NECC's highly-publicized compounding and sale of tainted methylprednisolone acetate which reportedly resulted in a widespread outbreak of fungal meningitis and other infections. It has been reported that over 60 people died and another approximately 700 people were harmed as a result of this outbreak. This demand related to the limited, once-a-month cleaning services the Company provided to portions of NECC's cleanroom facilities. Based on the Company's preliminary review of this matter, the Company believes that NECC's claims are without merit.

Over the summer of 2013, the Company received and responded to a subpoena from the Plaintiffs' Steering Committee ("PSC") appointed in conjunction with the NECC multi-district litigation ("MDL") proceeding pending in federal court in Boston, Massachusetts. That subpoena sought information relating to the NECC matter. In September 2013, the Company entered into a tolling agreement with the PSC which, among other things, tolled defenses based on statutes of limitations with respect to certain claimants.

Table Of Contents

On November 5, 2013, a Master Complaint was filed in the NECC MDL proceeding naming the Company as one of numerous defendants in the matter. Individual plaintiffs were able to piggy-back on the Master Complaint by filing a Short Form Complaint to initiate legal actions against one or more of the defendants named in the Master Complaint. As of June 30, 2014, the Company has either received demand letters from or been named as a defendant in suits relating to approximately 475 patients who allegedly received the tainted drug from NECC. The Company has notified its insurers of these claims and they have issued reservation of rights letters with respect to coverage of these claims. The Company is in continuing discussions with its insurers concerning coverage matters. In June 2014, the Company, in consultation with its insurers, agreed to attempt to mediate these suits with the PSC. While the Company is unable to ascertain the ultimate outcome of this matter, based on the information currently available, the Company believes that a loss with respect to this matter is neither probable nor remote, and the Company is unable to reasonably assess an estimate or range of estimates of any potential losses. If the Company is found to be liable with respect to claims brought against them relating to NECC that are not covered by the Company's insurance, the Company may incur liabilities that are material to its financial condition and operating results.

**10. Income Taxes**

The Company's effective income tax rate was 38.3% and 38.4% for the thirteen and thirty-nine weeks ended May 31, 2014, respectively, as compared to 37.3% and 38.3% for the thirteen and thirty-nine weeks ended May 25, 2013, respectively. 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 thirty-nine weeks ended May 31, 2014, 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 2010 and 2006, respectively, and the Company recently 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 2009. 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.

**11. 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 May 31, 2014, 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 May 31, 2014, the Company had no outstanding borrowings, outstanding letters of credit amounting to \$49.6 million and \$200.4 million available for borrowing under the Credit Agreement.

On September 14, 2006, the Company issued \$100.0 million of floating rates notes ("Floating Rate Notes") pursuant to a Note Purchase Agreement, which bore interest at LIBOR plus 50 basis points. On September 14, 2013, the Floating Rate Notes matured and were repaid in full from the Company's cash reserves.

As of May 31, 2014, the Company was in compliance with all covenants under the Credit Agreement.

## 12. Accumulated Other Comprehensive (Loss) Income

The changes in each component of accumulated other comprehensive (loss) income, net of tax, are as follows (in thousands):

	<b>Foreign Currency Translation</b>	<b>Pension- related</b>	<b>Total Accumulated Other Comprehensive (Loss) Income</b>
Balance as of August 31, 2013	\$ 5,563	\$(4,118 )	\$ 1,445
Other comprehensive (loss) income before reclassification	(2,077 )	—	(2,077 )
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive (loss) income	(2,077 )	—	(2,077 )
Balance as of May 31, 2014	\$ 3,486	\$(4,118 )	\$ (632 )

Table Of Contents**13. 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 solely 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. In the table below, no assets or capital expenditures are presented for the Corporate operating segment because no assets are allocated to this operating segment in the information reviewed by the chief executive officer. However, depreciation and amortization expense related to certain assets are reflected in income from operations and income before income taxes for the Corporate operating segment. The assets that give rise to this depreciation and amortization are included in the total assets of the US and Canadian Rental and Cleaning reporting segment as this is how they are tracked and reviewed by the Company. The majority of expenses accounted for within

Edgar Filing: UNIFIRST CORP - Form 10-Q

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.

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		Net Interco MFG Elim	Corporate	Subtotal		First Aid	Total
	Canadian Rental and Cleaning	MFG			Core Laundry Operations	Specialty Garments		
<b>May 31, 2014</b>								
Revenues	\$ 309,409	\$ 46,401	\$(46,401)	\$ 3,896	\$ 313,305	\$ 27,619	\$ 11,314	\$ 352,238
Income (loss) from operations	\$ 50,124	\$ 16,509	\$(1,332)	\$(20,803)	\$ 44,498	\$ 3,992	\$ 999	\$ 49,489
Interest (income) expense, net	\$(753)	\$—	\$—	\$ 89	\$(664)	\$—	\$—	\$(664)
Income (loss) before taxes	\$ 50,872	\$ 16,477	\$(1,332)	\$(20,862)	\$ 45,155	\$ 3,960	\$ 999	\$ 50,114
<b>May 25, 2013</b>								
Revenues	\$ 294,341	\$ 41,859	\$(41,859)	\$ 3,388	\$ 297,729	\$ 26,327	\$ 11,708	\$ 335,764
Income (loss) from operations	\$ 48,030	\$ 15,364	\$(2,663)	\$(20,375)	\$ 40,356	\$ 3,576	\$ 1,865	\$ 45,797
Interest (income) expense, net	\$(716)	\$—	\$—	\$ 399	\$(317)	\$—	\$—	\$(317)
	\$ 48,744	\$ 15,243	\$(2,663)	\$(20,777)	\$ 40,547	\$ 3,418	\$ 1,866	\$ 45,831

Income (loss) before  
taxes

---

Table Of Contents

Thirty-nine weeks ended	US and		Net Interco MFG Elim	Corporate	Subtotal			Total
	Canadian Rental and Cleaning	MFG			Core Laundry Operations	Specialty Garments	First Aid	
<b>May 31, 2014</b>								
Revenues	\$927,193	\$132,735	\$(132,735)	\$11,299	\$938,492	\$72,468	\$31,949	\$1,042,909
Income (loss) from operations	\$155,277	\$46,382	\$(2,234)	\$(63,112)	\$136,313	\$7,063	\$2,477	\$145,853
Interest (income) expense, net	\$(2,348)	\$—	\$—	\$466	\$(1,882)	\$—	\$—	\$(1,882)
Income (loss) before taxes	\$157,599	\$46,240	\$(2,234)	\$(63,597)	\$138,008	\$7,209	\$2,477	\$147,694
<b>May 25, 2013</b>								
Revenues	\$883,424	\$122,631	\$(122,631)	\$10,494	\$893,918	\$76,804	\$31,917	\$1,002,639
Income (loss) from operations	\$147,712	\$43,469	\$(5,669)	\$(60,301)	\$125,211	\$9,555	\$3,879	\$138,645
Interest (income) expense, net	\$(2,237)	\$—	\$—	\$1,089	\$(1,148)	\$—	\$—	\$(1,148)
Income (loss) before taxes	\$149,950	\$43,263	\$(5,669)	\$(61,414)	\$126,130	\$9,462	\$3,880	\$139,472



Table Of Contents

**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, uncertainties caused by the continuing adverse worldwide economic conditions, uncertainties regarding our ability to consummate and successfully integrate acquired businesses, 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, including suits related to the New England Compound Center matter, our ability to compete successfully without any significant degradation in our margin rates, seasonal fluctuations in business levels, our ability to preserve positive labor relationships and avoid becoming the target of corporate labor unionization campaigns that could disrupt our business, the effect of currency fluctuations on our results of operations and financial condition, our dependence on third parties to supply us with raw materials, any loss of key management or other personnel, 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, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the impact of the current worldwide economic malaise and other adverse economic conditions and the current tight credit markets on our customers and such customers’ workforces, the level and duration of workforce reductions by our customers, the continuing increase in domestic healthcare costs, including the ultimate impact of the Affordable Care Act, demand and prices for our products and services, rampant criminal activity and instability in Mexico where our principal garment manufacturing plants are located, our ability to properly and efficiently design, construct, implement and operate our new CRM computer system, interruptions or failures of our information technology systems, including as a result of cyber-attacks, additional professional and internal costs necessary for compliance with recent and proposed future changes in Securities and Exchange Commission, New York Stock Exchange and accounting rules, strikes and unemployment levels, our efforts to evaluate and potentially reduce internal costs, 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 31, 2013, under “Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q, 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 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 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. 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 over 260,000 customer locations in the United States, Canada and Europe from 225 customer service, distribution and manufacturing facilities.

As discussed and described in Note 13 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.”

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 31, 2013 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 thirty-nine weeks ended May 31, 2014 and the thirteen and thirty-nine weeks ended May 25, 2013. Cost of revenues presented in the table below 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 associated with operating our industrial laundries, Specialty Garments facilities, First Aid locations and our distribution center. 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 and operating locations including information systems, engineering, materials management, manufacturing planning, finance, budgeting, and human resources.

(In thousands, except percentages)	Thirteen weeks ended					Thirty-nine weeks ended					
	May 31, 2014	% of Rev.	May 25, 2013	% of Rev.	% Change	May 31, 2014	% of Rev.	May 25, 2013	% of Rev.	% Change	
Revenues	\$352,238	100.0%	\$335,764	100.0%	4.9 %	\$1,042,909	100.0%	\$1,002,639	100.0%	4.0 %	
Operating expenses:											
Cost of revenues (1)	216,644	61.5	208,066	62.0	4.1	640,341	61.4	618,038	61.6	3.6	

Edgar Filing: UNIFIRST CORP - Form 10-Q

Selling and administrative expenses (1)	67,996	19.3	64,786	19.3	5.0	203,478	19.5	194,891	19.4	4.4
Depreciation and amortization	18,109	5.1	17,115	5.1	5.8	53,237	5.1	51,065	5.1	4.3
Total operating expenses	302,749	86.0	289,967	86.4	4.4	897,056	86.0	863,994	86.2	3.8
Income from operations	49,489	14.0	45,797	13.6	8.1	145,853	14.0	138,645	13.8	5.2
Other (income) expense	(625 )	(0.2 )	(34 )	(0.0 )	1,738.2	(1,841 )	(0.2 )	(827 )	(0.1 )	122.6
Income before income taxes	50,114	14.2	45,831	13.6	9.3	147,694	14.2	139,472	13.9	5.9
Provision for income taxes	19,170	5.4	17,109	5.1	12.0	56,641	5.4	53,348	5.3	6.2
Net income	\$30,944	8.8 %	\$28,722	8.6 %	7.7 %	\$91,053	8.7 %	\$86,124	8.6 %	5.7 %

(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 and operating locations including information systems, engineering, materials management, manufacturing planning, finance, budgeting, and human resources.



Table Of Contents

The price of fuel and energy needed to run our vehicles and equipment is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries, regional production patterns, limits on refining capacities, natural disasters and environmental concerns. Increases in the price of fuel or energy could negatively impact our financial results.

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”) will require us to modify one of the healthcare plans we provide to our employees. In addition, we will incur additional costs related to ACA transitional reinsurance fees that will be paid in fiscal years 2015, 2016 and 2017. We expect that the required modifications to our healthcare plan and the incurrence of such fees will increase our cost of providing healthcare to our employees. There remains considerable uncertainty as to how significant the increase to the healthcare costs will be, 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 May 31, 2014, we have capitalized \$34.3 million related to our project (“Unity 20/20”). We currently anticipate deployment of this system to begin in the second half of fiscal 2015, at which time we expect to incur certain non-recurring costs associated with the training and deployment effort. In addition, the deployment of the system will result in increased depreciation expense. These increased costs will negatively impact our operating results.

A portion of our sales is derived from international markets, including Canada. Revenues denominated in currencies other than the U.S. dollar represented approximately 9.8% of total consolidated revenues for both the thirty-nine weeks ended May 31, 2014 and May 25, 2013. 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 the thirteen and thirty-nine weeks ended May 31, 2014, foreign currency fluctuations negatively impacted our revenues by 0.5% and 0.6%, respectively. This impact was primarily driven by unfavorable fluctuations in the Canadian dollar. Our operating results for the remainder of fiscal 2014 will be impacted by the recent weakness in the Canadian dollar and could be further impacted by any additional devaluation.

The current worldwide economic uncertainty may negatively impact our revenues and operating performance in fiscal 2014 and beyond due to the impact on spending plans and employment levels of our customers and sales prospects. Throughout fiscal 2013 and into fiscal 2014, U.S. unemployment rates remained high, which had a negative effect on wearer levels and, as a result, on our business.

**Thirteen weeks ended May 31, 2014 compared with thirteen weeks ended May 25, 2013**

*Revenues*

<b>(In thousands, except percentages)</b>	<b>May 31, 2014</b>	<b>May 25, 2013</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
Core Laundry Operations	\$313,305	\$297,729	\$15,576	5.2	%
Specialty Garments	27,619	26,327	1,292	4.9	
First Aid	11,314	11,708	(394 )	(3.4 )	
Consolidated total	\$352,238	\$335,764	\$16,474	4.9	%

For the thirteen weeks ended May 31, 2014, our consolidated revenues increased by \$16.5 million from the comparable period in fiscal 2013, or 4.9%. The increase in consolidated revenues was principally due to a \$15.6 million increase in revenues from our Core Laundry Operations. Core Laundry Operations' revenues increased to \$313.3 million for the thirteen weeks ended May 31, 2014 from \$297.7 million for the comparable period of fiscal 2013, or 5.2%. Excluding the effect of a weaker Canadian dollar as well as the positive effect of acquisitions, Core Laundry Operations' revenues grew primarily due to organic growth of 4.8%, which is comprised of new sales, additions to our existing customer base and price increases offset by lost accounts and reductions to our existing customer base.

Specialty Garments' revenues increased to \$27.6 million in the third fiscal quarter of 2014 from \$26.3 million in the comparable period of 2013, or 4.9%. This increase was primarily the result of a higher number of power reactor outage projects in the United States and Canada compared to a year ago as well as an improved performance from this segment's cleanroom operations. 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's revenues decreased by \$0.4 million, or 3.4%, for the thirteen weeks ended May 31, 2014 as compared to the same period in fiscal 2013.

Table Of Contents*Cost of Revenues*

For the thirteen weeks ended May 31, 2014, cost of revenues decreased to 61.5% of revenues, or \$216.6 million, from 62.0% of revenues, or \$208.1 million, for the thirteen weeks ended May 25, 2013. This decrease was primarily due to lower merchandise expense as well as lower costs in our Core Laundry Operations related to our plant operations as a percentage of revenues. These benefits were partially offset by higher healthcare claims and energy expense in our Core Laundry Operations as a percentage of revenues during the quarter. In addition, the cost of revenues for the Specialty Garments' segment was also lower as a percentage of revenues due to the strong revenue growth during the quarter.

*Selling and Administrative Expense*

For the thirteen weeks ended May 31, 2014, selling and administrative expenses remained consistent as a percentage of revenues, at 19.3%, as compared to the thirteen weeks ended May 25, 2013. While selling and administrative costs during the 2014 fiscal quarter were negatively affected by higher healthcare claims as well as higher legal and environmental expense compared to the prior year, these amounts were offset by lower other administrative costs as a percentage of revenues.

*Depreciation and Amortization*

Our depreciation and amortization expense was \$18.1 million, or 5.1% of revenues, for the thirteen weeks ended May 31, 2014 compared to \$17.1 million, or 5.1% of revenues, for the thirteen weeks ended May 25, 2013. The increase in depreciation and amortization expense was due to capital expenditure and acquisition activity in earlier periods.

*Income from Operations*

For the thirteen weeks ended May 31, 2014 and May 25, 2013, changes in our revenues and costs as discussed above resulted in the following changes in our income from operations:

<b>May 31,</b>	<b>May 25,</b>	<b>Dollar</b>	<b>Percent</b>
--------------------	--------------------	---------------	----------------



<b>(In thousands, except percentages)</b>	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>Change</b>	
Core Laundry Operations	\$44,498	\$40,356	\$4,142	10.3	%
Specialty Garments	3,992	3,576	416	11.6	
First Aid	999	1,865	(866 )	(46.4 )	
Consolidated total	\$49,489	\$45,797	\$3,692	8.1	%

#### *Other (Income) Expense*

Other (income) expense, which includes interest expense, interest income and exchange rate loss, was a gain of \$0.6 million in the thirteen weeks ended May 31, 2014 compared to a nominal gain in the thirteen weeks ended May 25, 2013. The increase was primarily due to a decrease in interest expense from \$0.5 million in the thirteen weeks ended May 25, 2013 to \$0.1 million in the thirteen weeks ended May 31, 2014. The decrease in interest expense was due to the Company's repayment of \$100.0 million in private placement notes that came due in September 2013.

#### *Provision for Income Taxes*

Our effective income tax rate was 38.3% for the thirteen weeks ended May 31, 2014, compared to 37.3% for the thirteen weeks ended May 25, 2013. Our effective tax rate for the thirteen weeks ended May 31, 2014 was higher than the comparable period of 2013 primarily due to the benefit realized in the prior year from the reversal of tax contingency reserves related to statute expirations as well as the resolution of a Federal tax audit.

#### **Thirty-nine weeks ended May 31, 2014 compared with Thirty-nine weeks ended May 25, 2013**

#### *Revenues*

<b>(In thousands, except percentages)</b>	<b>May 31, 2014</b>	<b>May 25, 2013</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
Core Laundry Operations	\$938,492	\$893,918	\$44,574	5.0	%
Specialty Garments	72,468	76,804	(4,336 )	(5.6 )	
First Aid	31,949	31,917	32	0.1	
Consolidated total	\$1,042,909	\$1,002,639	\$40,270	4.0	%

Table Of Contents

For the thirty-nine weeks ended May 31, 2014, our consolidated revenues increased by \$40.3 million from the comparable period in fiscal 2013, or 4.0%. In the thirty-nine weeks ended May 25, 2013, revenues were positively impacted by a large customer buyout. Excluding the impact of this buyout, overall revenues would have increased 4.3%. The increase in consolidated revenues was principally due to a \$44.6 million increase in revenues from our Core Laundry Operations. Core Laundry Operations' revenues increased to \$938.5 million for the thirty-nine weeks ended May 31, 2014 from \$893.9 million for the comparable period of fiscal 2013, an increase of 5.0%. Excluding the negative impact of the customer buyout, as well as the positive effect of acquisitions and foreign exchange rate fluctuations, Core Laundry Operations' revenues grew 4.7%, which is primarily comprised of new sales, additions to our existing customer base and price increases offset by lost accounts and reductions to our existing customer base.

Specialty Garments' revenues decreased to \$72.5 million in the thirty-nine weeks ended May 31, 2014 from \$76.8 million in the comparable period of 2013, a decrease of 5.6%. This decrease was primarily the result of reduced power reactor business in the U.S. and Canada compared to a year ago. 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's revenues were \$31.9 million for each of the thirty-nine weeks periods ended May 31, 2014 and May 25, 2013.

*Cost of Revenues*

For the thirty-nine weeks ended May 31, 2014, cost of revenues decreased as a percentage of revenues to 61.4% of revenues, or \$640.3 million, from 61.6% of revenues, or \$618.0 million, for the thirty-nine weeks ended May 25, 2013. This decrease was primarily due to lower merchandise costs as a percentage of revenues in our Core Laundry Operations. Cost of revenues for the Specialty Garments segment increased as a percentage of revenues due to the revenue contraction that segment experienced in the thirty-nine weeks ended May 31, 2014 compared to the prior year.

*Selling and Administrative Expense*

Our selling and administrative expenses increased to 19.5% of revenues, or \$203.5 million, for the thirty-nine weeks ended May 31, 2014 from 19.4% of revenues, or \$194.9 million, for the thirty-nine weeks ended May 25, 2013. This increase was primarily due to higher legal and environmental expense compared to the prior year. These increases were partially offset by lower payroll-related and other administrative costs as a percent of revenues.

*Depreciation and Amortization*

Our depreciation and amortization expense was \$53.2 million, or 5.1% of revenues, for the thirty-nine weeks ended May 31, 2014 compared to \$51.1 million, or 5.1% of revenues, for the thirty-nine weeks ended May 25, 2013. Depreciation and amortization expense increased due to capital expenditure and acquisition activity in earlier periods.

### *Income from Operations*

For the thirty-nine weeks ended May 31, 2014 and May 25, 2013, the revenue growth in our operations, as well as the change in our costs as discussed above, resulted in the following changes in our income from operations:

<b>(In thousands, except percentages)</b>	<b>May 31, 2014</b>	<b>May 25, 2013</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
Core Laundry Operations	\$136,313	\$125,211	\$11,102	8.9	%
Specialty Garments	7,063	9,555	(2,492)	(26.1)	)
First Aid	2,477	3,879	(1,402)	(36.1)	)
Consolidated total	\$145,853	\$138,645	\$7,208	5.2	%

### *Other (Income) Expense*

Other (income) expense, which includes interest expense, interest income and foreign currency exchange loss, was a gain of \$1.8 million for the thirty-nine weeks ended May 31, 2014 as compared to a gain of \$0.8 million for the thirty-nine weeks ended May 25, 2013. The increase was primarily due to a decrease in interest expense from \$1.3 million in the thirty-nine weeks ended May 25, 2013 to \$0.5 million in the thirty-nine weeks ended May 31, 2014. The decrease in interest expense was due to the Company's repayment of \$100.0 million in private placement notes that came due in September 2013.

### *Provision for Income Taxes*

Our effective income tax rate was 38.4% for the thirty-nine weeks ended May 31, 2014, as compared to 38.3% for the thirty-nine weeks ended May 25, 2013.

Table Of Contents

**Liquidity and Capital Resources**

*General*

Cash and cash equivalents totaled \$151.0 million as of May 31, 2014, a decrease of \$46.5 million from August 31, 2013 when the amount totaled \$197.5 million. Our working capital was \$371.7 million as of May 31, 2014 compared to \$296.4 million as of August 31, 2013. In addition, we generated \$132.3 million and \$211.6 million in cash from operating activities in the thirty-nine weeks ended May 31, 2014 and the full fiscal year ended August 31, 2013, respectively. We have accumulated \$61.3 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. 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.

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 thirty-nine weeks ended May 31, 2014 was \$132.3 million, a decrease of \$7.2 million from the comparable period in the prior year when cash provided by operating activities was \$139.5 million. This net decrease was primarily driven by the following factors:

A decrease in cash flows of \$14.0 million generated by changes in working capital primarily due to the timing of our vendor payments as well as changes in our rental merchandise in service and our prepaid and accrued income taxes; An increase in cash flows of \$7.0 million generated from higher net income, adjusted for non-cash adjustment items.

*Cash Used in Investing Activities*

Cash used in investing activities for the thirty-nine weeks ended May 31, 2014 was \$74.8 million, a decrease of \$8.4 million from the comparable period in the prior year when cash used in investing activities was \$83.2 million. The net decrease in cash used in investing activities was primarily driven by a decrease in cash outflows of \$6.6 million for capital expenditures as well as a decrease in cash outflows of \$1.1 million for the acquisition of businesses during the thirty-nine weeks ended May 31, 2014 compared to the same period in the prior year.

*Cash (Used in) Provided by Financing Activities*

Cash used in financing activities for the thirty-nine weeks ended May 31, 2014 was \$102.3 million compared to cash provided by financing activities of \$1.4 million for the thirty-nine weeks ended May 25, 2013, or an additional outflow of \$103.7 million. This change was due to a net cash outflow related to loans payable and long-term debt of \$102.3 million in the thirty-nine weeks ended May 31, 2014, which was primarily attributable to the repayment of \$100.0 million of Floating Rate Notes (defined below) that came due in September 2013 from our cash reserves. Comparatively, in the thirty-nine weeks ended May 25, 2013 we had a net cash inflow of \$4.1 million related to loans payable and long-term debt.

*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 May 31, 2014, the interest rates applicable to our borrowings under the Credit Agreement were calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of May 31, 2014, we had no outstanding borrowings, outstanding letters of credit amounting to \$49.6 million and \$200.4 million available for borrowing under the Credit Agreement.

On September 14, 2006, we issued \$100.0 million of floating rates notes ("Floating Rate Notes") pursuant to a Note Purchase Agreement, which bore interest at LIBOR plus 50 basis points. On September 14, 2013, the Floating Rate Notes matured and were repaid in full from our cash reserves.

As of May 31, 2014, we were in compliance with all covenants under the Credit Agreement.



Table Of Contents

*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, management's estimates of costs, insurance proceeds, participation by other parties, the timing of payments and the input of outside consultants and attorneys based on changing legal or 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 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 an additional parcel of land (the "Central Area") related to the Woburn, Massachusetts site discussed above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided 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 have implemented mitigation measures and continue to monitor environmental conditions at the Somerville, Massachusetts site. We also expect to incur monitoring and mitigation costs associated with the planned construction of a transit station in the area.

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 May 31, 2014, the risk-free interest rates we utilized ranged from 2.5% to 3.3%.

---



Table Of Contents

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 thirty-nine weeks ended May 31, 2014 are as follows (in thousands):

	<b>May 31, 2014</b>
Beginning balance as of August 31, 2013	\$19,680
Payments made for which reserves had been provided	(1,460 )
Insurance proceeds received	631
Interest accretion	537
Revision in estimates	(21 )
Change in discount rates	647
Balance as of May 31, 2014	\$20,014

Anticipated payments and insurance proceeds relating to currently identified environmental remediation liabilities as of May 31, 2014, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

<b>(In thousands)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>	<b>Total</b>
Estimated costs – current dollars	\$4,308	\$2,620	\$1,887	\$865	\$797	\$ 12,421	\$22,898
Estimated insurance proceeds	—	(173 )	(159 )	(173 )	(159 )	(1,592 )	(2,256 )
Net anticipated costs	\$4,308	\$2,447	\$1,728	\$692	\$638	\$ 10,829	\$20,642
Effect of inflation							7,591
Effect of discounting							(8,219 )
Balance as of May 31, 2014							\$20,014

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 May 31, 2014, the balance in this escrow account, which is held in a trust and is not recorded in our Consolidated Balance Sheet, was approximately \$3.0 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. 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 litigation related to charges for certain ancillary services on invoices, 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.

As previously disclosed, on December 31, 2012 we received an indemnity demand from counsel for New England Compounding Center (“NECC”) regarding claims made against NECC, including those related to NECC’s highly-publicized compounding and sale of tainted methylprednisolone acetate which reportedly resulted in a widespread outbreak of fungal meningitis and other infections. It has been reported that over 60 people died and another approximately 700 people were harmed as a result of this outbreak. This demand related to the limited, once-a-month cleaning services we provided to portions of NECC’s cleanroom facilities. Based on our preliminary review of this matter, we believe that NECC’s claims are without merit.

Over the summer of 2013, we received and responded to a subpoena from the Plaintiffs’ Steering Committee (“PSC”) appointed in conjunction with the NECC multi-district litigation (“MDL”) proceeding pending in federal court in Boston, Massachusetts. That subpoena sought information relating to the NECC matter. In September 2013, we entered into a tolling agreement with the PSC which, among other things, tolled defenses based on statutes of limitations with respect to certain claimants.

---

Table Of Contents

On November 5, 2013, a Master Complaint was filed in the NECC MDL proceeding naming us as one of numerous defendants in the matter. Individual plaintiffs were able to piggy-back on the Master Complaint by filing a Short Form Complaint to initiate legal actions against one or more of the defendants named in the Master Complaint. As of June 30, 2014, we have either received demand letters from or been named as a defendant in suits relating to approximately 475 patients who allegedly received the tainted drug from NECC. We have notified our insurers of these claims and they have issued reservation of rights letters with respect to coverage of these claims. We are in continuing discussions with our insurers concerning coverage matters. In June 2014, we, in consultation with our insurers, agreed to attempt to mediate these suits with the PSC. While we are unable to ascertain the ultimate outcome of this matter, based on the information currently available, we believe that a loss with respect to this matter is neither probable nor remote, and we are unable to reasonably assess an estimate or range of estimates of any potential losses. If we are found to be liable with respect to claims brought against us relating to NECC that are not covered by our insurance, we may incur liabilities that are material to our financial condition and operating results.

*Off-Balance Sheet Arrangements*

As of May 31, 2014, 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.

*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.

### *Energy Costs*

Significant increases in energy costs, specifically with respect to natural gas and gasoline, can materially affect our results of operations and financial condition.

### *Contractual Obligations and Other Commercial Commitments*

On September 14, 2013, we repaid in full at maturity the \$100 million of Floating Rate Notes from our cash reserves. Except for this repayment, as of May 31, 2014 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 31, 2013.

### **Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (“FASB”) issued updated accounting guidance that improves the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this updated guidance require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under US GAAP that provide additional detail about those amounts. This guidance was effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2012 and was to be applied prospectively, with early adoption permitted. We adopted this guidance on September 1, 2013 and the adoption did not have a material impact on our financial statements.

In July 2013, the FASB issued updated accounting guidance on the presentation of unrecognized tax benefits. This update provides that an entity’s unrecognized tax benefits, or a portion of its unrecognized tax benefits, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2013 and is to be applied prospectively, with early adoption permitted. We do not expect this guidance to have a material impact on our financial statements.

In May 2014, the FASB issued updated accounting guidance on revenue recognition. This 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 is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2016 and allows for either full retrospective or modified retrospective application, with early adoption not permitted. Accordingly, the standard is effective for us on August 27, 2017. 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.

---

Table Of Contents

**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 10.0% and 9.8% of total consolidated revenues for the thirteen and thirty-nine weeks ended May 31, 2014, respectively, and total assets denominated in currencies other than the U.S. dollar represented approximately 13.2% and 12.1% of total consolidated assets at May 31, 2014 and August 31, 2013, respectively. If exchange rates had increased or decreased by 10% from the actual rates in effect during the thirteen and thirty-nine weeks ended and as of May 31, 2014, our revenues would have increased or decreased by approximately \$3.6 million and \$10.3 million, respectively, and assets as of May 31, 2014 would have increased or decreased by approximately \$17.9 million.

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 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 and thirty-nine weeks ended May 31, 2014, transaction losses included in other (income) expense was a nominal amount for both periods. If the exchange rates had increased or decreased by 10% during the thirteen and thirty-nine weeks ended May 31, 2014, we would have recognized exchange gains or losses of approximately \$1.1 million for both periods.

*Interest Rate Sensitivity*

We are exposed to market risk from changes in interest rates which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage these exposures through our regular operating and financing activities. We are exposed to interest rate risk primarily through our borrowings under our Credit Agreement with a syndicate of banks. Under our Credit Agreement, we borrow funds at variable interest rates based on the Eurodollar rate or LIBOR rates. If the LIBOR and Eurodollar rates fluctuated by 10% from the actual rates in effect during the thirteen and thirty-nine weeks ended May 31, 2014, our interest expense would have fluctuated by a nominal amount from the interest expense recognized for both periods.

## 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.

---

Table Of Contents

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the third quarter of fiscal year 2014 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 9, “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, except as set forth below under this “Item 1A. Risk Factors,” 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 31, 2013. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended August 31, 2013, 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.

*In addition to contingencies and claims relating to environmental compliance matters, we may from time to time be subject to legal proceedings and claims related to our business operations which may adversely affect our financial condition and operating results.*



In addition to contingencies and claims relating to environmental compliance matters, we are subject from time to time to legal proceedings and claims arising from the conduct of our business operations, including personal injury claims, customer contract matters and employment claims. Certain of these claims are typically not covered by our available insurance. In addition, claims occasionally result in significant investigation and litigation expenses and, if successful, may result in material losses to us. Certain claims may also result in significant adverse publicity against us. As a consequence, successful claims against us not covered by our available insurance coverage could have a material adverse effect on our business, financial condition and results of operation.

As previously disclosed, on December 31, 2012 we received an indemnity demand from counsel for New England Compounding Center (“NECC”) regarding claims made against NECC, including those related to NECC’s highly-publicized compounding and sale of tainted methylprednisolone acetate which reportedly resulted in a widespread outbreak of fungal meningitis and other infections. It has been reported that over 60 people died and another approximately 700 people were harmed as a result of this outbreak. This demand related to the limited, once-a-month cleaning services we provided to portions of NECC’s cleanroom facilities. Based on our preliminary review of this matter, we believe that NECC’s claims are without merit.

Over the summer of 2013, we received and responded to a subpoena from the Plaintiffs’ Steering Committee (“PSC”) appointed in conjunction with the NECC multi-district litigation (“MDL”) proceeding pending in federal court in Boston, Massachusetts. That subpoena sought information relating to the NECC matter. In September 2013, we entered into a tolling agreement with the PSC which, among other things, tolled defenses based on statutes of limitations with respect to certain claimants.

On November 5, 2013, a Master Complaint was filed in the NECC MDL proceeding naming us as one of numerous defendants in the matter. Individual plaintiffs were able to piggy-back on the Master Complaint by filing a Short Form Complaint to initiate legal actions against one or more of the defendants named in the Master Complaint. As of June 30, 2014, we have either received demand letters from or been named as a defendant in suits relating to approximately 475 patients who allegedly received the tainted drug from NECC. We have notified our insurers of these claims and they have issued reservation of rights letters with respect to coverage of these claims. We are in continuing discussions with our insurers concerning coverage matters. In June 2014, we, in consultation with our insurers, agreed to attempt to mediate these suits with the PSC. While we are unable to ascertain the ultimate outcome of this matter, based on the information currently available, we believe that a loss with respect to this matter is neither probable nor remote, and we are unable to reasonably assess an estimate or range of estimates of any potential losses. If we are found to be liable with respect to claims brought against us relating to NECC that are not covered by our insurance, we may incur liabilities that are material to our financial condition and operating results.

Table Of Contents

*We may incur unexpected cost increases due to rising healthcare costs, the Affordable Care Act and other labor 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”) will require us to modify one of the healthcare plans we provide to our employees. In addition, we will incur additional costs related to ACA transitional reinsurance fees that will be paid in fiscal years 2015, 2016 and 2017. We expect that the required modifications to our healthcare plan and the incurrence of such fees will increase our cost of providing healthcare to our employees. There remains considerable uncertainty as to how significant the increase to the healthcare costs will be, including the effect of the plan modifications on the behavior of our employees as well as the potential for increased enrollment in our plans. In addition, other legislative initiatives may also result in higher labor costs. We endeavor to offer attractive wages and benefits to our employees. To continue to do so in the future may cause us to incur unexpected increases in overall labor costs, which could adversely affect our results of operation and financial condition.

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

(a) Not Applicable.

(b) Not Applicable.

(c) Issuer Purchases of Equity Securities

<b>Period</b>	<b>(a) Total Number of Shares of Common Stock Purchased</b>	<b>(b) Average Price Paid per Common Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plan or Program</b>
March 2, 2014 – March 29, 2014	–	\$–	N/A	N/A
March 30, 2014 – April 26, 2014	35,938	(1) 98.13	N/A	N/A

April 27, 2014 – May – 31, 2014	–	N/A	N/A
35,938	\$98.13	N/A	N/A

(1) Represents shares of Common Stock surrendered by the Company’s CEO to the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

Table Of Contents

**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 May 31, 2014, 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*

**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

July 10, 2014 By: /s/ Ronald D. Croatti

Ronald D. Croatti

President and Chief Executive Officer

/s/ Steven S. Sintros

July 10, 2014 By: Steven S. Sintros

Senior Vice President and Chief Financial Officer

---

Table Of Contents

**EXHIBIT INDEX**

- \* 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 May 31, 2014, 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*