

UNIFIRST CORP
Form 10-Q
July 09, 2009

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 30, 2009**

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: **1-8504**

UNIFIRST CORPORATION

(Exact name of Registrant as Specified in Its Charter)

Massachusetts
(State or Other Jurisdiction of
Incorporation or Organization)

68 Jonspin Road, Wilmington, MA
(Address of Principal Executive Offices)

04-2103460
(I.R.S. Employer
Identification No.)

01887
(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

Non-accelerated filer

Smaller reporting company

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 2, 2009 were 14,411,529 and 4,933,369, respectively.

UniFirst Corporation

Quarterly Report on Form 10-Q

For the Quarter ended May 30, 2009

Table of Contents

Part I FINANCIAL INFORMATION

Item 1 - Financial Statements

[Consolidated Statements of Income for the thirteen and thirty-nine weeks ended May 30, 2009 and the thirteen and forty weeks ended May 31, 2008](#)

[Consolidated Balance Sheets as of May 30, 2009 and August 30, 2008](#)

[Consolidated Statements of Cash Flows for the thirty-nine weeks ended May 30, 2009 and the forty weeks ended May 31, 2008](#)

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 - Submission of Matters to a Vote of Security Holders

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

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

(In thousands, except per share data)	Thirteen weeks ended May 30, 2009	Thirteen weeks ended May 31, 2008	Thirty-nine weeks ended May 30, 2009	Forty weeks ended May 31, 2008
Revenues	\$252,105	\$ 254,617	\$771,944	\$772,165
Costs and expenses:				
Operating costs (1)	148,597	157,169	464,632	480,797
Selling and administrative expenses (1)	52,152	54,458	159,752	164,501
Depreciation and amortization	14,641	13,192	42,683	40,094
	215,390	224,819	667,067	685,392
Income from operations	36,715	29,798	104,877	86,773
Other expense (income):				
Interest expense	2,226	2,567	7,141	9,430
Interest income	(441)	(575)	(1,492)	(1,668)
Exchange rate (gain) loss	(789)	8)	340)	(421)
	996	2,000	5,989	7,341
Income before income taxes	35,719	27,798	98,888	79,432
Provision for income taxes	14,030	10,858	40,057	30,737
Net income	\$21,689	\$ 16,940	\$58,831	\$48,695
Income per share Basic:				
Common Stock	\$1.18	\$ 0.92	\$3.21	\$2.66
Class B Common Stock	\$0.95	\$ 0.74	\$2.57	\$2.13
Income per share Diluted:				
Common Stock	\$1.12	\$ 0.87	\$3.04	\$2.52
Weighted average number of shares outstanding Basic:				
Common Stock	14,394	14,366	14,389	14,358
Class B Common Stock	4,935	4,937	4,935	4,937
	19,329	19,303	19,324	19,295
Weighted average number of shares outstanding Diluted:				
Common Stock	19,376	19,363	19,371	19,340
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 and equipment and amortization of its intangible assets.

The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	May 30,	August 30,
(In thousands, except share data)	2009	2008 (a)
Assets		
Cash and cash equivalents	\$ 32,381	\$ 25,655
Receivables, less reserves of \$7,628 and \$4,164, respectively	103,515	102,830
Inventories	47,296	46,154
Rental merchandise in service, net	76,447	92,315
Prepaid and deferred income taxes	17,053	15,431
Prepaid expenses	3,516	1,720
Total current assets	280,208	284,105
Property and equipment:		
Land, buildings and leasehold improvements	322,662	314,370
Machinery and equipment	349,771	327,705
Motor vehicles	114,598	102,805
	787,031	744,880
Less -- accumulated depreciation	401,099	376,319
	385,932	368,561
Goodwill		
Customer contracts, net	260,588	258,836
Other intangible assets, net	58,018	62,573
Other assets	3,779	4,877
	2,548	2,715
	\$ 991,073	\$ 981,667
Liabilities and shareholders' equity		
Current liabilities:		
Current maturities of long-term obligations	\$ 17,841	\$ 4,222
Accounts payable	36,367	54,822
Accrued liabilities	103,121	91,837
Accrued income taxes	6,430	
Total current liabilities	163,759	150,881
Long-term obligations, net of current maturities	175,622	231,317
Deferred income taxes	42,576	42,699
Commitments and contingencies (Note 7)		
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; 14,409,129 and 14,388,679 shares issued and outstanding, respectively	1,440	1,438
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,933,369 and 4,935,369 shares issued and outstanding, respectively	493	494
Capital surplus	19,126	18,240
Retained earnings	588,931	532,164
Accumulated other comprehensive (loss) income	(874)) 4,434
Total shareholders' equity	609,116	556,770

\$991,073 \$981,667

(a) Balances as of fiscal 2008 year-end, derived from fiscal 2008 audited financial statements

The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Thirty-nine weeks ended May 30, 2009	Forty weeks ended May 31, 2008	
(In thousands)			
Cash flows from operating activities:			
Net income	\$58,831	\$48,695	
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	36,072	34,140	
Amortization of intangible assets	6,611	5,954	
Amortization of deferred financing costs	200	200	
Deferred income taxes	(246)	(48))
Stock-based compensation	761	958	
Accretion on asset retirement obligations	380	366	
Changes in assets and liabilities, net of acquisitions:			
Receivables	(1,612)	(13,557))
Inventories	(1,277)	(624))
Rental merchandise in service	15,821	(1,369))
Prepaid expenses	(1,820)	(1,213))
Accounts payable	(18,119)	2,588	
Accrued liabilities	6,698	2,883	
Accrued income taxes	7,108	4,609	
Net cash provided by operating activities	109,408	83,582	
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(3,434)	(51,085))
Capital expenditures	(55,457)	(50,485))
Other	2	717	
Net cash used in investing activities	(58,889)	(100,853))
Cash flows from financing activities:			
Proceeds from long-term obligations	138,987	127,525	
Payments on long-term obligations	(180,638)	(97,169))
Proceeds from exercise of Common Stock options	109	441	
Payment of cash dividends	(2,064)	(2,060))
Net cash (used in) provided by financing activities	(43,606)	28,737	
Effect of exchange rate changes	(187)	330	
Net increase in cash and cash equivalents	6,726	11,796	
Cash and cash equivalents at beginning of period	25,655	12,698	
Cash and cash equivalents at end of period	\$32,381	\$24,494	

The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Business Description

UniFirst Corporation (the Company) is one of the largest providers of workplace uniforms and protective clothing in the United States. The Company designs, manufactures, personalizes, rents, cleans, delivers, and sells 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. The Company also rents industrial wiping products, floor mats, facility service products and other non-garment items, and provides first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies.

The Company serves 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. The Company also provides its customers with restroom supplies, including air fresheners, paper products and hand soaps.

At certain specialized facilities, the Company also decontaminates and cleans work clothes that may have been exposed to radioactive materials and services special clean room protective wear. Typical customers for these specialized services include government agencies, research and development laboratories, high technology companies and utilities operating nuclear reactors.

As discussed and described in Note 12 to the Consolidated Financial Statements, the Company has five reporting segments: US and Canadian Rental and Cleaning, Manufacturing (MFG), Specialty Garments Rental and Cleaning (Specialty Garments), First Aid and Corporate. The operations of the US and Canadian Rental and Cleaning reporting segment are referred to by the Company as its industrial laundry operations and the locations related to this reporting segment are referred to as industrial laundries . The Company refers to its US and Canadian Rental and Cleaning, MFG, and Corporate segments combined as its core laundry operations .

Interim Financial Information

These Consolidated Financial Statements have been prepared by the Company 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 30, 2008. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

Principles of Consolidation

Edgar Filing: UNIFIRST CORP - Form 10-Q

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. These estimates are based on historical information, current trends, and information available from other sources. Actual results could differ from these estimates.

Fiscal Year

The Company's fiscal year ends on the last Saturday in August. For financial reporting purposes, fiscal 2009 will consist of 52 weeks, whereas fiscal 2008 consisted of 53 weeks. The additional week was included in the second quarter of fiscal 2008. As a result, the quarterly periods ended May 30, 2009 and May 31, 2008 both consisted of 13 weeks, as compared to the nine-month periods ended May 30, 2009 and May 31, 2008 which consisted of 39 weeks and 40 weeks, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and bank short-term investments with maturities of less than ninety days.

Financial Instruments

The Company's financial instruments, which may expose the Company to concentrations of credit risk, include cash and cash equivalents, receivables, accounts payable, notes payable and long-term obligations. Each of these financial instruments is recorded at cost, which approximates its fair value.

Revenue Recognition and Allowance for Doubtful Accounts

The Company recognizes revenue from rental operations in the period in which the services are provided. Direct sales revenue is recognized in the period in which the services are performed or when the product is shipped. Management judgments and estimates are used in determining the collectability of accounts receivable and evaluating the adequacy of the allowance for doubtful accounts. The Company considers specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances as part of its evaluation. Changes in estimates are reflected in the period they become known. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Material changes in its estimates may result in significant differences in the amount and timing of bad debt expense recognition for any given period.

Inventories and Rental Merchandise in Service

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, which primarily consist of finished goods.

Rental merchandise in service is amortized, primarily on a straight-line basis, over the estimated service lives of the merchandise, which range from 6 to 36 months. In establishing estimated lives for merchandise in service, management considers historical experience and the intended use of the merchandise. Material differences may result in the amount and timing of operating profit for any period if management makes significant changes to these estimates.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred, while expenditures for renewals and betterments are capitalized. The Company provides for depreciation on the straight-line method based on the following estimated useful lives:

Buildings	30-40 years
Leasehold improvements	Shorter of useful life
	or term of lease
Machinery and equipment	3-10 years
Motor vehicles	3-5 years

In accordance with Statements of Financial Accounting Standards (SFAS) No. 142, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, including property and equipment, are evaluated for impairment whenever events or circumstances indicate an asset may be impaired. There were no material impairments of long-lived assets in the thirty-nine weeks ended May 30, 2009 or the year ended August 30, 2008.

Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized. SFAS No. 142 requires that companies test goodwill for impairment on an annual basis. Management completes its annual impairment test in the fourth quarter of each fiscal year. In addition, SFAS No. 142 also requires that companies test goodwill if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit to which goodwill is assigned below its carrying amount. The Company's evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling.

Edgar Filing: UNIFIRST CORP - Form 10-Q

During the thirteen weeks ended February 28, 2009, there was a decline in the market value of the Company's stock as well as significant deterioration in general economic conditions. The decline in the Company's market capitalization prompted the Company's management to conduct a goodwill analysis, in accordance with the provisions of SFAS No. 142, to determine if an impairment of goodwill existed. Based on the outcome of the Company's analysis, it concluded that no impairment existed as of February 28, 2009. The Company did not perform a similar impairment analysis during the thirteen weeks ended May 30, 2009 because the Company concluded that there were no impairment indicators present during the quarter.

The Company cannot predict future economic conditions or the future market value of the Company's stock or their impact on the Company. A continued decline in the Company's market capitalization and/or deterioration in general economic conditions could negatively and materially impact the Company's assumptions and assessment of the fair value of the Company's business. If general economic conditions or the Company's financial performance deteriorate, the Company may be required to record a goodwill impairment charge in the future which could have a material impact on the Company's financial condition and results of operations.

Definite-lived intangible assets are amortized over their useful lives, which are based on management's estimates of the period that the assets will generate revenue. Definite-lived intangible assets are evaluated for impairment in accordance with SFAS No. 144. There were no impairments of goodwill or definite-lived intangible assets in the thirty-nine weeks ended May 30, 2009 or the year ended August 30, 2008.

Environmental and Other Contingencies

The Company is subject to legal proceedings and claims arising from the conduct of its business operations, including environmental matters, personal injury, customer contract matters and employment claims. Accounting principles generally accepted in the United States require that a liability for contingencies be recorded when it is probable that a liability has occurred 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. The Company records accruals for environmental and other contingencies based on enacted laws, regulatory orders or decrees, the Company's estimates of costs, insurance proceeds, participation by other parties, the timing of payments, and the input of outside consultants and attorneys.

The estimated liability for environmental contingencies has been discounted using risk-free interest rates ranging from 3.5% to 4.3% over periods ranging from ten to thirty years. The estimated current costs, net of legal settlements with insurance carriers, have been adjusted for the estimated impact of inflation at 3% per year. Changes in enacted laws, regulatory orders or decrees, management's estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments 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. Refer to Note 7 of the Consolidated Financial Statements for additional discussion and analysis.

Asset Retirement Obligations

The Company follows the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, which generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. Under this accounting method, 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.

Edgar Filing: UNIFIRST CORP - Form 10-Q

The Company has recognized as a liability the present value of the estimated future costs to decommission its nuclear laundry facilities in accordance with the provisions of SFAS No. 143. The Company depreciates, on a straight-line basis, the amount added to property and equipment and recognizes accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-two years.

The estimated liability has been based on historical experience in decommissioning nuclear laundry facilities, estimated useful lives of the underlying assets, external vendor estimates as to the cost to decommission these assets in the future, and federal and state regulatory requirements. The estimated current costs have been adjusted for the estimated impact of inflation at 3% per year. The liability has been discounted using credit-adjusted risk-free rates that range from approximately 5.7% to 7.0%. Revisions to the liability could occur due to changes in the Company's estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates. Changes due to revised estimates will be recognized by adjusting the carrying amount of the liability and the related long-lived asset if the assets are still in service, or charged to expense in the period if the assets are no longer in service.

Derivative Financial Instruments

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related authoritative guidance. All derivative instruments are recorded as other assets or other liabilities at fair value, in accordance with SFAS No. 157, *Fair Value Measurements*. All subsequent changes in a derivative's fair value are recognized in income, unless specific hedge accounting criteria are met. Cash flows associated with derivatives are classified in the same category as the cash flows hedged in the Consolidated Statements of Cash Flows.

Derivative instruments that qualify for hedge accounting are classified as a hedge of the variability of cash flows to be paid related to a recognized liability or a forecasted transaction. Changes in the fair value of a derivative that is highly effective and designated as a cash flow hedge are recognized in accumulated other comprehensive (loss) income in the Consolidated Balance Sheet until expenses from the cash flows of the hedged items are recognized. The Company performs an assessment at the inception of the hedge and on a quarterly basis thereafter, to determine whether its derivatives are highly effective in offsetting changes in the value of the hedged items. Any change in the fair value resulting from hedge ineffectiveness is immediately recognized as income or expense in the Consolidated Statements of Income.

The Company's hedging activities are transacted only with highly rated institutions, which reduces the exposure to credit risk in the event of nonperformance. Refer to Note 4 of the Consolidated Financial Statements for additional discussion and analysis.

Insurance

The Company is self-insured for certain obligations related to health, workers' compensation, vehicles and general liability programs. The Company also purchases stop-loss insurance policies to protect itself from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for events that have occurred, but have not been reported. The Company's estimates consider historical claims experience and other factors. The Company's liabilities are based on estimates, and, while the Company believes that its accruals are adequate, the ultimate liability may be significantly different from the amounts recorded. Changes in claims experience, the Company's ability to settle claims or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

Edgar Filing: UNIFIRST CORP - Form 10-Q

Supplemental Executive Retirement Plan and other Pension Plans

The Company accounts for its Supplemental Executive Retirement Plan and other pension plans in accordance with SFAS No. 87, *Employers Accounting for Pensions*, as amended by SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under SFAS No. 87, pension expense is recognized on an accrual basis over employees' estimated service periods. Pension expense calculated under SFAS No. 87 is generally independent of funding decisions or requirements.

The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. Pension expense increases as the expected rate of return on pension plan assets decreases. Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in the Company's pension plans will impact the Company's future pension expense and liabilities. The Company cannot predict with certainty what these factors will be in the future.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes are provided for temporary differences between the amounts recognized for income tax and financial reporting purposes at currently enacted tax rates. The Company computes income tax expense by jurisdiction based on its operations in each jurisdiction.

The Company is periodically reviewed by U.S. domestic and foreign tax authorities regarding the amount of taxes due. These reviews typically include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, the Company records estimated reserves for probable exposures, in accordance with FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*.

Net Income Per Share

The Company computes net income per share under the provisions of SFAS No. 128, *Earnings per Share*, and Emerging Issues Task Force (EITF) Issue No. 03-6, *Participating Securities and Two-Class Method under FASB Statement No. 128, Earnings per Share*. EITF Issue No. 03-6 requires that income per share for each class of common stock be calculated assuming 100% of the Company's earnings are distributed as dividends to each class of common stock based on their respective dividend rights, even though the Company does not anticipate distributing 100% of its earnings as dividends. The Common Stock of the Company has a 25% dividend preference to the Class B Common Stock. The effective result is that the basic earnings per share for the Common Stock will be 25% greater than the basic earnings per share of the Class B Common Stock.

The Class B Common Stock may be converted at any time on a one-for-one basis into Common Stock at the option of the holder of the Class B Common Stock. Diluted earnings per share for the Company's Common Stock assumes the conversion of all of the Company's Class B Common Stock into Common Stock, full vesting of outstanding restricted stock, and the exercise of outstanding stock options under the Company's stock based employee compensation plans.

Edgar Filing: UNIFIRST CORP - Form 10-Q

The following table shows how net income is allocated using this method (in thousands):

	Thirteen weeks ended May 30, 2009	Thirteen weeks ended May 31, 2008	Thirty-nine weeks ended May 30, 2009	Forty weeks ended May 31, 2008
Net income available to shareholders	\$21,689	\$16,940	\$58,831	\$48,695
Allocation of net income for Basic:				
Common Stock	\$17,021	\$13,287	\$46,165	\$38,190
Class B Common Stock	4,668	3,653	12,666	10,505
	\$21,689	\$16,940	\$58,831	\$48,695

The diluted earnings per share calculation assumes the conversion of all the Company's Class B Common Stock into Common Stock, so no allocation of earnings to Class B Common Stock is required.

The following table illustrates the weighted average number of shares of Common Stock and Class B Common Stock shares outstanding during the thirteen and thirty-nine weeks ended May 30, 2009 and the thirteen and forty weeks ended May 31, 2008 and is utilized in the calculation of earnings per share (in thousands):

	Thirteen weeks ended May 30, 2009	Thirteen weeks ended May 31, 2008	Thirty-nine weeks ended May 30, 2009	Forty weeks ended May 31, 2008
Weighted average number of Common shares - Basic	14,394	14,366	14,389	14,358
Add: effect of dilutive potential common shares - Common Stock options and restricted stock	47	60	47	45
Add: assumed conversion of Class B Common shares into Common Stock	4,935	4,937	4,935	4,937
Weighted average number of Common shares - Diluted	19,376	19,363	19,371	19,340
Weighted average number of Class B Common shares - Basic	4,935	4,937	4,935	4,937

Stock options to purchase 274,100 shares of Common Stock were excluded from the calculation of diluted earnings per share for both the thirteen and thirty-nine weeks ended May 30, 2009, respectively, because they were anti-dilutive. Stock options to purchase 82,500 and 144,500 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen and forty weeks ended May 31, 2008, respectively, because they were anti-dilutive.

Share-Based Compensation

The Company adopted a stock incentive plan (the Plan) in November 1996 and has reserved 800,000 shares of Common Stock for issuance under the Plan. All options issued to management under the Plan are recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. All awards issued to the Company's non-employee members of the Board of Directors under the Plan are recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. Stock options granted to

Edgar Filing: UNIFIRST CORP - Form 10-Q

non-employee directors are granted on the third business day following the annual shareholders' meeting. All options are exercisable at a price equal to the fair market value of the Company's Common Stock on the date of grant.

Options granted prior to fiscal 2003 were subject to a proportional four-year vesting schedule and expire eight years from the grant date. Beginning in fiscal 2003, option grants are subject to a five-year cliff-vesting schedule under which options become vested or exercisable after five years from the date of grant and expire ten years after the grant date. Options granted to the Company's non-employee directors are fully vested as of the date of grant. Prior to fiscal 2008, non-employee director grants expired ten years from the grant date. Beginning in fiscal 2008, non-employee director grants expire eight years after the grant date.

The Company accounts for its share-based compensation under the provisions of SFAS No. 123(R), *Share-Based Payment*. The fair value recognition provisions of this statement require that the share-based compensation cost be measured at the grant date based on the value of the award and be recognized as expense over the requisite service period, which is generally the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of share-based awards that are expected to be forfeited. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Compensation expense for all option grants is recognized ratably over the related vesting period. Certain options were granted during the thirty-nine weeks ended May 30, 2009 and the forty weeks ended May 31, 2008, respectively, to non-employee members of the Board of Directors of the Company, which were fully vested upon grant and expire eight years after the grant date. Accordingly, compensation expense related to these option grants in fiscal 2009 and 2008 were recognized on the date of grant. In January 2009, 12,000 shares of restricted stock were granted to the Company's non-employee directors subject to vesting in full one year from the date of grant. In January 2008, 6,000 shares of restricted stock were granted to the Company's non-employee directors which became fully vested in January 2009. Share-based compensation, which includes stock option grants and restricted stock grants, has been recorded in the Consolidated Statements of Income in selling and administrative expenses.

For the thirteen and thirty-nine weeks ended May 30, 2009, there were 3,500 and 6,450 shares of Common Stock issued as a result of the exercise of Common Stock options, respectively. For the thirteen and forty weeks ended May 31, 2008, there were 17,275 and 23,775 shares of Common Stock issued as a result of the exercise of Common Stock options, respectively.

Foreign Currency Translation

The functional currency of our foreign operations is the local country's currency. Transaction gains and losses, including gains and losses on our intercompany transactions, are included in other expense (income), in the accompanying Consolidated Statements of Income. Assets and liabilities of operations outside the United States are translated into U.S. dollars using period-end exchange rates. Revenues and expenses are translated at the average exchange rates in effect during each month of the fiscal year. The effects of foreign currency translation adjustments are included in shareholders' equity as a component of accumulated other comprehensive (loss) income in the accompanying Consolidated Balance Sheets.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications did not impact current or historical net income or shareholders' equity.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under US GAAP and expands disclosure requirements about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company partially adopted SFAS No. 157 on August 31, 2008, as required. The adoption of SFAS No. 157 for the Company's financial assets and liabilities did not have a material impact on its results of operations or financial condition. The Company is currently evaluating the impact, if any, the adoption of the delayed portion of SFAS No. 157 will have on its Consolidated Financial Statements. See Note 3, *Fair Value Measurements*, for further discussion on the Company's adoption of SFAS No. 157.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 amends SFAS No. 133 requiring enhanced disclosures about an entity's derivative and hedging activities thereby improving the transparency of financial reporting. SFAS No. 161's disclosures provide additional information on how and why derivative instruments are being used. SFAS No. 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted SFAS No. 161 on March 1, 2009, and the adoption did not have a material impact on its financial statements. The adoption of SFAS No. 161 resulted in enhanced disclosure regarding the Company's outstanding derivatives.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS No. 141R). SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the impact, if any, SFAS No. 141R will have on its Consolidated Financial Statements.

In June 2008, the FASB issued a Staff Position on Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. EITF Issue No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore, need to be included in the earnings allocation in computing earnings per share. This consensus is effective for the Company's fiscal year beginning August 30, 2009. The Company is currently evaluating the impact, if any, EITF Issue No. 03-6-1 will have on its Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, and other U.S. GAAP. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and may not be adopted early. The Company is currently evaluating the impact, if any, that FSP No. 142-3 may have on its Consolidated Financial Statements.

2. Acquisitions

During the thirty-nine weeks ended May 30, 2009, the Company completed nine acquisitions with an aggregate purchase price of approximately \$3.4 million. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. None of these acquisitions was significant in relation to the Company's consolidated financial results and, therefore, pro forma financial information has not been presented.

3. Fair Value Measurements

The Company adopted SFAS No. 157, *Fair Value Measurements*, on August 31, 2008. SFAS No. 157 defines fair value as the exchange price that would be received for 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 at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are 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. These assets or liabilities measured at fair value on a recurring basis are summarized in the table below (in thousands):

	As of May 30, 2009			Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Cash Equivalents	\$ 19,670			\$ 19,670
Total	\$ 19,670			\$ 19,670
Liabilities:				
Derivative Instruments	\$	3,851		\$ 3,851
Total	\$	3,851		\$ 3,851

4. Derivative Instruments and Hedging Activities

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In January 2008, the Company entered into an interest rate swap agreement to manage its exposure to interest rate movements and the related effect on its variable rate debt. The Company concluded that the interest rate swap met the criteria to qualify as a cash flow hedge under SFAS No. 133. Accordingly, the Company has reflected all changes in the fair value of the swap agreement in accrued liabilities and accumulated other comprehensive (loss) income, a component of shareholders' equity. The swap agreement, with a notional amount of \$100.0 million, matures on March 14, 2011. The Company pays a fixed rate of 3.51% and receives a variable rate tied to the three month LIBOR rate.

As of May 30, 2009, the Company had recorded the fair value of the interest rate swap of \$3.9 million in accrued liabilities and a corresponding loss of \$2.3 million in accumulated other comprehensive (loss) income, which was net of the associated tax benefit. As of August 30, 2008, the

Edgar Filing: UNIFIRST CORP - Form 10-Q

amounts recorded in accrued liabilities and other comprehensive income were \$0.3 million and \$0.2 million, respectively. Of the \$2.3 million loss deferred in accumulated other comprehensive (loss) income as of May 30, 2009, a \$1.6 million loss is expected to be reclassified to interest expense in the next twelve months.

The Company has recorded any realized gains or losses from its interest rate swap as an adjustment to interest expense in its Consolidated Statements of Income. For the thirteen weeks ended May 30, 2009 and May 31, 2008, the Company reclassified a loss from accumulated other comprehensive (loss) income into interest expense totaling \$0.5 million and \$0.3 million, respectively. For the thirty-nine weeks ended May 30, 2009 and the forty weeks ended May 31, 2008, the Company reclassified a loss from accumulated other comprehensive (loss) income into interest expense of \$0.9 million and \$0.3, respectively.

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 can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended May 30, 2009 and May 31, 2008, were \$4.6 million and \$2.6 million, respectively. Contributions charged to expense under the plan for the thirty-nine weeks ended May 30, 2009 and the forty weeks ended May 31, 2008 were \$10.3 million and \$8.0 million, respectively.

Supplemental Executive Retirement Plan and Other Pension 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. For both the thirteen weeks ended May 30, 2009 and May 31, 2008, the amount charged to expense related to these plans was \$0.4 million. For the thirty-nine weeks ended May 30, 2009 and the forty weeks ended May 31, 2008, the amounts charged to expense related to these plans were \$1.3 million and \$1.1 million, respectively.

6. Asset Retirement Obligations

The Company accounts for its asset retirement obligations under the provisions of SFAS No. 143, which generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. Accordingly, 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 and equipment and recognizes accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-two years.

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

Edgar Filing: UNIFIRST CORP - Form 10-Q

Beginning balance as of August 30, 2008	\$7,844
Accretion expense	380
Asset retirement costs incurred	(104)
Ending balance as of May 30, 2009	\$8,120

As of May 30, 2009, the \$8.1 million asset retirement obligation is included in accrued liabilities in the accompanying Consolidated Balance Sheet.

7. Commitments and Contingencies

The Company and its operations are subject to various federal, state and local laws and regulations governing, among other things, 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.

Accounting principles generally accepted in the United States require that a liability for contingencies be recorded when it is probable that a liability has occurred 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 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 negotiated with the applicable environmental authorities or otherwise 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 a number of additional locations that it acquired as part of its acquisition of Textilease Corporation in September 2003.

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 continues to implement mitigation measures and to monitor environmental conditions at the Somerville, Massachusetts site. The Company also has potential exposure related to an additional parcel of land (the Central Area) related to the Woburn, Massachusetts site discussed above. Currently, the consent order for the Woburn, Massachusetts site discussed above does not define or require any remediation work in the Central Area. The Company recently received written comments from the United States Environmental Protection Agency (EPA) requesting additional information and response actions with respect to both its property at the Woburn site and the Central Area. These comments are being reviewed with the EPA and other parties to the decree, and they are not yet final. The Company has accrued costs to perform certain work responsive to the EPA's comments.

Edgar Filing: UNIFIRST CORP - Form 10-Q

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. The Company's accruals reflect the amount within the range that constitutes its best 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 risk-free rates of interest ranging from 3.5% to 4.3%.

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 30, 2009 were as follows (in thousands):

Beginning balance as of August 30, 2008	\$ 15,097
Costs incurred for which reserves have been provided	(2,359)
Insurance proceeds received	119
Interest accretion	501
Revisions in cost estimates	3,183
Balance as of May 30, 2009	\$ 16,541

For the thirty-nine weeks ended May 30, 2009 the Company increased its environmental accrual by approximately \$3.2 million primarily due to adjustments to increase the Company's environmental reserves related to ongoing investigations at two of its environmental exposure sites. Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of May 30, 2009, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	2009	2010	2011	2012	2013	Thereafter	Total
Estimated costs - current dollars	\$ 2,422	2,622	2,144	1,003	828	12,829	21,848
Estimated insurance proceeds	(61)	(180)	(187)	(180)	(180)	(2,434)	(3,222)
Net anticipated costs	\$ 2,361	2,442	1,957	823	648	10,395	\$ 18,626
Effect of Inflation							7,228
Effect of Discounting							(9,313)
Balance as of May 30, 2009							\$ 16,541

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

Edgar Filing: UNIFIRST CORP - Form 10-Q

account and may be used in future years for costs related to this site through the year 2027. As of May 30, 2009, the balance in this escrow account, which is held in a trust and is not recorded on the Company's consolidated balance sheet, was approximately \$2.8 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 accrued or covered by insurance, will not have a material adverse effect on the consolidated financial position and/or results of operations of the Company. It is possible, however, that 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.

8. Income Taxes

The Company's effective income tax rate was 39.3% and 40.5% for the thirteen and thirty-nine weeks ended May 30, 2009, respectively, as compared to 39.1% and 38.7% for the thirteen and forty weeks ended May 31, 2008, respectively. The increases were primarily due to changes in the Company's reserves for income tax exposures as well as an increase in U.S. state income taxes compared to the prior year.

The Company has a significant portion of its operations in the United States and Canada. It is required to file federal income tax returns as well as state income tax returns in a majority of the U.S. states and also in the Canadian provinces of Alberta, British Columbia, Ontario, Saskatchewan and Quebec. At times, the Company is subject to audits in these jurisdictions, which typically are inherently complex and can require several years to resolve. The final resolution of any such tax audit could result in either a reduction in the Company's accruals or an increase in its income tax provision, both of which could have a material impact on the consolidated results of operations in any given period.

All U.S. and Canadian federal income tax examinations have substantially concluded through fiscal years 2004 and 2001, respectively. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2003. 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.

As of May 30, 2009, there was \$2.2 million in unrecognized tax benefits, which if recognized, would reduce the Company's effective tax rate. 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. As of May 30, 2009, the Company had accrued a total of \$1.7 million in interest and penalties in its current accrued liabilities.

9. Long-Term Obligations

The Company has a \$225.0 million unsecured revolving credit agreement (Credit Agreement) with a syndicate of banks, which matures on September 13, 2011. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on the Eurodollar rate or the bank's prime rate, as selected by the Company. Availability of credit requires compliance with certain financial and other covenants, including a maximum funded debt ratio and minimum interest coverage as defined in the Credit Agreement. The Company generally tests its compliance with these financial covenants on a fiscal quarterly basis. At May 30, 2009, the interest rates applicable to the Company's borrowings under the Credit Agreement were calculated as LIBOR plus 50 basis points at the time of the respective borrowings and ranged from 0.85% to 3.25%. As of May 30, 2009 the Company had outstanding borrowings of approximately \$12.0 million, outstanding letters of credit amounting to \$35.7 million and \$177.3 million available for borrowing. Subsequent to the quarter ended May 30, 2009, the Company repaid the remaining \$12.0 million on its line of credit under the Credit Agreement. As a result, the Company has classified this amount within current maturities of long-term obligations.

On June 14, 2004, the Company issued \$75.0 million of fixed rate notes pursuant to a Note Purchase Agreement (2004 Note Agreement) with a seven year term (June 2011) and bearing interest at 5.27%. The Company also issued \$90.0 million of floating rate notes which were repaid in September 2005 and September 2006.

On September 14, 2006, the Company issued \$100.0 million of floating rates notes (Floating Rate Notes) pursuant to a Note Purchase Agreement (2006 Note Agreement). The Floating Rate Notes mature on September 14, 2013, bear interest at LIBOR plus 50 basis points and may be repaid at face value two years from the date of issuance. The proceeds from the issuance of the Floating Rate Notes were used to first repay the outstanding floating rate notes under the 2004 Note Agreement in the amount of \$75.0 million and then to pay down outstanding amounts under the Credit Agreement.

As of May 30, 2009, the Company was in compliance with all covenants under the 2004 Note Agreement, 2006 Note Agreement and the Credit Agreement.

10. Shareholders' Equity

The Company has two classes of common stock: Common Stock and Class B Common Stock. Each share of Common Stock is entitled to one vote, is freely transferable, and is entitled to a cash dividend equal to 125% of any cash dividend paid on each share of Class B Common Stock. Each share of Class B Common Stock is entitled to ten votes and can be converted to Common Stock on a share-for-share basis. However, until converted to Common Stock shares of Class B Common Stock are not freely transferable.

For the thirty-nine weeks ended May 30, 2009, there were 2,000 shares of Class B Common Stock converted to Common Stock. For the forty weeks ended May 31, 2008, there were 80 shares of Class B Common Stock converted to Common Stock.

11. Comprehensive Income

The components of comprehensive income are as follows (in thousands):

Edgar Filing: UNIFIRST CORP - Form 10-Q

	Thirteen weeks ended May 30, 2009	Thirteen weeks ended May 31, 2008	Thirty-nine weeks ended May 30, 2009	Forty weeks ended May 31, 2008
Net income	\$ 21,689	\$ 16,940	\$ 58,831	\$ 48,695
Other comprehensive income (loss):				
Foreign currency translation adjustments	10,258	27	(2,674)	4,181
Pension-related			(473)	
Change in value of interest rate swap, net	(261)	1,537	(2,161)	174
Comprehensive income	\$ 31,686	\$ 18,504	\$ 53,523	\$ 53,050

12. Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in interim financial reports issued to shareholders. 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, as defined under SFAS No. 131, 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 to other Company locations. These revenues are recorded at a transfer price which is typically in excess of the actual manufacturing cost. The transfer price is determined by management and may not necessarily represent the fair value of the products manufactured. Products are carried in inventory and subsequently placed in service and 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 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.

Edgar Filing: UNIFIRST CORP - Form 10-Q

The Specialty Garments operating segment purchases, rents, cleans, delivers and sells, specialty garments and non-garment items primarily for nuclear and clean room applications. The First Aid operating segment sells first aid cabinet services and other safety supplies.

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 table (in thousands):

	US and Canadian				Subtotal Core Laundry Operations	Specialty Garments	First Aid	Total
	Rental and Cleaning	MFG	Net Interco MFG Elim	Corporate				
Thirteen weeks ended May 30, 2009								
Revenues	\$ 221,780	\$ 15,687	\$ (15,687)	\$ 1,997	\$ 223,777	\$ 21,040	\$ 7,288	\$ 252,105
Income (loss) from operations	\$ 41,764	\$ 5,909	\$ 441	\$ (14,854)	\$ 33,260	\$ 3,013	\$ 442	\$ 36,715
Interest (income) expense, net	\$ (445)	\$	\$	\$ 2,230	\$ 1,785	\$	\$	\$ 1,785
Income (loss) before taxes	\$ 42,224	\$ 5,675	\$ 441	\$ (17,044)	\$ 31,296	\$ 3,982	\$ 441	\$ 35,719
Thirteen weeks ended May 31, 2008								
Revenues	\$ 224,715	\$ 22,377	\$ (22,377)	\$ 1,971	\$ 226,686	\$ 20,401	\$ 7,530	\$ 254,617
Income (loss) from operations	\$ 34,152	\$ 8,328	\$ (903)	\$ (13,664)	\$ 27,913	\$ 1,840	\$ 45	\$ 29,798
Interest (income) expense, net	\$ (558)	\$	\$	\$ 2,550	\$ 1,992	\$	\$	\$ 1,992
Income (loss) before taxes	\$ 34,704	\$ 8,175	\$ (902)	\$ (16,170)	\$ 25,807	\$ 1,946	\$ 45	\$ 27,798
Thirty-nine weeks ended May 30, 2009								
Revenues	\$ 689,064	\$ 61,625	(61,625)	\$ 5,930	\$ 694,994	\$ 55,720	\$ 21,230	\$ 771,944
Income (loss) from operations	\$ 124,940	\$ 21,609	(770)	\$ (47,848)	\$ 97,931	\$ 6,411	\$ 535	\$ 104,877
Interest (income) expense, net	\$ (1,515)	\$		\$ 7,164	\$ 5,649	\$	\$	\$ 5,649
Income (loss) before taxes	\$ 126,482	\$ 21,849	(770)	\$ (55,198)	\$ 92,363	\$ 5,990	\$ 535	\$ 98,888
Forty weeks ended May 31, 2008								
Revenues	\$ 686,648	\$ 67,297	(67,297)	\$ 6,695	\$ 693,343	\$ 54,783	\$ 24,039	\$ 772,165
Income (loss) from operations	\$ 108,343	\$ 24,101	(2,610)	\$ (47,255)	\$ 82,579	\$ 3,840	\$ 354	\$ 86,773
Interest (income) expense, net	\$ (1,701)	\$		\$ 9,463	\$ 7,762	\$	\$	\$ 7,762
Income (loss) before taxes	\$ 110,014	\$ 23,783	(2,609)	\$ (56,475)	\$ 74,713	\$ 4,365	\$ 354	\$ 79,432

Edgar Filing: UNIFIRST CORP - Form 10-Q

The Company's long-lived assets as of May 30, 2009 and August 30, 2008, the Company's revenues and income before income taxes for the thirteen weeks ended May 30, 2009 and May 31, 2008, as well as the Company's revenues and income before income taxes for the thirty-nine and forty weeks ended May 30, 2009 and May 31, 2008, respectively, were attributed to the following countries (in thousands):

	May 30,	August 30,		
	2009	2008	Thirteen	Forty
			weeks ended	weeks ended
			May 30,	May 31,
			2009	2008
			Thirteen	Thirty-nine
			weeks ended	weeks ended
			May 30,	May 30,
			2009	2009
			Forty	weeks ended
			weeks ended	May 31,
			May 31,	2008
Long-lived assets:				
United States	\$ 665,599	\$ 653,979		
Europe, Canada and Mexico (1)	45,266	43,583		
Total	\$ 710,865	\$ 697,562		
Revenues:				
United States	\$ 230,266	\$ 229,083	\$ 706,516	\$ 698,401
Europe and Canada (1)	21,839	25,534	65,428	73,764
Total	\$ 252,105	\$ 254,617	\$ 771,944	\$ 772,165
Income before income taxes:				
United States	\$ 32,155	\$ 24,040	\$ 89,840	\$ 68,076
Europe, Canada and Mexico (1)	3,564	3,758	9,048	11,356
Total	\$ 35,719	\$ 27,798	\$ 98,888	\$ 79,432

(1) No foreign country accounts for greater than 10% of total long-lived assets, revenues, or income before income taxes.

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 may 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, versions 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 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, our ability to compete successfully without any significant degradation in our margin rates, seasonal fluctuations in business levels, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the impact of negative economic conditions on our customers and such customers' workforce, the level and duration of workforce reductions by our customers, the continuing increase in domestic healthcare costs, demand and prices for our products and services, additional professional and internal costs necessary for compliance with recent and proposed future changes in Securities and Exchange Commission (including the Sarbanes-Oxley Act of 2002), 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 of our Annual Report on Form 10-K for the year ended August 30, 2008, as updated in Part II, Item 1A of this Quarterly Report on Form 10-Q and 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 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 supplies, including air fresheners, paper products and hand soaps.

At certain specialized facilities, we also decontaminate and clean work clothes that may have been exposed to radioactive materials and service special clean room 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 200,000 customer locations in the United States, Canada and Europe from over 200 customer service, distribution and manufacturing facilities.

As discussed and described in Note 12 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.

Results of Operations

The amounts of revenues and certain expense items for the thirteen and thirty-nine weeks ended May 30, 2009 and the thirteen and forty weeks ended May 31, 2008, and the percentage changes in revenues and certain expense items as a percentage of total revenues between these periods, are presented in the following table. Operating costs presented in the table below include merchandise costs related to the amortization of rental merchandise in service and 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		Thirteen weeks ended			Thirty-nine weeks ended		Forty weeks ended		
	May 30, 2009	% of Rev.	May 31, 2008	% of Rev.	% Change	May 30, 2009	% of Rev.	May 31, 2008	% of Rev.	% Change
Revenues	\$252,105	100.0%	\$254,617	100.0%	-1.0%	\$771,944	100.0%	\$772,165	100.0%	0.0%
Costs and expenses:										
Operating costs (1)	148,597	58.9	157,169	61.7	-5.5	464,632	60.2	480,797	62.3	-3.4
Selling and administrative expenses (1)	52,152	20.7	54,458	21.4	-4.2	159,752	20.7	164,501	21.3	-2.9
Depreciation and amortization	14,641	5.8	13,192	5.2	11.0	42,683	5.5	40,094	5.2	6.5
	215,390	85.4	224,819	88.3	-4.2	667,067	86.4	685,392	88.8	-2.7
Income from operations	36,715	14.6	29,798	11.7	23.2	104,877	13.6	86,773	11.2	20.9
Other expense (income)	996	0.4	2,000	0.8	-50.2	5,989	0.8	7,341	1.0	-18.4
Income before income taxes	35,719	14.2	27,798	10.9	28.5	98,888	12.8	79,432	10.3	24.5
Provision for income taxes	14,030	5.6	10,858	4.2	29.2	40,057	5.2	30,737	4.0	30.3
Net income	\$21,689	8.6%	\$16,940	6.7%	28.0%	\$58,831	7.6%	\$48,695	6.3%	20.8%

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

The current worldwide economic weakness may negatively impact our revenues for the balance of fiscal 2009 and into fiscal 2010 due to the impact on spending plans and employment levels of our customers and sales prospects. Since the beginning of the fiscal 2009 year, U.S. unemployment rates have continued to increase, which is impacting our broad customer base. Lost accounts have increased, and may continue to increase, as we are seeing a larger number of accounts going out of business or in financial distress.

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, 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 first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies.

Thirteen weeks ended May 30, 2009 compared with thirteen weeks ended May 31, 2008*Revenues*

(In thousands, except percentages)	May 30, 2009	May 31, 2008	Dollar Change	Percent Change	
Core Laundry Operations	\$ 223,777	\$ 226,686	\$ (2,909))	-1.3 %
Specialty Garments	21,040	20,401	639		3.1
First Aid	7,288	7,530	(242))	-3.2
Consolidated total	\$ 252,105	\$ 254,617	\$ (2,512))	-1.0 %

For the thirteen weeks ended May 30, 2009, our consolidated revenues decreased by \$2.5 million from the thirteen weeks ended May 31, 2008, or 1.0%. The consolidated decrease was primarily driven by a \$2.9 million decrease in revenues from our Core Laundry Operations, offset partially by an increase in revenues in our Specialty Garments segment. Core Laundry Operations revenues decreased from \$226.7 million for the thirteen weeks ended May 31, 2008 to \$223.8 million for the thirteen weeks ended May 30, 2009, or 1.3%. This decrease was attributable to a decline in organic growth (which is net of the impact of acquisitions and changes in foreign currency) of 1.0% and a decrease from the effect of foreign exchange rate fluctuations on our Canadian revenues of 1.6% offset by acquisition-related growth of 1.3%. Organic growth 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. The decrease in our organic growth rate from 6.6% in the first quarter of fiscal 2009 to negative 1.0% in the third quarter of fiscal 2009 is primarily due to the high rate of wearer reductions in our existing customer base. Since the beginning of the 2009 fiscal year, U.S. unemployment rates have continued to increase, which is impacting our broad customer base. Lost accounts have also increased over the prior year as we are seeing a larger number of accounts either going out of business or in financial distress.

Specialty Garments revenues increased by 3.1% from \$20.4 million in the third quarter of fiscal 2008 to \$21.0 million in the third quarter of fiscal 2009 primarily due to growth in our Canadian customers and our clean room operations. Revenues for the First Aid segment decreased 3.2% from \$7.5 million in the third quarter of 2008 to \$7.3 million in the third quarter of 2009. This segment of our business has been particularly impacted by declining economic conditions.

Operating Costs

Operating costs decreased as a percentage of revenues from 61.7%, or \$157.2 million, to 58.9%, or \$148.6 million, for the thirteen weeks ended May 31, 2008 and May 30, 2009, respectively. This decrease was primarily driven by lower energy costs associated with operating our fleet of delivery trucks and our industrial laundry facilities as well as lower merchandise costs in our Core Laundry Operations. As a result of an approximately 8% employee headcount reduction since January 1, 2009, there was a decrease in payroll costs during the thirteen weeks ended May 30, 2009. These benefits were partially offset by higher healthcare and other payroll related costs, and increased bad debt expense as a percentage of revenues.

Selling and Administrative Expense

Our selling and administrative expenses decreased as a percentage of revenues from 21.4%, or \$54.5 million, to 20.7%, or \$52.2 million, for the thirteen weeks ended May 31, 2008 and May 30, 2009, respectively. This decrease was primarily due to a decrease in payroll costs, as a result of

Edgar Filing: UNIFIRST CORP - Form 10-Q

the headcount reduction discussed above, offset in part by higher healthcare and other payroll related costs as a percentage of revenues. In addition, the thirteen weeks ended May 30, 2009 included a charge to increase our environmental reserve by \$1.1 million as compared to a charge in prior year of \$0.5 million. We also benefitted from reduced travel and other administrative costs as we continued to focus on controlling our expenses.

Depreciation and Amortization

Our depreciation and amortization expense increased to \$14.6 million for the thirteen weeks ended May 30, 2009 from \$13.2 million for the thirteen weeks ended May 31, 2008. The increase in depreciation and amortization expense was due to capital expenditure and acquisition activity. As a percentage of revenues, depreciation and amortization increased to 5.8% for the thirteen weeks ended May 30, 2009 from 5.2% for the thirteen weeks ended May 31, 2008.

Income from Operations

For the thirteen weeks ended May 30, 2009 and May 31, 2008, respectively, changes in our revenues and costs as discussed above resulted in the following changes in our income from operations:

(In thousands, except percentages)	May 30, 2009	May 31, 2008	Dollar Change	Percent Change	
Core Laundry Operations	\$ 33,260	\$ 27,913	\$ 5,347	19.2	%
Specialty Garments	3,013	1,840	1,173	63.8	
First Aid	442	45	397	887.8	
Consolidated total	\$ 36,715	\$ 29,798	\$ 6,917	23.2	%

Other Expense (income)

Other expense (income), which includes interest expense, interest income and foreign currency exchange (gain) loss, was \$1.0 million for the thirteen weeks ended May 30, 2009 as compared with \$2.0 million for the thirteen weeks ended May 31, 2008. This decrease was primarily due to an exchange rate gain of \$0.8 million in the thirteen weeks ended May 30, 2009 compared to a loss of \$8,000 in the comparable period in 2008. In addition, the Company benefitted from lower interest expense as a result of lower average interest rates affecting our variable rate debt as well as a decrease in our average debt outstanding during the period as the Company has continued to pay down debt with its excess operating cash flows.

Provision for Income Taxes

Our effective income tax rate was 39.3% for the thirteen weeks ended May 30, 2009, as compared to 39.1% for the thirteen weeks ended May 31, 2008. The increase was primarily due to changes in the Company's reserves for income tax exposures as well as an increase in U.S. state income taxes compared to the prior year.

Edgar Filing: UNIFIRST CORP - Form 10-Q

Thirty-nine weeks ended May 30, 2009 compared with forty weeks ended May 31, 2008

Revenues

(In thousands, except percentages)	May 30, 2009	May 31, 2008	Dollar Change	Percent Change	
Core Laundry Operations	\$ 694,994	\$ 693,343	\$ 1,651	0.2	%
Specialty Garments	55,720	54,783	937	1.7	
First Aid	21,230	24,039	(2,809)	-11.7	
Consolidated total	\$ 771,944	\$ 772,165	\$ (221)) 0.0	%

For the thirty-nine weeks ended May 30, 2009, our consolidated revenues were relatively flat from the forty weeks ended May 31, 2008. The second quarter of fiscal 2009 had one less work week compared to the second quarter of fiscal 2008 which accounted for a decline in revenues of 2.6%. In addition, the effect of foreign exchange rate fluctuations on our consolidated revenues resulted in a decline of 1.6%. These decreases were offset by organic growth of 2.8% and acquisitions-related growth of 1.4%.

Core Laundry Operations revenues increased from \$693.3 million for the forty weeks ended May 31, 2008 to \$695.0 million for the thirty-nine weeks ended May 30, 2009, or 0.2%. Excluding the effect of the additional work week in the first three quarters of fiscal 2008, revenues increased by 2.8%, which was attributable to organic growth of 2.9% and acquisition-related growth of 1.4%. These increases were offset in part by a decrease of 1.5% from the effect of foreign exchange rate fluctuations on our Canadian revenues. Our organic growth rates for the first three quarters of fiscal 2009 slowed compared to fiscal 2008 primarily due to the high rate of wearer reductions in our existing customer base. Since the beginning of our 2009 fiscal year, U.S. unemployment rates have continued to increase, which is impacting our broad customer base. Lost accounts have also increased over the prior year as we are seeing a larger number of accounts either going out of business or in financial distress.

Specialty Garments revenues increased by 1.7% primarily due to the growth in our Canadian and clean room operations, which was partially offset by the effect of the extra week in fiscal 2008. Revenues for the First Aid segment decreased 11.7%, from \$24.0 million in forty weeks ending May 31, 2008 to \$21.2 million in the thirty-nine weeks ended May 30, 2009. The extra work week in the first three quarters of fiscal 2008 accounted for a 2.6% decline in revenues. This segment of our business has been particularly impacted by declining economic conditions.

Operating Costs

Operating costs decreased as a percentage of revenues from 62.3%, or \$480.8 million, for the forty weeks ended May 31, 2008, to 60.2%, or \$464.6 million, for the thirty-nine weeks ended May 30, 2009. This decrease was driven by lower merchandise costs in our Core Laundry Operations as a percentage of revenues compared to the first three quarters of fiscal 2008, and lower energy costs associated with operating our fleet of delivery trucks. As a result of an approximately 8% employee headcount reduction since January 1, 2009, there was a decrease in payroll costs during the thirty-nine weeks ended May 30, 2009. These benefits were partially offset by increases in bad debt expense.

Selling and Administrative Expense

Edgar Filing: UNIFIRST CORP - Form 10-Q

Our selling and administrative expenses decreased as a percentage of revenues to 20.7%, or \$159.8 million, for the thirty-nine weeks ended May 30, 2009 from 21.3%, or \$164.5 million, for the forty weeks ended May 31, 2008. This decrease was primarily due to decreases in payroll costs, as a result of the headcount reduction discussed above, as well as other administrative costs as a percentage of revenues as we continued to focus on controlling spending. These benefits were partially offset by higher healthcare costs. In addition, the thirty-nine weeks ended May 30, 2009 included charges to increase our environmental reserve totaling \$3.2 million as compared an adjustment in the forty weeks ended May 31, 2008, of \$0.5 million.

Depreciation and Amortization

Our depreciation and amortization expense increased to \$42.7 million for the thirty-nine weeks ended May 30, 2009 from \$40.1 million for the forty weeks ended May 31, 2008. The increase in depreciation and amortization expense was due to capital expenditure and acquisition activity. As a percentage of revenues, depreciation and amortization increased to 5.5% for the thirty-nine weeks ended May 30, 2009 compared to 5.2% for the forty weeks ended May 31, 2008.

Income from Operations

For the thirty-nine weeks ended May 30, 2009 and the forty weeks ended May 31, 2008, the revenue growth in our operations and the change in our costs discussed above, resulted in the following changes in our income from operations:

(In thousands, except percentages)	May 30, 2009	May 31, 2008	Dollar Change	Percent Change	
Core Laundry Operations	\$ 97,931	\$ 82,579	\$ 15,352	18.6	%
Specialty Garments	6,411	3,840	2,571	67.0	
First Aid	535	354	181	51.2	
Consolidated total	\$ 104,877	\$ 86,773	\$ 18,104	20.9	%

Other Expense (income)

Other expense (income), which includes interest expense, interest income and foreign currency exchange (gain) loss, was \$6.0 million for the thirty-nine weeks ended May 30, 2009 as compared with \$7.3 million for the forty weeks ended May 31, 2008. This decrease was primarily due to lower interest expense as a result of lower average interest rates affecting our variable rate debt as well as a decrease in our average debt outstanding during the period as the Company has continued to pay down debt with its excess operating cash flows.

Provision for Income Taxes

Our effective income tax rate was 40.5% for the thirty-nine weeks ended May 30, 2009, as compared to 38.7% for the forty weeks ended May 31, 2008. The increase was primarily due to changes in the Company's reserves for income tax exposures as well as an increase in U.S. state income taxes compared to the prior year.

Liquidity and Capital Resources

General

As of May 30, 2009, we had cash and cash equivalents of \$32.4 million and working capital of \$116.4 million. We believe that current cash and cash equivalent balances, cash generated from operations and amounts available under our Credit Agreement (defined below) will be sufficient to meet our currently anticipated working capital and capital expenditure requirements for at least the next 12 months.

Sources and Uses of Cash

During the thirty-nine weeks ended May 30, 2009, we generated cash from operating activities of \$109.4 million, resulting primarily from net income of \$58.8 million, amounts charged for depreciation and amortization of \$42.7 million, decreases in rental merchandise in service of \$15.8 million and increases in accrued income taxes of \$7.1 million, which were partially offset by increases in accounts receivable of \$1.6 million, inventories of \$1.3 million, prepaid expenses of \$1.8 million, as well as decreases in accounts payable and accruals of \$11.4 million. We used our cash to, among other things, fund \$55.5 million in capital expenditures and fund the acquisition of businesses totaling approximately \$3.4 million. Our long-term debt decreased by approximately \$41.6 million as a result of \$139.0 million of borrowings offset by \$180.6 million of repayments during the thirty-nine weeks ended May 30, 2009.

Long-Term Debt and Borrowing Capacity

We have a \$225.0 million unsecured revolving credit agreement (*Credit Agreement*) with a syndicate of banks, which matures on September 13, 2011. Under the Credit Agreement, we can borrow funds at variable interest rates based on the Eurodollar rate or the bank's prime rate, as selected by us. Availability of credit requires our compliance with certain financial and other covenants, including a maximum funded debt ratio and minimum interest coverage as defined in the Credit Agreement. We generally test our compliance with these financial covenants on a fiscal quarterly basis. At May 30, 2009, the interest rates applicable to our borrowings under the Credit Agreement were calculated as LIBOR plus 50 basis points at the time of the respective borrowings and ranged from 0.85% to 3.25%. As of May 30, 2009, we had outstanding borrowings of approximately \$12.0 million, letters of credit of \$35.7 million and \$177.3 million available for borrowing. Subsequent to the quarter ended May 30, 2009, we repaid the remaining \$12.0 million on our line of credit under the Credit Agreement. As a result, we have classified this amount within current maturities of long-term obligations.

On June 14, 2004, we issued \$75.0 million of fixed rate notes pursuant to a Note Purchase Agreement (*2004 Note Agreement*) with a seven year term (June 2011) and bearing interest at 5.27%. We also issued \$90.0 million of floating rate notes which were repaid in September 2005 and September 2006.

On September 14, 2006, we issued \$100.0 million of floating rates notes (*Floating Rate Notes*) pursuant to a Note Purchase Agreement (*2006 Note Agreement*). The Floating Rate Notes mature on September 14, 2013, bear interest at LIBOR plus 50 basis points and may be repaid at face value two years from the date of issuance. The proceeds from the issuance of the Floating Rate Notes were used to first repay \$75.0 million of outstanding floating rate notes and then to pay down outstanding amounts under the Credit Agreement.

Edgar Filing: UNIFIRST CORP - Form 10-Q

As of May 30, 2009, we were in compliance with all covenants under the 2004 Note Agreement, 2006 Note Agreement and the Credit Agreement.

In January 2008, we entered into an interest rate swap agreement to manage our exposure to interest rate movements and the related effect on our variable rate debt. The swap agreement, with a notional amount of \$100.0 million, matures on March 14, 2011. We pay a fixed rate of 3.51% and receive a variable rate tied to the three month LIBOR rate. We have accounted for this instrument as a cash flow hedge under SFAS No. 133 and, as a result, have recorded all changes in the fair value of the swap agreement in accumulated other comprehensive (loss) income, a component of shareholders' equity. For additional information regarding the interest rate swap, see Note 4 to our Consolidated Financial Statements.

Commitments and Contingencies

We are subject to various federal, state and local laws and regulations governing, among other things, 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.

Accounting principles generally accepted in the United States require that a liability for contingencies be recorded when it is probable that a liability has occurred 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 negotiated with the applicable environmental authorities or otherwise with respect to sites located in or related to Woburn, Massachusetts, Somerville, Massachusetts, Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites in Williamstown, Vermont, as well as a number of additional locations that we acquired as part of our acquisition of Textilease Corporation in September 2003.

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 continue to implement mitigation measures and to monitor environmental conditions at the Somerville, Massachusetts site. We also have potential exposure related to an additional parcel of land (the Central Area) related to the Woburn, Massachusetts site discussed above. Currently, the consent order for the Woburn, Massachusetts site discussed above does not define or require any remediation work in the Central Area. We recently received written comments from the United States Environmental Protection Agency (EPA) requesting additional information and response actions with respect to both our property at the Woburn site and the Central Area. These comments are being reviewed with the EPA and other parties to the decree, and they are not yet final. We have accrued costs to perform certain work responsive to the EPA's comments.

Edgar Filing: UNIFIRST CORP - Form 10-Q

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. We generally use the amount within the range that constitutes our best 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 risk-free interest rates ranging from 3.5% to 4.3%.

For environmental liabilities that have been discounted, we include interest accretion, based on the effective interest method, in operating costs on the Consolidated Statements of Income. The changes to the amounts of our environmental liabilities for the thirty-nine weeks ended May 30, 2009 are as follows (in thousands):

Beginning balance as of August 30, 2008	\$ 15,097
Costs incurred for which reserves have been provided	(2,359)
Insurance proceeds received	119
Interest accretion	501
Revisions in estimates	3,183
Balance as of May 30, 2009	\$ 16,541

For the thirty-nine weeks ended May 30, 2009, we increased our environmental accrual by approximately \$3.2 million primarily due to adjustments to increase our environmental reserves related to ongoing investigations at two of our environmental exposure sites. Anticipated payments and insurance proceeds relating to currently identified environmental remediation liabilities as of May 30, 2009, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	2009	2010	2011	2012	2013	Thereafter	Total
Estimated costs - current dollars	\$ 2,422	2,622	2,144	1,003	828	12,829	\$ 21,848
Estimated insurance proceeds	(61)	(180)	(187)	(180)	(180)	(2,434)	(3,222)
Net anticipated costs	\$ 2,361	2,442	1,957	823	648	10,395	\$ 18,626
Effect of Inflation							7,228
Effect of Discounting							(9,313)
Balance as of May 30, 2009							\$ 16,541

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

Edgar Filing: UNIFIRST CORP - Form 10-Q

account and may be used in future years for costs related to this site through the year 2027. As of May 30, 2009, the balance in this escrow account, which is held in a trust and is not recorded on our Consolidated Balance Sheet, was approximately \$2.8 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 we have accrued or covered by insurance, will not have a material adverse effect on our consolidated financial position or results of operations. It is possible, however, that 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.

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

As of May 30, 2009, 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 30, 2008.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosure requirements about fair value measurements. In February 2008, the FASB issued Staff Position 157-2 which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We partially adopted SFAS No. 157 on August 31, 2008, as required. The adoption of SFAS No. 157 for our financial assets and liabilities did not have a material impact on our results of operations or our financial condition. We are currently evaluating the impact, if any, the adoption of the delayed portion of SFAS No. 157 will have on our Consolidated Financial Statements. See Note 3 to our Consolidated Financial Statements for further discussion on our adoption of SFAS No. 157.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 amends SFAS No. 133 requiring enhanced disclosures about an entity's derivative and hedging activities thereby improving the transparency of financial reporting. SFAS No. 161's disclosures provide additional information on how and why derivative instruments are being used. SFAS No. 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We adopted SFAS No. 161 on March 1, 2009, and the adoption did not have a material impact on our financial statements. The adoption of SFAS No. 161 resulted in enhanced disclosure regarding our outstanding derivatives.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS No. 141R). SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. We are currently evaluating the impact, if any, SFAS No. 141R will have on our Consolidated Financial Statements.

In June 2008, the FASB issued a Staff Position on Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. EITF Issue No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore, need to be included in the earnings allocation in computing earnings per share (EPS). This consensus is effective for our fiscal year beginning August 30, 2009. We are currently evaluating the impact, if any, EITF Issue No. 03-6-1 will have on our Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, and other U.S. GAAP. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and may not be adopted early. We are currently evaluating the impact, if any, that FSP No. 142-3 will have on our Consolidated Financial Statements.

Critical Accounting Policies and Estimates

We believe the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Use of Estimates

The preparation of our financial statements is in conformity with US GAAP, which requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. These estimates are based on historical information, current trends, and information available from other sources. The actual results could differ from our estimates.

Foreign Currency Translation

The functional currency of our foreign operations is the local country's currency. Transaction gains and losses, including gains and losses on our intercompany transactions, are included in other expense (income), in the accompanying Consolidated Statements of Income. Assets and liabilities of operations outside the United States are translated into U.S. dollars using period-end exchange rates. Revenues and expenses are translated at the average exchange rates in effect during each month of the fiscal year. The effects of foreign currency translation adjustments are included in shareholders' equity as a component of accumulated other comprehensive (loss) income in the accompanying Consolidated Balance Sheets.

Revenue Recognition and Allowance for Doubtful Accounts

We recognize revenue from rental operations in the period in which the services are provided. Direct sale revenue is recognized in the period in which the services are performed or when the product is shipped. Our judgment and estimates are used in determining the collectability of accounts receivable and evaluating the adequacy of the allowance for doubtful accounts. We consider specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances as part of our evaluation. Changes in our estimates are reflected in the period they become known. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Material changes in our estimates may result in significant differences in the amount and timing of bad debt expense recognition for any given period.

Inventories and Rental Merchandise in Service

Our 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 our customers or used in our 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 the amount we projected, additional inventory write-downs may be required. We use the first-in, first-out (FIFO) method to value our inventories, which primarily consist of finished goods.

Edgar Filing: UNIFIRST CORP - Form 10-Q

Rental merchandise in service is being amortized on a straight-line basis over the estimated service lives of the merchandise, which range from 6 to 36 months. In establishing estimated lives for merchandise in service, our management considers historical experience and the intended use of the merchandise. Material differences may result in the amount and timing of operating profit for any period if we make significant changes to our estimates.

Goodwill, Intangibles and Other Long-Lived Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized. SFAS No. 142 requires that companies test goodwill for impairment on an annual basis. In addition, SFAS No. 142 also requires that companies test goodwill if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit to which goodwill is assigned below its carrying amount. Our evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling. We complete our annual impairment test in the fourth quarter of each fiscal year and there were no impairments of goodwill in the year ended August 30, 2008.

During the thirteen weeks ended February 28, 2009, there was a decline in the market value of our stock as well as significant deterioration in general economic conditions. The decline in our market capitalization prompted our management to conduct a goodwill analysis, in accordance with the provisions of SFAS No. 142, to determine if an impairment of goodwill existed. Based on the outcome of our analysis, we concluded that no impairment existed as of February 28, 2009. We did not perform a similar impairment analysis during the thirteen weeks ended May 30, 2009 because we concluded that there were no impairment indicators present during the quarter.

We cannot predict future economic conditions or the future market value of our stock or their impact on the Company. A continued decline in our market capitalization and/or deterioration in general economic conditions could negatively and materially impact our assumptions and assessment of the fair value of our business. If general economic conditions or our financial performance deteriorate, we may be required to record a goodwill impairment charge in the future which could have a material impact on our financial condition and results of operations.

Property and equipment and definite-lived intangible assets are depreciated or amortized over their useful lives. Useful lives are based on our estimates of the period that the assets will generate revenue. Long-lived assets are evaluated for impairment whenever events and circumstances indicate an asset may be impaired. There were no impairments of property and equipment, goodwill or definite-lived intangible assets in the thirty-nine weeks ended May 30, 2009 or the year ended August 30, 2008.

Insurance

We self-insure for certain obligations related to health, workers' compensation, vehicles and general liability programs. We also purchase stop-loss insurance policies to protect ourselves from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for events that have occurred, but have not been reported. Our estimates consider historical claim experience and other factors. Our liabilities are based on our estimates, and, while we believe that our accruals are adequate, the ultimate liability may be significantly different from the amounts recorded. Changes in our claim experience, our ability to settle claims or other estimates and judgments we use could have a material impact on the amount and timing of expense for any given period.

Environmental and Other Contingencies

Edgar Filing: UNIFIRST CORP - Form 10-Q

We are subject to legal proceedings and claims arising from the conduct of our business operations, including environmental matters, personal injury, customer contract matters and employment claims. Accounting principles generally accepted in the United States require that a liability for contingencies be recorded when it is probable that a liability has occurred 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 our attorneys and outside consultants, in our consideration of the relevant facts and circumstances, before recording a contingent liability. We record accruals for environmental and other contingencies based on enacted laws, regulatory orders or decrees, our estimates of costs, insurance proceeds, participation by other parties, the timing of payments, and the input of our attorneys and outside consultants.

The estimated liability for environmental contingencies has been discounted using risk-free interest rates ranging from 3.5% to 4.3% over periods ranging from ten to thirty years. The estimated current costs, net of legal settlements with insurance carriers, have been adjusted for the estimated impact of inflation at 3% per year. Changes in enacted laws, regulatory orders or decrees, our estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments and the input of our attorneys and outside consultants based on changing legal or factual circumstances could have a material impact on the amounts recorded for our environmental and other contingent liabilities. Refer to Note 7 of our Consolidated Financial Statements for additional discussion and analysis.

Asset Retirement Obligations

We follow the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, which generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. Under this accounting method, we recognize 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.

We have recognized as a liability the present value of the estimated future costs to decommission our nuclear laundry facilities in accordance with the provisions of SFAS No. 143. We depreciate, on a straight-line basis, the amount added to property and equipment and recognize accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-two years.

Our estimated liability has been based on historical experience in decommissioning nuclear laundry facilities, estimated useful lives of the underlying assets, external vendor estimates as to the cost to decommission these assets in the future, and federal and state regulatory requirements. The estimated current costs have been adjusted for the estimated impact of inflation at 3% per year. The liability has been discounted using credit-adjusted risk-free rates that range from approximately 5.7% to 7.0%. Revisions to the liability could occur due to changes in the estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates. Changes due to revisions in our estimates will be recognized by adjusting the carrying amount of the liability and the related long-lived asset if the assets are still in service, or charged to expense in the period if the assets are no longer in service.

Derivative Financial Instruments

We account for our derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related authoritative guidance. All derivative instruments are recorded as other assets or other liabilities at fair value, in accordance with SFAS No. 157, *Fair Value Measurements*. All subsequent changes in a derivative's fair value are recognized in income, unless specific hedge accounting criteria are met. Cash flows associated with derivatives are classified in the same category as the cash flows hedged in our Consolidated Statements of Cash Flows.

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

Our hedging activities are transacted only with highly rated institutions, which reduce our exposure to credit risk in the event of nonperformance. Refer to the discussion of our interest rate swap under *Long-Term Debt and Borrowing Capacity* above and in Note 4, *Derivative Instruments and Hedging Activities* to our Consolidated Financial Statements for additional information.

Pension Plans and Supplemental Executive Retirement Plans

We account for our Supplemental Executive Retirement Plan and other pension plans in accordance with SFAS No. 87, *Employer's Accounting for Pension*, as amended by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under SFAS No. 87, pension expense is recognized on an accrual basis over employees' estimated service periods. Pension expense calculated under SFAS No. 87 is generally independent of funding decisions or requirements.

The calculation of pension expense and the corresponding liability requires us to use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in our assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. Pension expense increases as the expected rate of return on pension plan assets decreases. Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in our pension plans will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes are provided for temporary differences between the amounts recognized for income tax and financial reporting purposes at currently enacted tax rates. We compute income tax expense by jurisdiction based on our operations in each jurisdiction.

We are periodically reviewed by U.S. domestic and foreign tax authorities regarding the amount of taxes due. These reviews typically include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating our exposure associated with various filing positions, we record estimated reserves for probable exposures, in accordance with FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109.

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 effect of exchange rate fluctuations on the translation of assets and liabilities are recorded as a component of shareholders' equity. Income and expense accounts are translated at average exchange rates during the 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 9% and 8% of total consolidated revenues the thirteen and thirty-nine weeks ended May 30, 2009, respectively, and total assets denominated in currencies other than the U.S. dollar represented approximately 10% of total consolidated assets for both periods ending May 30, 2009 and August 30, 2008, respectively. If exchange rates had changed by 10% from the actual rates in effect during the thirteen and thirty-nine weeks ended as of May 30, 2009, our revenues for the thirteen and thirty-nine weeks ended May 30, 2009 would have increased or decreased by approximately \$2.2 million and \$6.5 million, respectively, and assets as of May 30, 2009 would have increased or decreased by approximately \$9.7 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, and Mexican Peso, as compared to the U.S. dollar. Any gains or losses resulting from foreign currency transactions, including exchange rate fluctuations on intercompany accounts, are reported as transaction (gains) losses in our other expense (income). The intercompany payables and receivables are denominated in Canadian Dollars, Euros, British Pounds and Mexican Pesos. During the thirteen and thirty-nine weeks ended May 30, 2009, transaction gains (losses) included in other expense (income) were approximately \$0.8 million and \$(0.3) million, respectively. If the exchange rates had changed by 10% during the thirteen and thirty-nine weeks ended May 30, 2009, we would have recognized exchange gains or losses of approximately \$0.6 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 \$225.0 million Credit Agreement with a syndicate of banks and our 2006 Floating Rate Notes which were purchased by a group of insurance companies pursuant to our 2006 Note Agreement. Under both agreements, 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 30, 2009, interest expense would have fluctuated by approximately \$0.1 million and \$0.3 million from the interest expense recognized for the thirteen and thirty-nine weeks ended May 30, 2009, respectively.

In January 2008, we entered into an interest rate swap agreement to manage our exposure to interest rate movements and the related effect on our variable rate debt. The swap agreement, with a notional amount of \$100.0 million, matures on March 14, 2011. We pay a fixed rate of 3.51% and receive a variable rate tied to the three month LIBOR rate. We have accounted for this instrument as a cash flow hedge under SFAS No. 133 and, as a result, have recorded all changes in the fair value of the swap agreement in accumulated other comprehensive (loss) income, a component of shareholders' equity. Refer to Note 4, *Derivative Instruments and Hedging Activities* of our Consolidated Financial Statements for additional information regarding our interest rate swap.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Edgar Filing: UNIFIRST CORP - Form 10-Q

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. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. We continue to review our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of fiscal 2009 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 above. We maintain insurance coverage providing indemnification against the majority of such claims, and we do not expect that we will sustain any material loss as a result thereof. Refer to Note 7, Commitments and Contingencies, to our Consolidated Financial Statements for further discussion.

ITEM 1A. RISK FACTORS

To our knowledge, there have been no material changes in the risk factors described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended August 30, 2008, except to the extent additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such risk factors and except for the revised risk factors set forth below. 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 30, 2008, 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.

Continuation of current adverse global financial and economic conditions may result in impairment of our goodwill and intangibles.

Our market capitalization has been significantly impacted by extreme volatility in the U.S. equity and credit markets and has recently been below our net book value. Under accounting principles generally accepted in the United States, we may be required to record an impairment charge if changes in circumstances or events indicate that the carrying values of our goodwill and intangible assets exceed their fair value and are not recoverable. Any significant and other than temporary decrease in our market capitalization could be an indicator, when considered together with other factors, that the carrying values of our goodwill and intangible assets exceed their fair value, which may result in our

Edgar Filing: UNIFIRST CORP - Form 10-Q

recording an impairment charge. In this time of economic uncertainty, we are unable to predict economic trends, but we continue to monitor the impact of changes in economic and financial conditions on our operations and on the carrying value of our goodwill and intangible assets. Should the value of one or more of our acquired intangibles become impaired, our consolidated earnings and net worth may be materially adversely affected.

Implementation of our growth strategy may not be successful, which could adversely affect our ability to increase our revenues or our profitability.

As part of our growth strategy, we intend to continue to actively pursue additional acquisition opportunities. However, as discussed above, we compete with others within our industry for suitable acquisition candidates. This competition may increase the price for acquisitions and reduce the number of acquisition candidates available to us. Moreover, the current economic recession has resulted in, and may continue to result in, the sale of fewer target businesses at prices consistent with the current declining market. As a result, acquisition candidates may not be available to us in the future on favorable terms. Even if we are able to acquire businesses on favorable terms, managing growth through acquisition is a difficult process that includes integration and training of personnel, combining plant and operating procedures and additional matters related to the integration of acquired businesses within our existing organization. Unanticipated issues related to integration may result in additional expense or in disruption to our operations, either of which could negatively impact our ability to achieve anticipated benefits. While we believe we will be able to fully integrate acquired businesses, we can give no assurance that we will be successful in this regard.

The successful implementation of our growth strategy will require us to increase our work force, the scope of our operating and financial systems and the geographic area of our operations. We believe this growth will increase our operating complexity and the level of responsibility for both existing and new management personnel. Managing and sustaining our growth and expansion may require substantial enhancements to our operational and financial systems and controls, as well as additional administrative, operational and financial resources. There can be no assurance that we will be able to manage our expanding operations successfully or that we will be able to maintain or accelerate our growth, and any failure to do so could have an adverse effect on our results of operations and financial condition.

In order to finance such acquisitions, we may need to obtain additional funds either through public or private financings, including bank and other secured and unsecured borrowings and the issuance of debt or equity securities. There can be no assurance that future issuances of securities in connection with acquisitions will not be dilutive to our shareholders.

The expenses we incur to comply with environmental regulations, including costs associated with potential environmental remediation, may prove to be significant and could have a material adverse affect on our results of operations and financial condition.

We, like our competitors, are subject to various federal, state and local laws and regulations governing, among other things, 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. 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. Further, 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 assurance 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 us under such laws or expose us to third-party actions such as tort suits.

Edgar Filing: UNIFIRST CORP - Form 10-Q

On a quarterly basis, we assess each of our environmental sites to determine whether the costs of investigation and remediation of environmental conditions are probable and can be reasonably estimated as well as the adequacy of our accruals with respect to such costs. For example, in fiscal 2009 we have increased our environmental accrual by approximately \$3.2 million primarily due to adjustments to increase our environmental reserves related to ongoing investigations at two of our environmental exposure sites. There can be no assurance that our accruals with respect to our environmental sites will be sufficient or that the costs of remediation and investigation will not substantially exceed our accruals as new facts, circumstances or estimates arise.

Our nuclear garment decontamination facilities are licensed by the Nuclear Regulatory Commission, or in certain cases, by the applicable state agency, and are subject to regulation by federal, state and local authorities. In the past, scrutiny and regulation of nuclear facilities and related services have resulted in the suspension of operations at certain nuclear facilities served by us or disruptions in our ability to service such facilities. There can be no assurance that such scrutiny and regulation will not lead to the shut-down of such facilities or otherwise cause material disruptions in our garment decontamination business.

Economic and business conditions affecting our customer base could negatively impact our sales and operating results.

We supply uniform services to many industries that have been subject to one or more of shifting employment levels, changes in worker productivity, uncertainty regarding the impacts of rehiring and a shift to offshore manufacturing. In addition, most of our customers have been adversely affected by the current economic recession and may have reduced worker headcounts as a consequence. The economic hardships among our customer base have also caused, and may continue to cause, some of our customers to restrict expenditures or even cease to conduct business. All of these factors have, and are likely in the future to continue to have, the effect of reducing the number of employees utilizing our uniform services, which adversely affects our sales and results of operations.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- * 31.1 Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Croatti
 - * 31.2 Rule 13a-14(a)/15d-14(a) Certification of Steven S. Sintros
 - ** 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - ** 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

 - * 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.

July 9, 2009	By:	UniFirst Corporation <u>/s/ Ronald D. Croatti</u> Ronald D. Croatti President and Chief Executive Officer
July 9, 2009	By:	<u>/s/ Steven S. Sintros</u> Steven S. Sintros Vice President and Chief Financial Officer

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

 - * Filed herewith
 - ** Furnished herewith
-