

UNIFIRST CORP
Form 10-Q
January 06, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 27, 2010

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)

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

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

01887
(Zip Code)

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: UNIFIRST CORP - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

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

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

Yes No

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at December 31, 2010 were 14,923,529 and 4,913,369, respectively.

UniFirst Corporation

Quarterly Report on Form 10-Q
For the Quarter ended November 27, 2010

Table of Contents

Part I – FINANCIAL INFORMATION

Item 1 – Financial Statements

Consolidated Statements of Income for the Thirteen Weeks ended November 27, 2010 and November 28, 2009

Consolidated Balance Sheets as of November 27, 2010 and August 28, 2010

Consolidated Statements of Cash Flows for the Thirteen Weeks ended November 27, 2010 and November 28, 2009

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 – (Removed and Reserved)

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)

Thirteen weeks ended (In thousands, except per share data)	November 27, 2010	November 28, 2009
Revenues	\$ 273,090	\$ 256,179
Operating expenses:		
Cost of revenues (1)	163,235	149,224
Selling and administrative expenses (1)	55,183	51,472
Depreciation and amortization	15,502	15,056
Total operating expenses	233,920	215,752
Income from operations	39,170	40,427
Other expense (income):		
Interest expense	2,203	2,184
Interest income	(582)	(524)
Exchange rate gain	(172)	(201)
	1,449	1,459
Income before income taxes	37,721	38,968
Provision for income taxes	13,957	15,392
Net income	\$ 23,764	\$ 23,576
Income per share – Basic:		
Common Stock	\$ 1.26	\$ 1.28
Class B Common Stock	\$ 1.01	\$ 1.03
Income per share – Diluted:		
Common Stock	\$ 1.20	\$ 1.21
Income allocated to – Basic:		
Common Stock	\$ 18,604	\$ 18,516
Class B Common Stock	\$ 4,704	\$ 5,060
Income allocated to – Diluted:		
Common Stock	\$ 23,330	\$ 23,576
Weighted average number of shares outstanding – Basic:		
Common Stock	14,753	14,440
Class B Common Stock	4,663	4,932

Edgar Filing: UNIFIRST CORP - Form 10-Q

Weighted average number of shares outstanding – Diluted:			
Common Stock		19,487	19,434
Dividends declared per share:			
Common Stock	\$	0.0375	\$ 0.0375
Class B Common Stock	\$	0.0300	\$ 0.0300

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

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

UniFirst Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share data)	November 27, 2010	August 28, 2010(a)
Assets		
Cash and cash equivalents	\$133,265	\$121,258
Receivables, less reserves of \$5,064 and \$4,102, respectively	122,956	105,247
Inventories	52,496	47,630
Rental merchandise in service	92,205	86,633
Prepaid and deferred income taxes	11,785	14,252
Prepaid expenses	5,457	3,004
Total current assets	418,164	378,024
Property, plant and equipment:		
Land, buildings and leasehold improvements	338,101	334,037
Machinery and equipment	376,387	370,088
Motor vehicles	122,933	121,135
	837,421	825,260
Less -- accumulated depreciation	456,052	444,061
	381,369	381,199
Goodwill	273,316	271,857
Customer contracts, net	55,562	56,528
Other intangible assets, net	2,245	2,509
Other assets	2,508	2,178
	\$1,133,164	\$1,092,295
Liabilities and shareholders' equity		
Current liabilities:		
Current maturities of long-term obligations	\$80,750	\$81,160
Accounts payable	48,735	45,931
Accrued liabilities	85,081	83,804
Accrued income taxes	2,946	—
Total current liabilities	217,512	210,895
Long-term liabilities:		
Long-term debt, net of current maturities	100,251	100,304
Accrued liabilities	30,755	30,290
Accrued and deferred income taxes	48,353	42,756
Total long-term liabilities	179,359	173,350

Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, \$0.10 par value; 30,000,000 shares authorized; 14,919,379 and 14,913,379 issued and outstanding, respectively	1,492	1,491
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,913,369 issued and outstanding	491	491
Capital surplus	27,166	25,329
Retained earnings	701,934	678,876
Accumulated other comprehensive income	5,210	1,863
Total shareholders' equity	736,293	708,050
	\$1,133,164	\$1,092,295

(a) Derived from 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)

Thirteen weeks ended (In thousands)	November 27, 2010	November 28, 2009
Cash flows from operating activities:		
Net income	\$23,764	\$23,576
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	13,125	12,839
Amortization of intangible assets	2,377	2,217
Amortization of deferred financing costs	67	67
Share-based compensation	1,684	359
Accretion on environmental contingencies	170	198
Accretion on asset retirement obligations	147	142
Deferred income taxes	5,433	(35)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(17,274)	(11,741)
Inventories	(4,759)	4,510
Rental merchandise in service	(5,133)	(1,534)
Prepaid expenses	(2,443)	(2,088)
Accounts payable	2,677	5,229
Accrued liabilities	2,077	1,779
Prepaid and accrued income taxes	5,254	11,992
Net cash provided by operating activities	27,166	47,510
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(2,220)	(12,206)
Capital expenditures	(12,250)	(15,796)
Other	(776)	(31)
Net cash used in investing activities	(15,246)	(28,033)
Cash flows from financing activities:		
Payments on long-term obligations	(496)	(103)
Proceeds from exercise of Common Stock options	153	241
Payment of cash dividends	(707)	(689)
Net cash used in financing activities	(1,050)	(551)
Effect of exchange rate changes	1,137	631
Net increase in cash and cash equivalents	12,007	19,557
Cash and cash equivalents at beginning of period	121,258	60,151
Cash and cash equivalents at end of period	\$133,265	\$79,708

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

UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Presentation

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

It is suggested that these Consolidated Financial Statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 28, 2010. There have been no material changes in the accounting policies followed by the Company during the current fiscal year. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

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

2. Recent Accounting Pronouncements

In January 2010, the FASB issued revised guidance which requires additional disclosures about items transferring into and out of Levels 1 and 2 measurements in the fair value hierarchy. The revised guidance also requires additional separate disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, and clarifies, among other things, the existing fair value disclosures about the level of disaggregation. This pronouncement was effective for interim and annual financial periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, which are effective for interim and annual financial periods beginning after December 15, 2010. The Company partially adopted this revised guidance on February 28, 2010, as required, and the adoption did not have a material impact on the Company's Consolidated Financial Statements. The Company also does not expect the adoption of the delayed portion of the revised guidance to have a material impact on its Consolidated Financial Statements.

3. Acquisitions

During the thirteen weeks ended November 27, 2010, the Company completed one acquisition with an aggregate purchase price of approximately \$2.2 million. The results of operations of this acquisition have been included in the Company's consolidated financial results since the date of the acquisition. This acquisition was not significant in relation to the Company's consolidated financial results and, therefore, pro forma financial information has not been presented.

4. Fair Value Measurements

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

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

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

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

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

	As of November 27, 2010			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	\$ 29,650	\$ —	\$ —	\$ 29,650
Total	\$ 29,650	\$ —	\$ —	\$ 29,650
Liabilities:				
Interest rate swap	\$ —	\$ 881	\$ —	\$ 881
Total	\$ —	\$ 881	\$ —	\$ 881

5. Derivative Instruments and Hedging Activities

All derivative financial instruments are recognized at fair value and are recorded in accrued liabilities in the Company's Consolidated Balance Sheets. 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 US GAAP. Accordingly, the Company has reflected all changes in the fair value of the swap agreement in accumulated other comprehensive 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 November 27, 2010, the Company had recorded the fair value of the interest rate swap of \$0.9 million in accrued liabilities and a corresponding loss of \$0.5 million in accumulated other comprehensive income, which was net of the associated tax benefit. As of August 28, 2010, the amounts recorded in accrued liabilities and other comprehensive income were \$1.6 million and \$1.0 million, respectively. The \$0.5 million loss deferred in accumulated other comprehensive income as of November 27, 2010 is expected to be reclassified to interest expense prior to its maturity on March 14, 2011.

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 both the thirteen weeks ended November 27, 2010 and November 28, 2009, the Company reclassified a loss from accumulated other comprehensive income into interest expense totaling \$0.8 million.

6. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended November 27, 2010 and November 28, 2009 were \$2.6 million and \$2.7 million, respectively.

Pension Plans and Supplemental Executive Retirement Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amount charged to expense related to these plans for both the thirteen weeks ended November 27, 2010 and November 28, 2009 was \$0.5 million.

7. Net Income Per Share

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

	Thirteen weeks ended	
	November 27, 2010	November 28, 2009
Net income available to shareholders	\$ 23,764	\$ 23,576
Allocation of net income for Basic:		
Common Stock	\$ 18,604	\$ 18,516
Class B Common Stock	4,704	5,060
Unvested participating shares	456	—
	\$ 23,764	\$ 23,576
Weighted average number of shares for Basic:		
Common Stock	14,753	14,440
Class B Common Stock	4,663	4,932
Unvested participating shares	412	—
	19,828	19,372
Earnings per share for Basic:		
Common Stock	\$ 1.26	\$ 1.28
Class B Common Stock	\$ 1.01	\$ 1.03

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

Edgar Filing: UNIFIRST CORP - Form 10-Q

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

For the thirteen weeks ended November 27, 2010, the Company's diluted EPS assumes the conversion of the Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares as follows (in thousands, except per share data):

	Thirteen weeks ended November 27, 2010		
	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	\$ 18,604	14,753	\$ 1.26
Add: effect of dilutive potential common shares			
Share-based awards	—	71	
Class B Common Stock	4,704	4,663	
Add: Undistributed earnings allocated to unvested participating shares			
	443	—	
Less: Undistributed earnings reallocated to unvested participating shares			
	(421)	—	
Diluted EPS – Common Stock	\$ 23,330	19,487	\$ 1.20

Share-based awards that would result in the issuance of 119,088 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended November 27, 2010 because they were anti-dilutive.

For the thirteen weeks ended November 28, 2009, the Company's diluted EPS was calculated using the treasury stock method as follows (in thousands, except per share data):

	Thirteen weeks ended November 28, 2009		
	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	\$ 18,516	14,440	\$ 1.28
Add: effect of dilutive potential common shares			
Share-based awards	—	62	
Class B Common Stock	5,060	4,932	
Diluted EPS – Common Stock	\$ 23,576	19,434	\$ 1.21

Share-based awards that would result in the issuance of 119,300 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended November 28, 2009 because they were anti-dilutive.

As of the thirteen weeks ended November 28, 2009, the diluted earnings per share calculations assumed the conversion of all of the Company's Class B Common Stock into Common Stock; therefore, no allocation of earnings to Class B Common Stock was required.

8. Asset Retirement Obligations

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

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

	November 27,
	2010
Beginning balance as of August 28, 2010	\$ 8,899
Accretion expense	147
Ending balance as of November 27, 2010	\$ 9,046

As of November 27, 2010, the \$9.0 million asset retirement obligation is included in accrued liabilities in the accompanying Consolidated Balance Sheet.

9. 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.

US GAAP requires 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. 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. In addition, the Company recently received a notice from the Maryland Department of Environment directing the Company to investigate potential contamination at its Landover, Maryland facility.

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 decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided the Company and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. The Company met with EPA to discuss its comments, and the Company and another signatory to the consent decree subsequently submitted work plans to perform additional environmental investigations. Such work pursuant to these work plans and other EPA comments has been initiated. The Company has accrued costs to perform certain work responsive to EPA's comments.

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 current risk-free interest rates. As of November 27, 2010, the risk-free interest rates utilized by the Company ranged from 2.9% to 4.2%.

For environmental liabilities that have been discounted, the Company includes interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the Company's environmental liabilities for the thirteen weeks ended November 27, 2010 are as follows (in thousands):

Edgar Filing: UNIFIRST CORP - Form 10-Q

	November 27, 2010
Beginning balance as of August 28, 2010	\$ 18,986
Costs incurred for which reserves have been provided	(559)
Insurance proceeds received	76
Interest accretion	170
Changes in discount rates	(838)
 Balance as of November 27, 2010	 \$ 17,835

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of November 27, 2010, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	2011	2012	2013	2014	2015	Thereafter	Total
Estimated costs – current dollars	\$ 3,486	\$ 3,061	\$ 1,806	\$ 934	\$ 804	\$ 13,002	\$ 23,093
Estimated insurance proceeds	(82)	(180)	(150)	(180)	(150)	(2,048)	(2,790)
Net anticipated costs	\$ 3,404	\$ 2,881	\$ 1,656	\$ 754	\$ 654	\$ 10,954	\$ 20,303
Effect of Inflation							7,474
Effect of Discounting							(9,942)
Balance as of November 27, 2010							\$ 17,835

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately \$0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of November 27, 2010, the balance in this escrow account, which is held in a trust and is not recorded in the Company's Consolidated Balance Sheet, was approximately \$2.9 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.

10. Income Taxes

The Company's effective income tax rate was 37.0% for the thirteen weeks ended November 27, 2010, as compared to 39.5% for the thirteen weeks ended November 28, 2009. The decrease in the effective income tax rate for the thirteen week period ended November 27, 2010 was due to the reversal of tax contingency reserves related to the resolution of certain state tax audits as well as a lower provision for U.S. state income taxes compared to the comparable period in fiscal 2010. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense which is consistent with the recognition of these items in prior reporting periods. During the thirteen weeks ended November 27, 2010, there were no material changes in the amount of unrecognized tax benefits or the amount accrued for interest and penalties.

All U.S. and Canadian federal income tax examinations have substantially concluded through fiscal years 2006 and 2003, respectively. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2005. The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change significantly in the next 12 months.

11. Long-Term 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 tests its compliance with these financial covenants on a fiscal quarterly basis. At November 27, 2010, the interest rates applicable to any of the Company's borrowings under the Credit Agreement would be calculated as LIBOR plus 50 basis points at the time of the respective borrowing. As of November 27, 2010, the Company had no outstanding borrowings, letters of credit of \$38.8 million, and \$186.2 million available for borrowing.

The Company is currently in the process of evaluating refinancing alternatives for its Credit Agreement. The Company believes that it will be able to enter into a new revolving credit facility agreement on terms satisfactory to the Company and that the repayment or refinancing of the Fixed Rate Notes will not adversely affect its financial condition. If the Company chooses not to refinance, it would utilize its current cash reserves to satisfy this debt obligation. The Company believes that utilizing its cash in this manner would not negatively impact its liquidity or operations.

On June 14, 2004, the Company issued \$75.0 million of fixed rate notes pursuant to a Note Purchase Agreement ("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 Note Agreement in the amount of \$75.0 million and then to pay down outstanding amounts under the Credit Agreement.

As of November 27, 2010, the Company was in compliance with all covenants under the Credit Agreement, the Note Agreement and the 2006 Note Agreement.

12. Other Comprehensive Income

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

Thirteen weeks ended	November 27, 2010	November 28, 2009
Net income	\$ 23,764	\$ 23,576
Other comprehensive income, net of tax		
Foreign currency translation adjustments	2,891	2,214
Interest rate swap	456	47
Comprehensive income	\$ 27,111	\$ 25,837

13. Segment Reporting

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

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

The MFG operating segment designs and manufactures uniforms and non-garment items solely for the purpose of providing these goods to the US and Canadian Rental and Cleaning reporting segment. MFG revenues are generated when goods are shipped from the Company's manufacturing facilities 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

Edgar Filing: UNIFIRST CORP - Form 10-Q

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.

The Specialty Garments operating segment purchases, rents, cleans, delivers and sells, specialty garments and non-garment items primarily for nuclear and cleanroom 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 tables (in thousands):

Thirteen weeks ended	US and Canadian Rental and Cleaning	MFG	Net Interco MFG Elim	Corporate	Subtotal Core Laundry Operations	Specialty Garments	First Aid	Total
November 27, 2010								
Revenues	\$236,192	\$37,705	\$(37,705)	\$2,499	\$238,691	\$25,811	\$8,588	\$273,090
Income (loss) from operations	\$42,184	\$13,881	\$(5,059)	\$(16,592)	\$34,414	\$4,029	\$727	\$39,170
Interest (income) expense, net	\$(509)	\$—	\$—	\$2,130	\$1,621	\$—	\$—	\$1,621
Income (loss) before taxes	\$42,687	\$13,829	\$(5,059)	\$(18,717)	\$32,740	\$4,254	\$727	\$37,721
November 28, 2009								
Revenues	\$223,879	\$20,380	\$(20,380)	\$1,907	\$225,786	\$22,877	\$7,516	\$256,179
Income (loss) from operations	\$41,415	\$8,403	\$(1,262)	\$(13,164)	\$35,392	\$4,613	\$422	\$40,427
Interest (income) expense, net	\$(467)	\$—	\$—	\$2,127	\$1,660	\$—	\$—	\$1,660
Income (loss) before taxes	\$41,887	\$8,337	\$(1,262)	\$(15,280)	\$33,682	\$4,864	\$422	\$38,968

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

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any documents incorporated by reference contain forward looking statements within the meaning of the federal securities laws. Forward looking statements contained in this Quarterly Report on Form 10-Q and any documents incorporated by reference are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by words such as “estimates,” “anticipates,” “projects,” “plans,” “expects,” “intends,” “believes,” “seeks,” “could,” “should,” “may,” “will,” or their variations thereof, and similar expressions and by the context in which they are used. Such forward looking statements are based upon our current expectations and speak only as of the date made. Such statements are highly dependent upon a variety of risks, uncertainties and other important factors that could cause actual results to differ materially from those reflected in such forward looking statements. Such factors include, but are not limited to, uncertainties 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, our ability to preserve positive labor relationships and avoid becoming the target of corporate labor unionization campaigns that could disrupt our business, the effect of currency fluctuations on our results of operations and financial condition, our dependence on third parties to supply us with raw materials, any loss of key management or other personnel, increased costs as a result of any future changes in federal or state laws, rules and regulations or governmental interpretation of such laws, rules and regulations, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the impact of adverse economic conditions and the current tight credit markets 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, rampant criminal activity and instability in Mexico where our principal garment manufacturing plants are located, 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” in our Annual Report on Form 10-K for the year ended August 28, 2010 and in 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 cleanroom protective wear. Typical customers for these specialized services include government agencies, research and development laboratories, high technology companies and utilities operating nuclear reactors.

We continue to expand into additional geographic markets through acquisitions and organic growth. We currently service over 225,000 customer locations in the United States, Canada and Europe from 205 customer service, distribution and manufacturing facilities.

As discussed and described in Note 13 to the Consolidated Financial Statements, we have five reporting segments: US and Canadian Rental and Cleaning, Manufacturing (“MFG”), Corporate, Specialty Garments Rental and Cleaning (“Specialty Garments”) and First Aid. We refer to the laundry locations of the US and Canadian Rental and Cleaning reporting segment as “industrial laundries” or “industrial laundry locations”, and to the US and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as our “core laundry operations.”

Critical Accounting Policies and Estimates

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, the most important and pervasive accounting policies used and areas most sensitive to material changes from external factors. See Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended August 28, 2010 for additional discussion of the application of these and other accounting policies.

Results of Operations

The amounts of revenues and certain expense items as well as the related percentage of total revenues for the thirteen weeks ended November 27, 2010 and November 28, 2009, 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. Cost of revenues 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.

Thirteen weeks ended

(In thousands, except percentages)	November 27, 2010		November 28, 2009		% Change
		% of Revenues		% of Revenues	
Revenues	\$ 273,090	100.0 %	\$ 256,179	100.0 %	6.6 %

Operating expenses:					
Cost of revenues (1)	163,235	59.8	149,224	58.2	9.4
Selling and administrative expenses (1)	55,183	20.2	51,472	20.1	7.2
Depreciation and amortization	15,502	5.7	15,056	5.9	3.0
Total operating expenses	233,920	85.7	215,752	84.2	8.4
Income from operations	39,170	14.3	40,427	15.8	-3.1
Other expense (income)	1,449	0.5	1,459	0.6	-0.7
Income before income taxes	37,721	13.8	38,968	15.2	-3.2
Provision for income taxes	13,957	5.1	15,392	6.0	-9.3
Net income	\$ 23,764	8.7 %	\$ 23,576	9.2 %	0.8 %

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

General

We derive our revenues through the design, manufacture, personalization, rental, cleaning, delivering, and selling of a wide range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks and aprons and specialized protective wear, such as flame resistant and high visibility garments. We also rent industrial wiping products, floor mats, facility service products, other non-garment items, and provide first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies. The current challenging economic conditions continue to affect employment levels in the United States and Canada, which has a negative effect on wearer levels and, as a result, on our business.

Thirteen Weeks Ended November 27, 2010 Compared with Thirteen Weeks Ended November 28, 2009

Revenues

(In thousands, except percentages)	November 27, 2010	November 28, 2009	Dollar Change	Percent Change
	Core Laundry Operations	\$ 238,691	\$ 225,786	\$ 12,905
Specialty Garments	25,811	22,877	2,934	12.8
First Aid	8,588	7,516	1,072	14.3
Consolidated total	\$ 273,090	\$ 256,179	\$ 16,911	6.6 %

For the thirteen weeks ended November 27, 2010, our consolidated revenues increased by \$16.9 million from the comparable period in fiscal 2010, or 6.6%. This increase was primarily driven by a \$12.9 million increase in revenues from our core laundry operations. Core laundry operations' revenue increased to \$238.7 million for the thirteen weeks ended November 27, 2010 from \$225.8 million for the comparable period of fiscal 2010, or 5.7%. This increase was attributable to positive organic growth of 4.2%. 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. Our positive organic growth rate in our core laundry operations was accompanied by positive acquisition-related growth of 1.2%

and the effect of favorable fluctuations in the Canadian foreign exchange rate, which accounted for a 0.3% increase in revenue for the thirteen weeks ended November 27, 2010 compared to the comparable period in fiscal 2010.

Specialty Garments' revenues increased to \$25.8 million in the first fiscal quarter of 2011 from \$22.9 million in the comparable period of 2010, an increase of 12.8%. The increase in the quarterly revenues was primarily related to the timing of our customers' power reactor outages in the U.S. and Canadian markets as well as higher direct sales in the first fiscal quarter of 2011.

Cost of Revenues

For the thirteen weeks ended November 27, 2010, cost of revenues increased to 59.8% of revenues, or \$163.2 million, from 58.2% of revenues, or \$149.2 million, for the thirteen weeks ended November 28, 2009. This increase was primarily the result of an increase in overall merchandise costs in our core laundry business, higher fuel costs associated to operating our fleet of delivery trucks as well as higher production payroll expense as a percent of revenues. In addition, cost of revenues as a percent of revenues increased for the Specialty Garments' segment due the result of a larger percentage of higher-margin project and ancillary service revenues in the first quarter of fiscal 2010. These increases were partially offset by lower costs related to healthcare and other insurance.

Selling and Administrative Expense

Our selling and administrative expenses increased modestly to 20.2% of revenues, or \$55.2 million, for the thirteen weeks ended November 27, 2010 from 20.1% of revenues, or \$51.5 million, for the comparable period of fiscal 2010. This increase was due in part to a \$1.2 million increase in share-based compensation expense related to a grant of restricted stock to our Chief Executive Officer in fiscal 2010, partially offset by a \$0.8 million accounting benefit we recognized in the thirteen weeks ended November 27, 2010 related to the effect of discount rate fluctuations on the fair value of our environmental liabilities. For the thirteen weeks ended November 27, 2010 compared to the comparable period in fiscal 2010, the continued growth of our sales force and overall selling costs was commensurate with our revenue growth.

Depreciation and Amortization

Our depreciation and amortization expense increased to \$15.5 million for the thirteen weeks ended November 27, 2010 from \$15.1 million for the thirteen weeks ended November 28, 2009. The increase in depreciation and amortization expense was due to capital expenditures and acquisition activity that occurred within the last twelve months.

Income from Operations

For the thirteen weeks ended November 27, 2010 and November 28, 2009, the changes in our revenues and costs, discussed above, resulted in the following changes in our income from operations:

(In thousands, except percentages)	November 27, 2010	November 28, 2009	Dollar Change	Percent Change
Core Laundry Operations	\$ 34,414	\$ 35,392	\$ (978))-2.8 %
Specialty Garments	4,029	4,613	(584))-12.7
First Aid	727	422	305	72.3
Consolidated total	\$ 39,170	\$ 40,427	\$ (1,257))-3.1 %

Other Expense (income)

Other expense (income), which includes interest expense, interest income and foreign currency exchange (gain) loss, was \$1.4 million for the thirteen weeks ended November 27, 2010 compared to \$1.5 million for the thirteen weeks ended November 28, 2009. For the thirteen weeks ended November 27, 2010, the average debt outstanding was \$181.2 million, as compared to \$182.0 million during the thirteen weeks ended November 28, 2009.

Provision for Income Taxes

Our effective income tax rate was 37.0% for the thirteen weeks ended November 27, 2010, as compared to 39.5% for the thirteen weeks ended November 28, 2009. This change was primarily due to a decrease in our reserves for income tax exposures due to the resolution of certain state tax audits as well as a lower provision for U.S. state income taxes compared to the prior year.

Liquidity and Capital Resources

General

As of November 27, 2010, we had cash and cash equivalents of \$133.3 million and working capital of \$200.7 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 thirteen weeks ended November 27, 2010, we generated cash from operating activities of \$27.2 million resulting primarily from net income of \$23.8 million, net of non-cash amounts charged for depreciation, amortization and accretion of \$15.9 million and share-based compensation of \$1.7 million. We also generated cash as a result of increases in accounts payable and accruals of \$4.8 million and accrued and deferred income taxes of \$10.7 million. These inflows were partially offset by increases in accounts receivable of \$17.3 million, rental merchandise in-service of \$5.1 million, inventories of \$4.8 million and prepaid expenses of \$2.4 million. In the first quarter of fiscal 2011, we used cash to, among other things, invest \$12.2 million in capital expenditures and fund an acquisition in the amount of approximately \$2.2 million.

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 test our compliance with these financial covenants on a fiscal quarterly basis. At November 27, 2010, the interest rates applicable to any of the Company’s borrowings under the Credit Agreement would be calculated as LIBOR plus 50 basis points at the time of the respective borrowing. As of November 27, 2010, under the Credit Agreement we had no outstanding borrowings and outstanding letters of credit of \$38.8 million, which leaves \$186.2 million available for borrowing as of that date.

On June 14, 2004, we issued \$165.0 million of fixed and floating rate notes pursuant to a Note Purchase Agreement (“Note Agreement”). Under the Note Agreement, we issued \$75.0 million of notes with a seven year term (June 2011) bearing interest at 5.27% (“Fixed Rate Notes”). 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 (“2006 Floating Rate Notes”) pursuant to a Note Purchase Agreement (“2006 Note Agreement”). The 2006 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 2006 Floating Rate Notes were used to first repay the \$75.0 million of outstanding Floating Rate Notes and then to pay down outstanding amounts under the Credit Agreement.

As of November 27, 2010, we were in compliance with all covenants under the Note Agreement, 2006 Note Agreement and the Credit Agreement.

Our Credit Agreement expires and our Fixed Rate Notes mature in 2011. We are currently in the process of evaluating refinancing alternatives. We believe that we will be able to enter into a new revolving credit facility agreement on terms satisfactory to us and that the repayment or refinancing of the Fixed Rate Notes will not adversely affect our financial condition. If we choose not to refinance, we would utilize our current cash reserves to satisfy this debt obligation. We believe that utilizing our cash in this manner would not negatively impact our liquidity or operations.

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 and, as a result, have recorded all changes in the fair value of the swap agreement in accumulated other comprehensive income, a component of shareholders’ equity. For additional information on the interest rate swap, see Note 5, “Derivative Instruments and Hedging Activities”, of these 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.

US GAAP requires 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. In addition, we recently received notice from the Maryland Department of Environment directing us to investigate potential contamination at our Landover, Maryland facility.

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 decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided us and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. We met with EPA to discuss its comments, and we and another signatory to the consent decree subsequently submitted work plans to perform additional environmental investigations. Such work pursuant to these work plans and other EPA comments has been initiated. We have accrued costs to perform certain work responsive to EPA's comments.

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. Our accruals represent 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 current risk-free interest rates. As of November 27, 2010, the risk-free interest rates we utilized ranged from 2.9% to 4.2%.

For environmental liabilities that have been discounted, we include interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the amounts of our environmental liabilities for the thirteen weeks ended November 27, 2010 are as follows (in thousands):

	November 27,
	2010
Beginning balance as of August 28, 2010	\$ 18,986
	(559)

Edgar Filing: UNIFIRST CORP - Form 10-Q

Costs incurred for which reserves have been provided

Insurance proceeds received	76
Interest accretion	170
Changes in discount rates	(838)

Balance as of November 27, 2010	\$ 17,835
---------------------------------	-----------

Anticipated payments and insurance proceeds relating to currently identified environmental remediation liabilities as of November 27, 2010, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	2011	2012	2013	2014	2015	Thereafter	Total
Estimated costs – current dollars	\$ 3,486	\$ 3,061	\$ 1,806	\$ 934	\$ 804	\$ 13,002	\$ 23,093
Estimated insurance proceeds	(82)	(180)	(150)	(180)	(150)	(2,048)	(2,790)
Net anticipated costs	\$ 3,404	\$ 2,881	\$ 1,656	\$ 754	\$ 654	\$ 10,954	\$ 20,303
Effect of Inflation							7,474
Effect of Discounting							(9,942)
Balance as of November 27, 2010							\$ 17,835

Estimated insurance proceeds are primarily received from an annuity received as part of our legal settlement with an insurance company. Annual proceeds of approximately \$0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to our former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of November 27, 2010, the balance in this escrow account, which is held in a trust and is not recorded in our Consolidated Balance Sheet, was approximately \$2.9 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 November 27, 2010, 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 28, 2010.

Recent Accounting Pronouncements

In January 2010, the FASB issued revised guidance which requires additional disclosures about items transferring into and out of Levels 1 and 2 measurements in the fair value hierarchy, requires additional separate disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, and clarifies, among other things, the existing fair value disclosures about the level of disaggregation. This pronouncement was effective for interim and annual financial periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, which are effective for interim and annual financial periods beginning after December 15, 2010. We partially adopted this revised guidance on February 28, 2010, as required, and the adoption did not have a material impact on our Consolidated Financial Statements. We also do not expect the adoption of the delayed portion of the revised guidance to have a material impact on our Consolidated Financial Statements.

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. Revenues and expenses are translated at the average exchange rates in effect during each month of the fiscal year. As such, our financial condition

and operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries. Revenues denominated in currencies other than the U.S. dollar represented approximately 9% of total consolidated revenues for the thirteen weeks ended November 27, 2010, and total assets denominated in currencies other than the U.S. dollar represented approximately 10% of total consolidated assets at November 27, 2010. If exchange rates had increased or decreased by 10% from the actual rates in effect during the thirteen weeks ended and as of November 27, 2010, our revenues and assets for the thirteen weeks ended and as of November 27, 2010 would have increased or decreased by approximately \$2.4 million and \$11.8 million, respectively.

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 weeks ended November 27, 2010, transaction gains included in other expense (income) were approximately \$0.2 million. If the exchange rates had changed by 10% during the thirteen weeks ended November 27, 2010, we would have recognized exchange gains or losses of approximately \$0.9 million.

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 the 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 weeks ended November 27, 2010, our interest expense would have fluctuated by a nominal amount from the interest expense recognized for the thirteen weeks ended November 27, 2010.

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 in accordance with U.S. GAAP and, as a result, have recorded all changes in the fair value of the swap agreement in accumulated other comprehensive income, a component of shareholders' equity.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company required to be disclosed by the Company in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide

only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. We continue to review our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of fiscal year 2011 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to legal proceedings and claims arising from the current conduct of our business operations, including personal injury, customer contract, employment claims and environmental matters as described in our Consolidated Financial Statements. We maintain insurance coverage providing indemnification against the majority of such claims, and we do not expect that we will sustain any material loss as a result thereof. Refer to Note 9, “Commitments and Contingencies,” to the Consolidated Financial Statements 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 28, 2010. 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 28, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- * 10.1 Form of UniFirst Corporation Stock Appreciation Right Award Agreement for Employees under the UniFirst Corporation Amended 1996 Stock Incentive Plan, as amended
- * 10.2 Form of UniFirst Corporation Stock Appreciation Right Award Agreement for Non-Employee Directors under the UniFirst Corporation Amended 1996 Stock Incentive

Plan, as amended

- * 31.1 Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Croatti
- * 31.2 Rule 13a-14(a)/15d-14(a) Certification of Steven S. Sintros
- ** 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- ** 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *** 101 The following materials from UniFirst Corporation's Quarterly Report on Form 10-Q for the quarter ended November 27, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.
- * Filed herewith
- ** Furnished herewith
- *** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

January 6, 2011

UniFirst Corporation

By:/s/ Ronald D. Croatti
Ronald D. Croatti
President and Chief Executive
Officer

January 6, 2011

UniFirst Corporation

By:/s/ Steven S. Sintros
Steven S. Sintros

Vice President and Chief
Financial Officer

EXHIBIT INDEX

- * 10.1 Form of UniFirst Corporation Stock Appreciation Right Award Agreement for Employees under the UniFirst Corporation Amended 1996 Stock Incentive Plan, as amended
- * 10.2 Form of UniFirst Corporation Stock Appreciation Right Award Agreement for Non-Employee Directors under the UniFirst Corporation Amended 1996 Stock Incentive Plan, as amended
- * 31.1 Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Croatti
- * 31.2 Rule 13a-14(a)/15d-14(a) Certification of Steven S. Sintros
- ** 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- ** 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *** 101 The following materials from UniFirst Corporation's Quarterly Report on Form 10-Q for the quarter ended November 27, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.
- * Filed herewith
- ** Furnished herewith
- *** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.