UNIFIRST CORP
Form 10-Q
July 07, 2016

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 28, 2016**

OR

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

For the transition period from ________________ to ________________

Commission file number: **001-08504**

UNIFIRST CORPORATION

(Exact name of Registrant as Specified in Its Charter)

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

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

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

Yes   No__

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

Yes   No__

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

Large accelerated filer   Accelerated filer___   Smaller Reporting Company__   Non-accelerated filer__

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

Yes __   No

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at July 1, 2016 were 15,406,532 and 4,849,519, respectively.

Table Of Contents

UniFirst Corporation

Quarterly Report on Form 10-Q

For the Quarter ended May 28, 2016

Table of Contents

Table Of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

UniFirst Corporation and Subsidiaries

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)	**Thirteen weeks ended May 28, 2016**	**Thirteen weeks ended May 30, 2015**	**Thirty-nine weeks ended May 28, 2016**	**Thirty-nine weeks ended May 30, 2015**
Revenues	$367,799	$365,574	$1,104,280	$1,097,397
Operating expenses:				
Cost of revenues (1)	224,932	221,995	677,207	665,222
Selling and administrative expenses (1)	74,541	72,205	222,713	221,832
Depreciation and amortization	20,409	19,022	59,956	55,851
Total operating expenses	319,882	313,222	959,876	942,905
Income from operations	47,917	52,352	144,404	154,492
Other (income) expense:				
Interest expense	211	221	650	648
Interest income	(902)	(784)	(2,558)	(2,532)
Foreign exchange (gain) loss	(91)	72	256	1,323
Total other (income) expense	(782)	(491)	(1,652)	(561)
Income before income taxes	48,699	52,843	146,056	155,053
Provision for income taxes	18,555	20,344	56,524	59,695
Net income	$30,144	$32,499	$89,532	$95,358
Income per share – Basic:				
Common Stock	$1.57	$1.70	$4.67	$4.99
Class B Common Stock	$1.26	$1.36	$3.74	$3.99
Income per share – Diluted:				
Common Stock	$1.49	$1.61	$4.43	$4.72

Income allocated to – Basic:				
Common Stock	$23,939	$25,817	$71,172	$75,650
Class B Common Stock	$6,061	$6,483	$17,956	$18,954
Income allocated to – Diluted:				
Common Stock	$30,007	$32,310	$89,149	$94,644
Weighted average number of shares outstanding – Basic:				
Common Stock	15,253	15,207	15,238	15,173
Class B Common Stock	4,827	4,773	4,805	4,752
Weighted average number of shares outstanding – Diluted:				
Common Stock	20,183	20,118	20,141	20,057
Dividends per share:				
Common Stock	$0.0375	$0.0375	$0.1125	$0.1125
Class B Common Stock	$0.0300	$0.0300	$0.0900	$0.0900

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

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

Table Of Contents

UniFirst Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	Thirteen weeks ended May 28, 2016	Thirteen weeks ended May 30, 2015	Thirty-nine weeks ended May 28, 2016	Thirty-nine weeks ended May 30, 2015
Net Income	$30,144	$32,499	$89,532	$95,358
Other comprehensive (loss) income:				
Foreign currency translation adjustments	3,806	62	223	(16,830)
Pension benefit liabilities, net of income taxes	—	—	(218)	(1,266)
Change in fair value of derivatives, net of income taxes	(344)	219	(392)	(425)
Derivative financial instruments (gain) loss reclassified	(36)	70	(201)	70
Other comprehensive (loss) income	3,426	351	(588)	(18,451)
Comprehensive income	$33,570	$32,850	$88,944	$76,907

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

Table Of Contents

UniFirst Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and par value data)	**May 28, 2016**	**August 29, 2015**
Assets		
Current assets:		
Cash and cash equivalents	$347,583	$276,553
Receivables, less reserves of $10,252 and $6,007	158,273	151,851
Inventories	76,347	80,449
Rental merchandise in service	140,279	140,384
Prepaid and deferred income taxes	424	204
Prepaid expenses and other current assets	12,993	12,382
Total current assets	735,899	661,823
Property, plant and equipment, net of accumulated depreciation of $649,289 and $618,269	532,881	513,853
Goodwill	320,247	313,133
Customer contracts, net	35,889	38,024
Other intangible assets, net	2,687	2,025
Deferred income taxes	—	1,475
Other assets	3,388	2,904
Total assets	$1,630,991	$1,533,237
Liabilities and shareholders' equity		
Current liabilities:		
Loans payable	$—	$1,385
Accounts payable	49,216	50,826
Accrued liabilities	120,425	113,022
Accrued and deferred income taxes	—	18,878
Total current liabilities	169,641	184,111
Accrued liabilities	58,151	54,566
Accrued and deferred income taxes	73,623	52,352
Total liabilities	301,415	291,029
Commitments and contingencies (Note 10)		
Shareholders' equity:		
	—	—

Preferred Stock, $1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding		
Common Stock, $0.10 par value; 30,000,000 shares authorized; 15,400,818 and 15,246,588 shares issued and outstanding as of May 28, 2016 and August 29, 2015, respectively	1,540	1,525
Class B Common Stock, $0.10 par value; 20,000,000 shares authorized; 4,849,519 and 4,854,519 shares issued and outstanding as of May 28, 2016 and August 29, 2015, respectively	485	485
Capital surplus	68,179	67,611
Retained earnings	1,284,373	1,197,000
Accumulated other comprehensive (loss) income	(25,001)	(24,413)
Total shareholders' equity	1,329,576	1,242,208
Total liabilities and shareholders' equity	$1,630,991	$1,533,237

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

Table Of Contents

UniFirst Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

Thirty-nine weeks ended	**May 28,**	**May 30,**
(In thousands)	**2016**	**2015**
Cash flows from operating activities:		
Net income	$89,532	$95,358
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	53,556	49,270
Amortization of intangible assets	6,400	6,581
Amortization of deferred financing costs	156	156
Share-based compensation	3,625	4,413
Accretion on environmental contingencies	502	452
Accretion on asset retirement obligations	599	503
Deferred income taxes	6,034	6,668
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(5,698)	(9,463)
Inventories	4,063	(5,714)
Rental merchandise in service	1,571	1,417
Prepaid expenses and other current assets	(1,356)	(7,812)
Accounts payable	(1,627)	(2,106)
Accrued liabilities	6,358	10,283
Prepaid and accrued income taxes	(2,635)	8,408
Net cash provided by operating activities	161,080	158,414
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(10,861)	(19,815)
Capital expenditures	(72,065)	(82,272)
Other	(64)	(1,160)
Net cash used in investing activities	(82,990)	(103,247)
Cash flows from financing activities:		
Proceeds from loans payable and long-term debt	—	5,401
Payments on loans payable and long-term debt	(1,326)	(9,580)
Payment of deferred financing costs	(813)	—
Proceeds from exercise of share-based awards, including excess tax benefits	1,394	8,055
Taxes withheld and paid related to net share settlement of equity awards	(4,425)	(5,002)
Payment of cash dividends	(2,155)	(2,151)
Net cash used in financing activities	(7,325)	(3,277)
Effect of exchange rate changes	265	(7,987)

Net increase in cash and cash equivalents	71,030	43,903
Cash and cash equivalents at beginning of period	276,553	191,769
Cash and cash equivalents at end of period	$347,583	$235,672

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

Table Of Contents

UniFirst Corporation and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

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

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

2. Recent Accounting Pronouncements

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

In February 2015, the FASB issued updated accounting guidance on consolidation requirements. This update changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 28, 2016. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

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

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

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

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

Table Of Contents

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

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

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

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

3. Business Acquisitions

During the thirty-nine weeks ended May 28, 2016, the Company completed two business acquisitions with an aggregate purchase price of approximately $14.1 million. The results of operations of these acquisitions have been included in the Company’s consolidated financial results since their acquisition dates. These acquisitions were not significant in relation to the Company’s consolidated financial results and, therefore, pro forma financial information has not been presented.

4. Fair Value Measurements

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

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

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

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

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

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

	As of May 28, 2016			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Cash equivalents	$52,615	$—	$ —	$52,615
Pension plan assets	—	4,661	—	4,661
Foreign currency forward contracts	—	220	—	220
Total assets at fair value	$52,615	$4,881	$ —	$57,496

Table Of Contents

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

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

The Company's pension plan assets listed above represent guaranteed deposit accounts that are maintained and operated by Prudential Retirement Insurance and Annuity Company ("PRIAC"). All assets are merged with the general assets of PRIAC and are invested predominantly in privately placed securities and mortgages. At the beginning of each calendar year, PRIAC notifies the Company of the annual rates of interest which will be applied to the amounts held in the guaranteed deposit account during the next calendar year. In determining the interest rate to be applied, PRIAC considers the investment performance of the underlying assets of the prior year; however, regardless of the investment performance the Company is contractually guaranteed a minimum rate of return. As such, the Company's pension plan assets are included within Level 2 of the fair value hierarchy.

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

5. Derivative Instruments and Hedging Activities

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

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

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

As of May 28, 2016, the Company had forward contracts with a notional value of approximately 18.3 million CAD outstanding and recorded the fair value of the contracts of $0.1 million in other long-term assets and $0.1 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of $0.1 million, which was recorded net of tax. During the thirteen weeks ended May 28, 2016, the Company reclassified a nominal amount from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. During the thirty-nine weeks ended May 28, 2016, the Company reclassified $0.2 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of May 28, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

Table Of Contents

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 U.S. and Canadian employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and may make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended May 28, 2016 and May 30, 2015 were $3.6 million and $3.8 million respectively. Contributions charged to expense under the plan for the thirty-nine weeks ended May 28, 2016 and May 30, 2015 were $10.8 million and $11.8 million, respectively.

Pension Plans and Supplemental Executive Retirement Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amounts charged to expense related to these plans for both the thirteen weeks ended May 28, 2016 and May 30, 2015 were $0.9 million. The amounts charged to expense related to these plans for both the thirty-nine weeks ended May 28, 2016 and May 30, 2015 were $2.6 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		Thirty-nine weeks ended	
	May 28, 2016	**May 30, 2015**	**May 28, 2016**	**May 30, 2015**

Net income	$30,144	$32,499	$89,532	$95,358
Allocation of net income for Basic:				
Common Stock	$23,939	$25,817	$71,172	$75,650
Class B Common Stock	6,061	6,483	17,956	18,954
Unvested participating shares	144	199	404	754
	$30,144	$32,499	$89,532	$95,358
Weighted average number of shares for Basic:				
Common Stock	15,253	15,207	15,238	15,173
Class B Common Stock	4,827	4,773	4,805	4,752
Unvested participating shares	97	134	96	173
	20,177	20,114	20,139	20,098
Earnings per share for Basic:				
Common Stock	$1.57	$1.70	$4.67	$4.99
Class B Common Stock	$1.26	$1.36	$3.74	$3.99

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

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

Table Of Contents

For the thirteen and thirty-nine weeks ended May 28, 2016, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares as it was the more dilutive of the two methods. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and thirty-nine weeks ended May 28, 2016 (in thousands, except per share data):

	Thirteen weeks ended May 28, 2016			**Thirty-nine weeks ended May 28, 2016**		
	Earnings to Common Shareholders	**Common Shares**	**EPS**	**Earnings to Common Shareholders**	**Common Shares**	**EPS**
As reported - Basic	$23,939	15,253	$1.57	$71,172	15,238	$4.67
Add: effect of dilutive potential common shares						
Share-based awards	—	103		—	98	
Class B Common Stock	6,061	4,827		17,956	4,805	
Add: Undistributed earnings allocated to unvested participating shares	141	—		395	—	
Less: Undistributed earnings reallocated to unvested participating shares	(134)	—		(374)	—	
Diluted EPS – Common Stock	$30,007	20,183	$1.49	$89,149	20,141	$4.43

Share-based awards that would result in the issuance of 14,959 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended May 28, 2016 because they were anti-dilutive. Share-based awards that would result in the issuance of 6,716 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirty-nine weeks ended May 28, 2016 because they were anti-dilutive.

For the thirteen and thirty-nine weeks ended May 30, 2015, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares as it was the more dilutive of the two methods. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and thirty-nine weeks ended May 30, 2015 (in thousands, except per share data):

	Thirteen weeks	**Thirty-nine weeks**

	ended May 30, 2015			ended May 30, 2015		
	Earnings to Common Shareholders	Common Shares	EPS	Earnings to Common Shareholders	Common Shares	EPS
As reported - Basic	$25,817	15,207	$1.70	$75,650	15,173	$4.99
Add: effect of dilutive potential common shares						
Share-based awards	—	138		—	132	
Class B Common Stock	6,483	4,773		18,954	4,752	
Add: Undistributed earnings allocated to unvested participating shares	194	—		737	—	
Less: Undistributed earnings reallocated to unvested participating shares	(184)	—		(697)	—	
Diluted EPS – Common Stock	$32,310	20,118	$1.61	$94,644	20,057	$4.72

Share-based awards that would result in the issuance of 25,726 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended May 30, 2015 because they were anti-dilutive. Share-based awards that would result in the issuance of 10,429 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirty-nine weeks ended May 30, 2015 because they were anti-dilutive.

Table Of Contents

8. Inventories

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

The components of inventory as of May 28, 2016 and August 29, 2015 were as follows (in thousands):

	May 28, 2016	**August 29, 2015**
Raw materials	$15,772	$17,658
Work in process	3,103	2,415
Finished goods	57,472	60,376
Total inventories	$76,347	$80,449

9. Asset Retirement Obligations

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

The changes to the Company's asset retirement liability for the thirty-nine weeks ended were as follows (in thousands):

	May 28, 2016

Beginning balance as of August 29, 2015	$12,381
Accretion expense	599
Effect of exchange rate changes	(44)
Asset retirement liabilities settled	(392)
Ending balance as of May 28, 2016	$12,544

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

10. Commitments and Contingencies

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

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

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

Table Of Contents

The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company has potential exposure related to a parcel of land (the "Central Area") related to the Woburn, Massachusetts site mentioned above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided the Company and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. The Company, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA's comments remain to be resolved. The Company has accrued costs to perform certain work responsive to EPA's comments. The Company has negotiated a settlement in principle, subject to final government approval, with EPA concerning past invoices for oversight costs with respect to the Woburn site and the Central Area. The Company has implemented mitigation measures and continues to monitor environmental conditions at the Somerville, Massachusetts site. In addition, the Company has received demands from the local transit authority for reimbursement of certain costs associated with its construction of a new municipal transit station in the area of the Company's Somerville site. This station is part of a planned extension of the transit system. Due to cost projections of the extension which now substantially exceed original estimates, the local transit authority has placed the extension on hold pending its redesign and receipt of related state and federal approvals and funding increases. The Company has reserved for costs it expects to incur in connection with this matter; however, in light of the uncertainties associated with this matter, these costs and the related reserve may change. The Company has also received notice that the Massachusetts Department of Environmental Protection is conducting an audit of the Company's investigation and remediation work with respect to the Somerville site.

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

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

There is usually a range of reasonable estimates of the costs associated with each site. In accordance with US GAAP, the Company's accruals reflect the amount within the range that it believes is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using current risk-free interest rates. As of May 28, 2016, the risk-free interest rates utilized by the Company ranged from 1.9% to 2.7%.

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 28, 2016 are as follows (in thousands):

	May 28, 2016
Beginning balance as of August 29, 2015	$23,307
Costs incurred for which reserves had been provided	(820)
Insurance proceeds	68
Interest accretion	502
Change in discount rates	579
Balance as of May 28, 2016	$23,636

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of May 28, 2016, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Estimated costs – current dollars	$6,593	$1,829	$1,476	$1,309	$1,361	$ 12,493	$25,061
Estimated insurance proceeds	(91)	(173)	(159)	(173)	(159)	(1,293)	(2,048)
Net anticipated costs	$6,502	$1,656	$1,317	$1,136	$1,202	$ 11,200	$23,013
Effect of inflation							7,757
Effect of discounting							(7,134)
Balance as of May 28, 2016							$23,636

Table Of Contents

Estimated insurance proceeds are primarily received from an annuity that was part of a legal settlement with an insurance company. Annual proceeds of approximately $0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of May 28, 2016, the balance in this escrow account, which is held in a trust and is not recorded in the Company’s accompanying Consolidated Balance Sheet, was approximately $3.5 million. Also included in estimated insurance proceeds are amounts the Company is entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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

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

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

11. Income Taxes

The Company’s effective income tax rate was 38.1% and 38.7% for the thirteen and thirty-nine weeks ended May 28, 2016 respectively, as compared to 38.5% for both the thirteen and thirty-nine weeks ended May 30, 2015. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense which is consistent with the recognition of these items in prior reporting periods. During the thirty-nine weeks ended May 28, 2016, there were no material changes in the amount of unrecognized tax benefits or the amount accrued for interest and penalties.

U.S. and Canadian federal income tax statutes have lapsed for filings up to and including fiscal years 2012 and 2008, respectively, and the Company has concluded an audit of U.S. federal income taxes for 2010 and 2011. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2011. The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change significantly in the next 12 months.

12. Long-Term Debt

On April 11, 2016, the Company entered into an amended and restated $250.0 million unsecured revolving credit agreement (the “Credit Agreement”) with a syndicate of banks, which matures on April 11, 2021. The Credit Agreement amended and restated the Company’s prior $250.0 million revolving credit agreement, which was scheduled to mature on May 4, 2016. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on, at the Company’s election, the Eurodollar rate or a base rate, plus in each case a spread based on the Company’s consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. At May 28, 2016, the interest rates applicable to the Company’s borrowings under the Credit Agreement would be calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of May 28, 2016, the Company had no outstanding borrowings and had outstanding letters of credit amounting to $52.6 million, leaving $197.4 million available for borrowing under the Credit Agreement.

As of May 28, 2016, the Company was in compliance with all covenants under the Credit Agreement.

Table Of Contents

13. Accumulated Other Comprehensive (Loss) Income

The changes in each component of accumulated other comprehensive (loss) income, net of tax, for the thirteen and thirty-nine weeks ended May 28, 2016 and May 30, 2015 were as follows (in thousands):

	Thirteen Weeks Ended May 28, 2016			
	Foreign Currency Translation	Pension-related	Derivative Financial Instruments	Total Accumulated Other Comprehensive (Loss) Income
Balance as of February 27, 2016	$			