

UNIFIRST CORP  
Form 10-Q  
January 04, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 25, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: UNIFIRST CORP - Form 10-Q

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 29, 2017 were 15,474,582 and 4,815,519, respectively.

---

Table of Contents

UniFirst Corporation  
 Quarterly Report on Form 10-Q  
 For the Quarter ended November 25, 2017  
 Table of Contents

<u>Part I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1 – Unaudited Financial Statements</u>	<u>3</u>
<u>Consolidated Statements of Income for the Thirteen Weeks ended November 25, 2017 and November 26, 2016</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the Thirteen Weeks ended November 25, 2017 and November 26, 2016</u>	<u>4</u>
<u>Consolidated Balance Sheets as of November 25, 2017 and August 26, 2017</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Thirteen Weeks ended November 25, 2017 and November 26, 2016</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4 – Controls and Procedures</u>	<u>30</u>
<u>Part II – OTHER INFORMATION</u>	<u>30</u>
<u>Item 1 – Legal Proceedings</u>	<u>30</u>
<u>Item 1A – Risk Factors</u>	<u>30</u>
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
<u>Item 3 – Defaults Upon Senior Securities</u>	<u>30</u>
<u>Item 4 – Mine Safety Disclosures</u>	<u>30</u>
<u>Item 5 – Other Information</u>	<u>30</u>
<u>Item 6 – Exhibits</u>	<u>31</u>
<u>Signatures</u>	<u>32</u>
Certifications	
Ex-31.1 Section 302 Certification of CEO	
Ex-31.2 Section 302 Certification of CFO	
Ex-32.1 Section 906 Certification of CEO	
Ex-32.2 Section 906 Certification of CFO	



Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Consolidated Statements of Income

## UniFirst Corporation and Subsidiaries

(Unaudited)

Thirteen weeks ended

November 25, November 26,

(In thousands, except per share data)

2017 2016

Revenues	\$ 415,778	\$ 386,108
Operating expenses:		
Cost of revenues (1)	253,650	238,765
Selling and administrative expenses (1)	87,510	79,446
Depreciation and amortization	22,707	22,140
Total operating expenses	363,867	340,351
Income from operations	51,911	45,757
Other (income) expense:		
Interest income, net	(1,276	) (801
Other expense, net	154	494
Total other income, net	(1,122	) (307
Income before income taxes	53,033	46,064
Provision for income taxes	18,827	17,850
Net income	\$ 34,206	\$ 28,214
Income per share – Basic:		
Common Stock	\$ 1.77	\$ 1.46
Class B Common Stock	\$ 1.42	\$ 1.17
Income per share – Diluted:		
Common Stock	\$ 1.67	\$ 1.38
Income allocated to – Basic:		
Common Stock	\$ 27,384	\$ 22,342
Class B Common Stock	\$ 6,822	\$ 5,668
Income allocated to – Diluted:		
Common Stock	\$ 34,206	\$ 28,020
Weighted average number of shares outstanding – Basic:		
Common Stock	15,462	15,285
Class B Common Stock	4,816	4,847
Weighted average number of shares outstanding – Diluted:		
Common Stock	20,434	20,249

Dividends 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.

Table of Contents

Consolidated Statements of Comprehensive Income  
 UniFirst Corporation and Subsidiaries  
 (Unaudited)

Thirteen weeks ended (In thousands)	November 25, November 26, 2017                      2016	
Net income	\$ 34,206	\$ 28,214
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(2,013                      )	(5,129                      )
Change in fair value of derivatives, net of income taxes	82	324
Derivative financial instruments reclassified to earnings	4	(76                      )
Other comprehensive loss	(1,927                      )	(4,881                      )
Comprehensive income	\$ 32,279	\$ 23,333

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

Table of Contents

## Consolidated Balance Sheets

UniFirst Corporation and Subsidiaries

(Unaudited)

(In thousands, except share and par value data)	November 25, 2017	August 26, 2017
<b>Assets</b>		
Current assets:		
Cash, cash equivalents and short-term investments	\$374,036	\$349,752
Receivables, less reserves of \$11,085 and \$8,719	200,148	187,174
Inventories	81,972	79,068
Rental merchandise in service	151,354	151,340
Prepaid taxes	12,969	29,968
Prepaid expenses and other current assets	22,241	16,924
Total current assets	842,720	814,226
Property, plant and equipment, net of accumulated depreciation of \$715,701 and \$702,325	524,130	525,115
Goodwill	377,104	376,110
Customer contracts, net	65,225	67,485
Other intangible assets, net	4,231	4,259
Deferred income taxes	407	394
Other assets	31,013	31,539
Total assets	\$1,844,830	\$1,819,128
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$63,901	\$64,691
Accrued liabilities	104,099	112,236
Accrued taxes	—	921
Total current liabilities	168,000	177,848
Accrued liabilities	107,481	106,736
Accrued and deferred income taxes	83,741	81,352
Total liabilities	359,222	365,936
Commitments and contingencies (Note 11)		
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; 15,469,099 and 15,453,308 shares issued and outstanding as of November 25, 2017 and August 26, 2017, respectively	1,547	1,545
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,815,519 shares issued and outstanding as of November 25, 2017 and August 26, 2017	482	482
Capital surplus	87,844	86,245
Retained earnings	1,419,180	1,386,438
Accumulated other comprehensive loss	(23,445)	(21,518)



Total shareholders' equity	1,485,608	1,453,192
Total liabilities and shareholders' equity	\$1,844,830	\$1,819,128

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

5

---

Table of Contents

Consolidated Statements of Cash Flows  
 UniFirst Corporation and Subsidiaries  
 (Unaudited)

Thirteen weeks ended (In thousands)	November 25, 2017	November 26, 2016
Cash flows from operating activities:		
Net income	\$34,206	\$28,214
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	19,540	18,500
Amortization of intangible assets	3,167	3,640
Amortization of deferred financing costs	28	28
Share-based compensation	1,114	2,015
Accretion on environmental contingencies	173	150
Accretion on asset retirement obligations	240	205
Deferred income taxes	2,031	(746 )
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(12,879 )	(13,112 )
Inventories	(2,882 )	7,526
Rental merchandise in service	(82 )	152
Prepaid expenses and other current assets and Other assets	(4,901 )	9,288
Accounts payable	(1,092 )	(1,113 )
Accrued liabilities	(7,456 )	(8,837 )
Prepaid and accrued income taxes	16,420	17,589
Net cash provided by operating activities	47,627	63,499
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(2,671 )	(120,391 )
Capital expenditures	(19,033 )	(18,233 )
Other	318	281
Net cash used in investing activities	(21,386 )	(138,343 )
Cash flows from financing activities:		
Proceeds from exercise of share-based awards, including excess tax benefits	267	929
Taxes withheld and paid related to net share settlement of equity awards	(522 )	(566 )
Payment of cash dividends	(726 )	(724 )
Net cash used in financing activities	(981 )	(361 )
Effect of exchange rate changes	(976 )	(2,471 )
Net increase (decrease) in cash, cash equivalents and short-term investments	24,284	(77,676 )
Cash, cash equivalents and short-term investments at beginning of period	349,752	363,795
Cash, cash equivalents and short-term investments at end of period	\$374,036	\$286,119

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

Table of Contents

UniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements

1. Basis of Presentation

These Consolidated Financial Statements of UniFirst Corporation (“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 26, 2017. There have been no material changes in the accounting policies followed by the Company during the current fiscal year other than the adoption of recent accounting pronouncements discussed in Note 2. 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 Financial Accounting Standards Board (“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. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company has established an implementation team and is working on the completion of its project plan to address the requirements of this standard. The Company is currently reviewing its customer contracts, assessing its incremental costs of obtaining customer contracts, and identifying any potential changes to business processes and controls to support accounting and disclosure considerations under this standard. The Company expects to adopt this standard using the modified retrospective adoption method and continues to evaluate the impact that this guidance will have on its financial statements and related disclosures.

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 Company adopted this standard on August 27, 2017. The adoption of this guidance did not have a material impact on its financial statements.

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 Company adopted this standard on August 27, 2017. The adoption impact on the consolidated balance sheet as of November 25, 2017 was a cumulative-effect adjustment of \$0.7 million, decreasing retained earnings and increasing capital surplus. The impact of the adoption on the consolidated statement of income was a decrease of \$1.6 million in income taxes during the thirteen weeks ended November 25, 2017. As a result of the adoption of the updated guidance, our excess tax benefit is no longer included in our calculation of diluted shares under the treasury stock method, resulting in an increase of a nominal

Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

amount of shares in the effect of dilutive securities for the thirteen weeks ended November 25, 2017. The election to recognize forfeitures of share-based awards as they occur resulted in an increase of \$0.1 million in share-based compensation for the thirteen weeks ended November 25, 2017. Prior periods have not been adjusted.

In August 2016, the FASB issued updated guidance that reduces diversity in how certain cash receipts and cash payments are presented and classified in the Consolidated Statements of Cash Flows. 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, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

In October 2016, the FASB issued updated guidance to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. 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 on a modified retrospective basis, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

**3. Business Acquisitions**

During the thirteen weeks ended November 25, 2017, the Company completed two business acquisitions with an aggregate purchase price of approximately \$2.7 million. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. These acquisitions were not significant in relation to the Company's consolidated financial results and, therefore, pro-forma financial information has not been presented.

**4. Fair Value Measurements**

The assets or liabilities measured at fair value on a recurring basis are summarized in the tables below (in thousands):

	As of November 25, 2017			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	\$78,952	\$—	\$—	—\$78,952
Pension plan assets	—	5,048	—	5,048
Total assets at fair value	\$78,952	\$5,048	\$—	—\$84,000
Liabilities:				
Foreign currency forward contracts	\$—	\$36	\$—	—\$36
Total liabilities at fair value	\$—	\$36	\$—	—\$36
	As of August 26, 2017			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	\$81,253	\$—	\$—	—\$81,253

Edgar Filing: UNIFIRST CORP - Form 10-Q

Pension plan assets	—	5,097	—	5,097
Total assets at fair value	\$81,253	\$5,097	\$	—\$86,350
Liabilities:				
Foreign currency forward contracts	\$—	\$177	\$	—\$177
Total liabilities at fair value	\$—	\$177	1\$	—\$177

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.

Table of Contents

UniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

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. These contracts were included in other assets as of November 25, 2017. 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

As of November 25, 2017, the Company had forward contracts with a notional value of approximately 8.3 million CAD outstanding and recorded nominal amounts for the fair value of the contracts in other current liabilities with a corresponding loss in accumulated other comprehensive loss, which was recorded net of tax. During the thirteen weeks ended November 25, 2017, the Company reclassified a nominal amount from accumulated other comprehensive loss to revenue, related to the derivative financial instruments. The loss in accumulated other comprehensive loss as of November 25, 2017 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

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 November 25, 2017 and November 26, 2016 were \$4.1 million and \$3.6 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 the thirteen weeks ended November 25, 2017 and November 26, 2016 were \$0.7 million and \$0.9 million, respectively.

Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

## 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 15,	November 26,
	2017	2016
Net income available to shareholders	\$34,206	\$ 28,214
Allocation of net income for Basic:		
Common Stock	\$27,384	\$ 22,342
Class B Common Stock	6,822	5,668
Unvested participating shares	—	204
	\$34,206	\$ 28,214
Weighted average number of shares for Basic:		
Common Stock	15,462	15,285
Class B Common Stock	4,816	4,847
Unvested participating shares	—	140
	20,278	20,272
Earnings per share for Basic:		
Common Stock	\$1.77	\$ 1.46
Class B Common Stock	\$1.42	\$ 1.17

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 ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

For the thirteen weeks ended November 25, 2017 and November 26, 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. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen weeks ended November 25, 2017 and November 26, 2016 (in thousands, except per share data):

	Thirteen weeks ended November 25, 2017			Thirteen weeks ended November 26, 2016		
	Earnings to Common Common Shares shareholders	Common Shares	EPS	Earnings to Common Common Shares shareholders	Common Shares	EPS
As reported - Basic	\$27,384	15,462	\$1.77	\$22,342	15,285	\$1.46
Add: effect of dilutive potential common shares						
Share-Based Awards	—	156		—	117	
Class B Common Stock	6,822	4,816		5,668	4,847	
Add: Undistributed earnings allocated to unvested participating shares	—	—		199	—	
Less: Undistributed earnings reallocated to unvested participating shares	—	—		(189)	—	
Diluted EPS – Common Stock	\$34,206	20,434	\$1.67	\$28,020	20,249	\$1.38

Share-based awards that would result in the issuance of 117 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended November 25, 2017 because they were anti-dilutive. There were no share-based awards that were excluded from the calculation of diluted earnings per share for the thirteen weeks ended November 26, 2016 because they were anti-dilutive.

## 8. Inventories

Inventories are stated at the lower of cost or net realizable value, net of any reserve for excess and obsolete inventory. Work-in-process and finished goods inventories consist of materials, labor and manufacturing overhead. 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 November 25, 2017 and August 26, 2017 were as follows (in thousands):

November 25, 2017	August 26, 2017
----------------------	-----------------------

Raw materials	\$ 14,899	\$18,468
Work in process	3,605	4,159
Finished goods	63,468	56,441
Total inventories	\$ 81,972	\$79,068

Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

## 9. Goodwill and Other Intangible Assets

As discussed in Note 3, "Acquisitions", when the Company acquires a business, the amount assigned to the tangible assets and liabilities and intangible assets acquired is based on their respective fair values determined as of the acquisition date. The excess of the purchase price over the tangible assets and liabilities and intangible assets is recorded as goodwill.

The changes in the carrying amount of goodwill are as follows (in thousands):

Balance as of August 26, 2017	\$376,110
Goodwill recorded during the period	1,045
Other	(51 )

Balance as of November 25, 2017 \$377,104

Intangible assets, net in the Company's accompanying Consolidated Balance Sheets are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
November 25, 2017			
Customer contracts	\$209,221	\$ 143,996	\$ 65,225
Other intangible assets	34,584	30,353	4,231
	\$243,805	\$ 174,349	\$ 69,456
August 26, 2017			
Customer contracts	\$208,711	\$ 141,226	\$ 67,485
Other intangible assets	34,249	29,990	4,259
	\$242,960	\$ 171,216	\$ 71,744

## 10. 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 twenty-six years.

A reconciliation of the Company's asset retirement liability for the thirteen weeks ended November 25, 2017 was as follows (in thousands):

	November 25, 2017
Beginning balance as of August 26, 2017	\$13,400
Accretion expense	240
Effect of exchange rate changes	20
Change in estimate	(228 )

Ending balance as of November 25, 2017 \$ 13,432

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

12

---

Table of Contents

UniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

11. 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 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. 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. Over the years, 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 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 sites located in Goldsboro, North Carolina, Wilmington, North Carolina, and Landover, Maryland.

The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company has potential exposure related to 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 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. The Company has reserved for costs 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.

Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

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 November 25, 2017, the risk-free interest rates utilized by the Company ranged from 2.3% to 2.8%.

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 25, 2017 were as follows (in thousands):

	November
	25, 2017
Beginning balance as of August 26, 2017	\$ 25,419
Costs incurred for which reserves had been provided	(235 )
Insurance proceeds	41
Interest accretion	173
Change in discount rates	(37 )
Balance as of November 25, 2017	\$ 25,361

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of November 25, 2017, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Estimated costs – current dollars	\$9,050	\$ 1,880	\$ 1,477	\$ 1,305	\$ 1,157	\$ 12,304	\$ 27,173
Estimated insurance proceeds	(118 )	(173 )	(159 )	(173 )	(159 )	(993 )	(1,775 )
Net anticipated costs	\$8,932	\$ 1,707	\$ 1,318	\$ 1,132	\$ 998	\$ 11,311	\$ 25,398
Effect of inflation							7,450
Effect of discounting							(7,487 )



Balance as of November 25, 2017

\$25,361

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.

14

---

Table of Contents

UniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

As of November 25, 2017, 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 \$3.6 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. In the past, scrutiny and regulation of nuclear facilities and related services have resulted in the suspension of operations at certain nuclear facilities served by the Company or disruptions in its ability to service such facilities. 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 for the Company 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 and/or results of operations for any particular future 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.

12. Income Taxes

The Company's effective income tax rate was 35.5% and 38.8% for the thirteen weeks ended November 25, 2017 and the thirteen weeks ended November 26, 2016 respectively. The rate for the thirteen weeks ended November 25, 2017 includes \$1.6 million of discrete tax benefits related to the adoption of new accounting guidance during the first quarter of fiscal 2018 discussed in Note 2 that requires tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur. Prior to fiscal 2018, these excess tax benefits were recorded as increases to capital surplus in shareholders' equity.

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 25, 2017, 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 statutes have lapsed for filings up to and including fiscal years 2012 and 2009, 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 2013. 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.

On December 22, 2017, H.R.1, an Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, also known as the Tax Cuts and Jobs Act, (the “Act”) was enacted, which, among other provisions, reduces the U.S. federal corporate income tax rate effective January 1, 2018 from its current 35% rate to a new 21% corporate rate and impose a one-time transition tax on assets held outside of the United States. The Company has not yet completed its evaluation of the impact of the changes in the tax bill but expects the net impact of these changes will be favorable to its financial results in future fiscal quarters.

### 13. Long-Term Debt

On April 11, 2016, the Company entered into an amended and restated \$250 million unsecured revolving credit agreement (the “Credit Agreement”) with a syndicate of banks, which matures on April 11, 2021. 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

Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

basis. At November 25, 2017, 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 November 25, 2017, the Company had no outstanding borrowings and had outstanding letters of credit amounting to \$77.6 million, leaving \$172.4 million available for borrowing under the Credit Agreement.

As of November 25, 2017, the Company was in compliance with all covenants under the Credit Agreement.

## 14. Accumulated Other Comprehensive (Loss) Income

The changes in each component of accumulated other comprehensive loss, net of tax, for the thirteen weeks ended November 25, 2017 and November 26, 2016 were as follows (in thousands):

	Thirteen weeks ended November 25, 2017			
	Foreign Currency Translation	Pension- related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive (Loss) Income
Balance as of August 26, 2017	\$(15,932)	\$(5,477 )	\$ (109 )	\$ (21,518 )
Other comprehensive (loss) income before reclassification	(2,013 )	—	82	(1,931 )
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	4	4
Net current period other comprehensive (loss) income	(2,013 )	—	86	(1,927 )
Balance as of November 25, 2017	\$(17,945)	\$(5,477 )	\$ (23 )	\$ (23,445 )
	Thirteen weeks ended November 26, 2016			
	Foreign Currency Translation	Pension- related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive (Loss) Income
Balance as of August 27, 2016	\$(20,814)	\$(8,251 )	\$ 116	\$ (28,949 )
Other comprehensive (loss) income before reclassification	(5,129 )	—	324	(4,805 )
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(76 )	(76 )
Net current period other comprehensive (loss) income	(5,129 )	—	248	(4,881 )
Balance as of November 26, 2016	\$(25,943)	\$(8,251 )	\$ 364	\$ (33,830 )

(1) Amounts are shown net of tax



Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

Amounts reclassified from accumulated other comprehensive loss, net of tax, for the thirteen weeks ended November 25, 2017 and November 26, 2016 were as follows (in thousands):

	Thirteen weeks ended November 25, 2017	November 26, 2016
Derivative financial instruments, net:		
Forward contracts (a)	\$4 \$ (76 )	
Total, net of tax	4 (76 )	

Total amounts reclassified, net of tax \$4 \$ (76 )

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

## 15. Segment Reporting

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

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

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

The Corporate operating segment consists of costs associated with the Company's distribution center, sales and marketing, information systems, engineering, materials management, manufacturing planning, finance, budgeting, human resources, other general and administrative costs and interest expense. The revenues generated from the Corporate operating segment represent certain direct sales made by the Company directly from its distribution center.

The products sold by this operating segment are the same products rented and sold by the US and Canadian Rental and Cleaning reporting segment. The majority of expenses accounted for within the Corporate segment relate to costs of the US and Canadian Rental and Cleaning segment, with the remainder of the costs relating to the Specialty Garment and First Aid segments.

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

Table of ContentsUniFirst Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (Continued)

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 25, 2017								
Revenues	\$365,518	\$63,945	\$(63,919)	\$8,252	\$373,796	\$28,427	\$13,555	\$415,778
Income (loss) from operations	\$54,798	\$23,987	\$(4,737 )	\$(27,690)	\$46,358	\$4,477	\$1,076	\$51,911
Interest (income) expense, net	\$(949 )	\$—	\$—	\$(327 )	\$(1,276 )	\$—	\$—	\$(1,276 )
Income (loss) before taxes	\$55,764	\$23,910	\$(4,737 )	\$(27,333)	\$47,604	\$4,353	\$1,076	\$53,033
November 26, 2016								
Revenues	\$344,481	\$48,862	\$(48,804)	\$7,304	\$351,843	\$22,356	\$11,909	\$386,108
Income (loss) from operations	\$52,827	\$18,207	\$(939 )	\$(26,422)	\$43,673	\$1,151	\$933	\$45,757
Interest (income) expense, net	\$(834 )	\$—	\$—	\$33	\$(801 )	\$—	\$—	\$(801 )
Income (loss) before taxes	\$53,708	\$18,222	\$(939 )	\$(26,580)	\$44,411	\$720	\$933	\$46,064



Table of Contents

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

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any documents incorporated by reference contain forward looking statements within the meaning of the federal securities laws. Forward looking statements contained in this Quarterly Report on Form 10-Q and any documents incorporated by reference are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by words such as “estimates,” “anticipates,” “projects,” “plans,” “expects,” “intends,” “believes,” “seeks,” “could,” “should,” “may,” “will,” or 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, the performance and success of our new Chief Executive Officer, uncertainties caused by adverse economic conditions and their impact on our customers’ businesses and workforce levels, uncertainties regarding our ability to consummate and successfully integrate acquired businesses, our ability to maintain and grow Arrow Uniform’s customer base and enhance its operating margins, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, any adverse outcome of pending or future contingencies or claims, our ability to compete successfully without any significant degradation in our margin rates, seasonal and quarterly 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, the anticipated impact of recent U.S. tax reform on our business, results of operations and financial condition, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the negative effect on our business from sharply depressed oil prices, the continuing increase in domestic healthcare costs, including the ultimate impact of the Affordable Care Act, our ability to retain and grow our customer base, demand and prices for our products and services, fluctuations in our Specialty Garments business, rampant criminal activity and instability in Mexico where our principal garment manufacturing plants are located, our ability to properly and efficiently design, construct, implement and operate a new customer relationship management (“CRM”) computer system, interruptions or failures of our information technology systems, including as a result of cyber-attacks, additional professional and internal costs necessary for compliance with recent and proposed future changes in Securities and Exchange Commission, New York Stock Exchange and accounting rules, strikes and unemployment levels, our efforts to evaluate and potentially reduce internal costs, economic and other developments associated with the war on terrorism and its impact on the economy and 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 26, 2017 and in our other filings with the Securities and Exchange Commission. We undertake no obligation to update any forward looking statements to reflect events or circumstances arising after the date on which such statements are made.

Business Overview

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

supplies, to a variety of manufacturers, retailers and service companies.

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

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

Table of Contents

We continue to expand into additional geographic markets through acquisitions and organic growth. We currently service over 300,000 customer locations in the United States, Canada and Europe from over 250 customer service, distribution and manufacturing facilities.

As mentioned and described in Note 15 to the Consolidated Financial Statements, we have five reporting segments: US and Canadian Rental and Cleaning, MFG, Corporate, 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 our financial condition and results of operations is based upon the Consolidated Financial Statements, which have been prepared in conformity with United States generally accepted accounting principles (“US GAAP”). As such, management is required to make certain estimates, judgments and assumptions that are believed to be reasonable based on the information available. These estimates and assumptions affect the reported amount of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, the most important and pervasive accounting policies used and areas most sensitive to material changes from external factors. The critical accounting estimates that we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements presented in this report are described in Management’s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 26, 2017.

Table of Contents

## Results of Operations

The following table presents certain selected financial data, including the percentage of revenues represented by each item, for the thirteen weeks ended November 25, 2017 and November 26, 2016.

(In thousands, except percentages)	Thirteen weeks ended				
	November 25, 2017	% of Rev.	November 26, 2016	% of Rev.	% Change
Revenues	\$415,778	100.0 %	\$ 386,108	100.0 %	7.7 %
Operating expenses:					
Cost of revenues (1)	253,650	61.0	238,765	61.8	6.2
Selling and administrative expenses (1)	87,510	21.0	79,446	20.6	10.2
Depreciation and amortization	22,707	5.5	22,140	5.7	2.6
Total operating expenses	363,867	87.5	340,351	88.1	6.9
Income from operations	51,911	12.5	45,757	11.9	13.4
Other income, net	(1,122 )	(0.3 )	(307 )	(0.1 )	265.5
Income before income taxes	53,033	12.8	46,064	11.9	15.1
Provision for income taxes	18,827	4.5	17,850	4.6	5.5
Net income	\$34,206	8.2 %	\$ 28,214	7.3 %	21.2 %

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

## General

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

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

Table of Contents

We have a substantial number of plants and conduct a significant portion of our business in energy producing regions in the U.S and Canada. In general, we are relatively more dependent on business in these regions than are many of our competitors. For example, the dramatic decrease in oil prices beginning in 2014 directly affected our customers in the oil industry as they curtailed their level of operations, which also had a corresponding effect on our customers in businesses which service or supply the oil industry as well as our customers in unrelated businesses located in areas which had benefited from the economic expansion generated by the robust growth driven by the higher oil prices in prior years. As a result, our organic growth in periods following this dramatic decrease in oil prices was negatively impacted by elevated headcount reductions in our wearer base as well as increased lost accounts. Recent trends indicate that increased energy prices have resulted in stabilized or improved wearer levels at existing customers in our North American energy-dependent markets. Our operating results are also directly impacted by the costs of the gasoline used to fuel our vehicles and the natural gas used to operate our plants. While it is difficult to quantify the positive and negative impacts on our future financial results from changes in energy prices, in general, we believe that significant decreases in oil prices would have an overall negative impact on our results due to cutbacks by our customers in the oil industry and other affected businesses which would outweigh the benefits in our operating costs from lower energy costs.

The cost of healthcare that we provide to our employees has grown over the last few years at a rate in excess of our revenue growth and as a result, has negatively impacted our operating results. In fiscal 2015, the Affordable Care Act required us to modify one of the healthcare plans we provided to our employees. Moreover, it is generally expected that healthcare costs in the United States will increase over the coming years at rates in excess of inflation. As a result of these factors, and depending on the effect of the modifications we have made, and may make in the future, to our employee healthcare plans and enrollment levels in those plans, we expect that our future operating results will continue to be further adversely impacted by increasing healthcare costs.

Our business is subject to various state and federal regulations, including employment laws and regulations, minimum wage requirements, overtime requirements, working condition requirements, citizenship requirements, healthcare insurance mandates and other laws and regulations. We expect that our labor costs will rise in fiscal 2018 as a result of increases in state and local minimum wage levels as well as the overall impact of wage pressure as the result of a low unemployment environment. Although the current changes to the Fair Labor Standards Act have been put on hold due to litigation, they may still become effective in their current or a revised form.

On December 22, 2017, H.R.1, an Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, also known as the Tax Cuts and Jobs Act, was enacted, which, among other provisions, reduces the U.S. federal corporate income tax rate effective January 1, 2018 from its current 35% rate to a new 21% corporate rate and impose a one-time transition tax on assets held outside of the United States. We have not yet completed our evaluation of the impact of the changes in the tax bill but we expect the net impact of these changes will be substantially favorable to our financial results in future fiscal quarters.

A portion of our sales is derived from international markets, including Canada. Revenues denominated in currencies other than the U.S. dollar represented approximately 8.0% and 7.2% of total consolidated revenues for the thirteen weeks ended November 25, 2017 and November 26, 2016, respectively. The operating results of our international subsidiaries are translated into U.S. dollars and such results are affected by movements in foreign currencies relative to the U.S. dollar. In addition, fluctuations in the Canadian dollar may have an effect on the margins of our Canadian business because a weaker Canadian dollar will increase the cost of merchandise and other operational inputs that are sourced from outside of Canada. Our operating results in future years could be negatively impacted by any devaluation, as compared to the U.S. dollar, of the Canadian dollar or any of the currencies of the other countries in which we operate.

Edgar Filing: UNIFIRST CORP - Form 10-Q

Thirteen weeks ended November 25, 2017 compared with thirteen weeks ended November 26, 2016

Revenues

(In thousands, except percentages)	November 25, 2017	November 26, 2016	Dollar Change	Percent Change
Core Laundry Operations	\$ 373,796	\$ 351,843	\$21,953	6.2 %
Specialty Garments	28,427	22,356	6,071	27.2 %
First Aid	13,555	11,909	1,646	13.8 %
Consolidated total	\$ 415,778	\$ 386,108	\$29,670	7.7 %

Table of Contents

For the thirteen weeks ended November 25, 2017, our consolidated revenues increased by \$29.7 million from the comparable period in fiscal 2017, or 7.7%. This increase was primarily due to a \$22.0 million increase in revenues from our Core Laundry Operations. Revenues from our Core Laundry Operations increased to \$373.8 million for the thirteen weeks ended November 25, 2017 from \$351.8 million for the comparable period of fiscal 2017, or 6.2%. Excluding the positive effect of acquisitions, which we estimate increased our revenues by approximately 1.3%, as well as a slightly stronger Canadian dollar, which favorably impacted our growth by 0.4%, organic growth for our Core Laundry Operations was 4.5%. Organic growth consists primarily of new sales, price increases, and net changes in the wearer levels at our existing customers, offset by lost accounts.

Specialty Garments' revenues increased to \$28.4 million in the first fiscal quarter of 2018 from \$22.4 million in the comparable period of fiscal 2017, an increase of \$6.1 million, or 27.2%. This segment's results are often affected by the timing and length of its customers' power reactor outages as well as its project-based activities. The improvement in results compared to the comparable period of fiscal 2017 was driven primarily by increased outage and project-based activity in this segment's US and Canadian nuclear operations as well as gains from this segment's European operations.

First Aid revenues increased to \$13.6 million in the first fiscal quarter of 2018 from \$11.9 million in the comparable period in fiscal 2017, an increase of 13.8%. The improvement in the results was due to a strong performance from this segment's wholesale distribution business as well as a small acquisition that closed in the third quarter of fiscal 2017.

## Cost of Revenues

For the thirteen weeks ended November 25, 2017 and November 26, 2016, cost of revenues were 61.0% and 61.8% of revenues respectively. The decrease was primarily due to lower merchandise costs as a percentage of revenues partially offset by higher levels of claims for health care and higher service payroll costs in our Core Laundry Operations. In addition, our Specialty Garments segment's costs of revenues were lower as a percentage of revenues due to the leverage created by the strong revenue growth in the quarter.

## Selling and Administrative Expense

Selling and administrative expenses were 21.0% and 20.6% of revenues for the thirteen weeks ended November 25, 2017 and November 26, 2016, respectively. This increase was primarily due to higher selling and administrative payroll costs as well as higher costs associated with legal and environmental contingencies in the thirteen weeks ended November 25, 2017. The higher selling and administrative payroll costs are partially being driven by increases in headcount to support sales and technology initiatives. These increases were partially offset by lower stock compensation expense in the first quarter of fiscal 2018.

## Depreciation and Amortization

Our depreciation and amortization expense was \$22.7 million, or 5.5% of revenues, for the thirteen weeks ended November 25, 2017 compared to \$22.1 million, or 5.7% of revenues, for the thirteen weeks ended November 26, 2016. Depreciation and amortization expense increased due primarily to capital expenditure activity in earlier periods.

## Income from Operations

For the thirteen weeks ended November 25, 2017 and November 26, 2016, changes in our revenues and costs as discussed above resulted in the following changes in our income from operations:

(In thousands, except percentages)

Dollar    Percent

Edgar Filing: UNIFIRST CORP - Form 10-Q

	November 25, 2017	November 26, 2016	Change	Change
Core Laundry Operations	\$ 46,358	\$ 43,673	\$2,685	6.1 %
Specialty Garments	4,477	1,151	3,326	289.1%
First Aid	1,076	933	143	15.3 %
Consolidated total	\$ 51,911	\$ 45,757	\$6,154	13.4 %

Other Income, net

Other income, net, which includes interest income, net and other expense, net, was income of \$1.1 million in the thirteen weeks ended November 25, 2017 compared to income of \$0.3 million in the thirteen weeks ended November 26, 2016. This increase of



## Table of Contents

\$0.8 million was primarily due to interest income of \$1.3 million during the thirteen weeks ended November 25, 2017 compared to interest income of \$0.8 million during the thirteen weeks ended November 26, 2016 and to lower foreign exchange losses compared to the same period a year ago.

### Provision for Income Taxes

Our effective income tax rate for the thirteen weeks ended November 25, 2017 was 35.5% compared to 38.8% for the thirteen weeks ended November 26, 2016. The change in our effective tax rate was due primarily to \$1.6 million of discrete tax benefits in the thirteen weeks ended November 25, 2017 related to the adoption of new accounting guidance during the first quarter of fiscal 2018 that requires tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur.

### Liquidity and Capital Resources

#### General

Cash, cash equivalents and short-term investments totaled \$374.0 million as of November 25, 2017, an increase of \$24.3 million from August 26, 2017 when the amount totaled \$349.8 million. Our working capital was \$674.7 million as of November 25, 2017 compared to \$636.4 million as of August 26, 2017. We generated \$47.6 million and \$218.3 million in cash from operating activities in the thirteen weeks ended November 25, 2017 and the full fiscal year ended August 26, 2017, respectively. We believe that our current cash, cash equivalent and short-term investments balances, our cash generated from future operations and amounts available under our Credit Agreement (defined below) will be sufficient to meet our current anticipated working capital and capital expenditure requirements for at least the next 12 months.

We have accumulated \$56.6 million in cash outside the United States that will be subject to a one-time transition tax as discussed in Note 2 of our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. This cash is expected to be invested indefinitely in our foreign subsidiaries. If these funds were distributed to the U.S in the form of dividends, we would likely be subject to additional taxes including withholding taxes from the countries where the cash is currently held. We do not believe that any resulting taxes payable for cash outside the United States would have a material impact on our liquidity.

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

#### Cash Provided by Operating Activities

Cash provided by operating activities for the thirteen weeks ended November 25, 2017 was \$47.6 million, a decrease of \$15.9 million from the comparable period in the prior year when cash provided by operating activities was \$63.5 million. The decreased cash provided by operating activities was primarily due to the \$12.5 million of cash received in September 2016 related to a settlement of environmental litigation we entered into in the fourth quarter of fiscal 2016. Inventory increases in the current quarter compared to a year ago also negatively impacted the comparison. These decreases were partially offset by higher net income during the first quarter of fiscal 2018.

#### Cash Used in Investing Activities

Cash used in investing activities for the thirteen weeks ended November 25, 2017 was \$21.4 million, a decrease of \$117.0 million from the comparable period in the prior year when cash used in investing activities was \$138.3 million. The net decrease in cash used in investing activities was primarily the result of \$119.9 million of cash paid during the prior year period in connection with our acquisition of Arrow Uniform in September 2016.

#### Cash Used in Financing Activities

Cash used in financing activities for the thirteen weeks ended November 25, 2017 was \$1.0 million compared to cash used in financing activities of \$0.4 million for the thirteen weeks ended November 26, 2016. This change was primarily due to a decrease in proceeds received from the exercise of share-based awards.

#### Long-Term Debt and Borrowing Capacity

## Table of Contents

On April 11, 2016, we entered into an amended and restated \$250 million unsecured revolving credit agreement (the “Credit Agreement”) with a syndicate of banks, which matures on April 11, 2021. Under the Credit Agreement, we are able to borrow funds at variable interest rates based on, at our election, the Eurodollar rate or a base rate, plus in each case a spread based on our consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. We test our compliance with these financial covenants on a fiscal quarterly basis. As of November 25, 2017, the interest rates applicable to our borrowings under the Credit Agreement would be calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of November 25, 2017, we had no outstanding borrowings and had outstanding letters of credit amounting to \$77.6 million, leaving \$172.4 million available for borrowing under the Credit Agreement.

As of November 25, 2017, we were in compliance with all covenants under the Credit Agreement.

## Derivative Instruments and Hedging Activities

In January 2015, we entered into sixteen forward contracts to exchange Canadian dollars (“CAD”) for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of our domestic subsidiaries each fiscal quarter, beginning in the third fiscal quarter of 2015 and continuing through the second fiscal quarter of 2019. In total, we will sell approximately 31.0 million CAD at an average Canadian-dollar exchange rate of 0.7825 over these quarterly periods. We concluded that the forward contracts met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, we have reflected all changes in the fair value of the forward contracts in accumulated other comprehensive loss, 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 November 25, 2017, we had forward contracts with a notional value of approximately 8.3 million CAD outstanding and recorded nominal amounts for the fair value of the contracts in other current liabilities with a corresponding loss in accumulated other comprehensive loss, which was recorded net of tax. During the thirteen weeks ended November 25, 2017, we reclassified a nominal amount from accumulated other comprehensive loss to revenue, related to the derivative financial instruments. The loss in accumulated other comprehensive loss as of November 25, 2017 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

## Commitments and Contingencies

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

US GAAP requires that a liability for contingencies be recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Significant judgment is required to determine the existence of a liability, as well as the amount to be recorded. We regularly consult with attorneys and outside consultants in our consideration of the relevant facts and circumstances before recording a contingent liability. Changes in enacted laws, regulatory orders or decrees, our estimates of costs, risk-free interest rates, insurance

proceeds, participation by other parties, the timing of payments, the input of our attorneys and outside consultants or other factual circumstances could have a material impact on the amounts recorded for our environmental and other contingent liabilities.

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,

Table of Contents

Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites related to former operations in Williamstown, Vermont, as well as sites located in Goldsboro, North Carolina, Wilmington, North Carolina, and Landover, Maryland.

We have accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. We have potential exposure related to a parcel of land (the “Central Area”) related to the Woburn, Massachusetts site mentioned above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the “EPA”) has provided us and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. We, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA’s comments remain to be resolved. We have accrued costs to perform certain work responsive to EPA’s comments. We have implemented mitigation measures and continue to monitor environmental conditions at the Somerville, Massachusetts site. In addition, we have 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 our Somerville site. This station is part of a planned extension of the transit system. We have reserved for costs in connection with this matter; however, in light of the uncertainties associated with this matter, these costs and the related reserve may change. We have 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.

We routinely review and evaluate sites that may require remediation and monitoring and determine our estimated costs based on various estimates and assumptions. These estimates are developed using our internal sources or by third party environmental engineers or other service providers. Internally developed estimates are based on:

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

There is usually a range of reasonable estimates of the costs associated with each site. In accordance with US GAAP, our accruals reflect the amount within the range that we believe is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. Where 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 25, 2017, the risk-free interest rates we utilized ranged from 2.3% to 2.8%.

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 25, 2017 were as follows (in thousands):

	November
	25, 2017
Beginning balance as of August 26, 2017	\$ 25,419
Costs incurred for which reserves had been provided	(235 )
Insurance proceeds	41
Interest accretion	173

Change in discount rates	(37 )
Balance as of November 25, 2017	\$ 25,361

26

---

Table of Contents

Anticipated payments and insurance proceeds relating to currently identified environmental remediation liabilities as of November 25, 2017, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Estimated costs – current dollars	\$9,050	\$1,880	\$1,477	\$1,305	\$1,157	\$12,304	\$27,173
Estimated insurance proceeds	(118 )	(173 )	(159 )	(173 )	(159 )	(993 )	(1,775 )
Net anticipated costs	\$8,932	\$1,707	\$1,318	\$1,132	\$998	\$11,311	\$25,398
Effect of inflation							7,450
Effect of discounting							(7,487 )
Balance as of November 25, 2017							\$25,361

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 25, 2017, the balance in this escrow account, which is held in a trust and is not recorded in our Consolidated Balance Sheet, was approximately \$3.6 million. Also included in estimated insurance proceeds are amounts we are entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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

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

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

#### Off-Balance Sheet Arrangements

As of November 25, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission Regulation S-K.

#### Seasonality

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



Table of Contents

Effects of Inflation

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

Contractual Obligations and Other Commercial Commitments

As of November 25, 2017, 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 26, 2017.

Recent Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for more information on recently implemented and issued accounting standards.

Table of Contents

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

## Foreign Currency Exchange Risk

We have determined that all of our foreign subsidiaries operate primarily in local currencies that represent the functional currencies of such subsidiaries. All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars using the exchange rate prevailing at the balance sheet date. The 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 8.0% of total consolidated revenues for the thirteen weeks ended November 25, 2017, and total assets denominated in currencies other than the U.S. dollar represented approximately 8.2% of total consolidated assets as of November 25, 2017 and August 26, 2017. If exchange rates had increased or decreased by 10% from the actual rates in effect during the thirteen weeks ended and as of November 25, 2017, our revenues and assets for the thirteen weeks ended and as of November 25, 2017 would have increased or decreased by approximately \$3.3 million and \$15.2 million, respectively.

In January 2015, we entered into sixteen forward contracts to exchange CAD for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of our domestic subsidiaries each fiscal quarter, beginning in the third fiscal quarter of 2015 and continuing through the second fiscal quarter of 2019. In total, we will sell approximately 31.0 million CAD at an average Canadian-dollar exchange rate of 0.7825 over these quarterly periods. We concluded that the forward contracts met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, we have reflected all changes in the fair value of the forward contracts in accumulated other comprehensive loss, 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 November 25, 2017, we had forward contracts with a notional value of approximately 8.3 million CAD outstanding and recorded nominal amounts for the fair value of the contracts in other current liabilities with a corresponding loss in accumulated other comprehensive loss, which was recorded net of tax. During the thirteen weeks ended November 25, 2017, we reclassified a nominal amount from accumulated other comprehensive loss to revenue, related to the derivative financial instruments. The loss in accumulated other comprehensive loss as of November 25, 2017 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

Other than the forward contracts, discussed above, we do not operate a hedging program to mitigate the effect of a significant change in the value of our foreign subsidiaries functional currencies, which include the Canadian dollar, euro, British pound, Mexican peso and Nicaraguan cordoba, as compared to the U.S. dollar. Any losses or gains resulting from unhedged foreign currency transactions, including exchange rate fluctuations on intercompany accounts are reported as transaction losses (gains) in our other (income) expense. The intercompany payables and receivables are denominated in Canadian dollars, euros, British pounds, Mexican pesos and Nicaraguan cordobas. During the thirteen weeks ended November 25, 2017, transaction losses included in other (income) expense were approximately \$0.2 million. If exchange rates had increased or decreased by 10% during the thirteen weeks ended November 25, 2017, we would have recognized exchange gains or losses of approximately \$1.1 million.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that material information relating to the Company required to be disclosed by the Company in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our 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 2018 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to legal proceedings and claims arising from the current conduct of our business operations, including personal injury, customer contract, employment claims and environmental matters as described in our Consolidated Financial Statements. We maintain insurance coverage providing indemnification against many of such claims, and we do not expect that we will sustain any material loss as a result thereof. Refer to Note 11, “Commitments and Contingencies,” to the Consolidated Financial Statements, as well as Item 1A. Risk Factors below, for further discussion.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, 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 26, 2017, which could materially affect our business, financial condition, and future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and operating results. There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended August 26, 2017.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

30

---

Table of Contents

ITEM 6. EXHIBITS

\* 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

\* 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

\*\* 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 25, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.

\* Filed herewith

\*\*Furnished herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UniFirst Corporation

/s/ Steven S. Sintros

January 4, 2018 By: Steven S. Sintros  
President, Chief Executive Officer and Chief Financial Officer