

UNIFIRST CORP
Form 10-Q/A
April 07, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended February 26, 2011

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
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

01887
(Zip Code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at April 1, 2011 were 14,962,479 and 4,902,569, respectively.

Explanatory Note

UniFirst Corporation is filing this Amendment No. 1 to its quarterly report on Form 10-Q for the quarter ended February 26, 2011, which was originally filed with the Securities and Exchange Commission on April 7, 2011, solely for the purpose of filing Exhibit 101 (XBRL Interactive Data), which was inadvertently omitted from the original filing. No other amendments are being made to the original filing. The full text of the Form 10-Q is being repeated in its entirety for the convenience of the reader.

UniFirst Corporation
Quarterly Report on Form 10-Q
For the Quarter ended February 26, 2011

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

UniFirst Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	Thirteen weeks ended		Twenty-six weeks ended	
	February 26, 2011	February 27, 2010	February 26, 2011	February 27, 2010
Revenues	\$ 278,595	\$ 253,562	\$ 551,685	\$ 509,741
Operating expenses:				
Cost of revenues (1)	176,233	157,025	339,468	306,249
Selling and administrative expenses (1)	58,614	52,423	113,797	103,895
Depreciation and amortization	16,075	15,033	31,577	30,089
Total operating expenses	250,922	224,481	484,842	440,233
Income from operations	27,673	29,081	66,843	69,508
Other expense (income):				
Interest expense	2,202	2,185	4,405	4,369
Interest income	(654)	(545)	(1,236)	(1,069)
Exchange rate (gain) loss	(219)	783	(391)	582
Total other expense (income)	1,329	2,423	2,778	3,882
Income before income taxes	26,344	26,658	64,065	65,626
Provision for income taxes	10,067	10,432	24,024	25,824
Net income	\$ 16,277	\$ 16,226	\$ 40,041	\$ 39,802
Income per share – Basic:				
Common Stock	\$ 0.86	\$ 0.88	\$ 2.12	\$ 2.16
Class B Common Stock	\$ 0.69	\$ 0.71	\$ 1.70	\$ 1.73
Income per share – Diluted:				
Common Stock	\$ 0.82	\$ 0.83	\$ 2.02	\$ 2.05
Income allocated to – Basic:				
Common Stock	\$ 12,750	\$ 12,750	\$ 31,356	\$ 31,267
Class B Common Stock	\$ 3,218	\$ 3,476	\$ 7,921	\$ 8,535
Income allocated to – Diluted:				
Common Stock	\$ 15,983	\$ 16,226	\$ 39,314	\$ 39,802
Weighted average number of shares outstanding – Basic:				
Common Stock	14,778	14,467	14,766	14,454

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Class B Common Stock	4,661	4,931	4,662	4,932
Weighted average number of shares outstanding – Diluted:				
Common Stock	19,528	19,477	19,503	19,455
Dividends declared per share:				
Common Stock	\$ 0.0375	\$ 0.0375	\$ 0.0750	\$ 0.0750
Class B Common Stock	\$ 0.0300	\$ 0.0300	\$ 0.0600	\$ 0.0600

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

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

UniFirst Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share data)	February 26, 2011	August 28, 2010(a)
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,487	\$ 121,258
Receivables, less reserves of \$5,062 and \$4,102, respectively	124,237	105,247
Inventories	58,475	47,630
Rental merchandise in service	98,510	86,633
Prepaid and deferred income taxes	24,343	14,252
Prepaid expenses	4,316	3,004
Total current assets	417,368	378,024
Property, plant and equipment:		
Land, buildings and leasehold improvements	343,417	334,037
Machinery and equipment	386,243	370,088
Motor vehicles	127,371	121,135
Total property, plant and equipment	857,031	825,260
Less -- accumulated depreciation	467,808	444,061
Total property, plant and equipment, net	389,223	381,199
Goodwill	280,599	271,857
Customer contracts, net	57,296	56,528
Other intangible assets, net	2,274	2,509
Other assets	2,197	2,178
	\$ 1,148,957	\$ 1,092,295
Liabilities and shareholders' equity		
Current liabilities:		
Current maturities of long-term obligations	\$ 80,371	\$ 81,160
Accounts payable	44,081	45,931
Accrued liabilities	86,169	83,804
Total current liabilities	210,621	210,895
Long-term liabilities:		
Long-term debt, net of current maturities	100,197	100,304
Accrued liabilities	31,123	30,290
Accrued and deferred income taxes	48,123	42,756
Total long-term liabilities	179,443	173,350
Commitments and contingencies (Note 9)		

Shareholders' equity:

Preferred stock, \$1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, \$0.10 par value; 30,000,000 shares authorized; 14,961,179 and 14,913,379 issued and outstanding, respectively	1,496	1,491
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,903,369 and 4,913,369 issued and outstanding, respectively	490	491
Capital surplus	29,827	25,329
Retained earnings	717,502	678,876
Accumulated other comprehensive income	9,578	1,863
Total shareholders' equity	758,893	708,050
	\$ 1,148,957	\$ 1,092,295

(a) Derived from audited financial statements

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

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

Twenty-six weeks ended (In thousands)	February 26, 2011	February 27, 2010
Cash flows from operating activities:		
Net income	\$ 40,041	\$ 39,802
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	26,574	25,619
Amortization of intangible assets	5,003	4,470
Amortization of deferred financing costs	133	133
Share-based compensation	3,492	848
Accretion on environmental contingencies	341	397
Accretion on asset retirement obligations	295	284
Deferred income taxes	5,620	(340)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(17,538)	(6,890)
Inventories	(10,602)	3,042
Rental merchandise in service	(10,165)	(846)
Prepaid expenses	(1,292)	(448)
Accounts payable	(2,138)	(1,760)
Accrued liabilities	3,798	3,876
Prepaid and accrued income taxes	(10,941)	(3,050)
Net cash provided by operating activities	32,621	65,137
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(16,326)	(13,156)
Capital expenditures	(31,191)	(27,840)
Other	35	(1,106)
Net cash used in investing activities	(47,482)	(42,102)
Cash flows from financing activities:		
Proceeds from long-term obligations	—	8,850
Payments on long-term obligations	(1,102)	(9,006)
Proceeds from exercise of Common Stock options	1,009	996
Payment of cash dividends	(1,414)	(1,381)
Net cash used in financing activities	(1,507)	(541)
Effect of exchange rate changes	2,597	1,604
Net (decrease) increase in cash and cash equivalents	(13,771)	24,098
Cash and cash equivalents at beginning of period	121,258	60,151
Cash and cash equivalents at end of period	\$ 107,487	\$ 84,249

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

UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Presentation

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

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

2. Recent Accounting Pronouncements

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

3. Acquisitions

During the twenty-six weeks ended February 26, 2011, the Company completed six acquisitions with an aggregate purchase price of approximately \$16.3 million. The results of operations of these acquisitions have been included in the Company’s consolidated financial results since their respective acquisition dates. None of these acquisitions was significant in relation to the Company’s consolidated financial results and, therefore, pro forma financial information has not been presented.

4. Fair Value Measurements

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

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

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

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

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

	As of February 26, 2011			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	\$ 30,872	\$ —	\$ —	\$ 30,872
Total	\$ 30,872	\$ —	\$ —	\$ 30,872
Liabilities:				
Interest rate swap	\$ —	\$ 125	\$ —	\$ 125
Total	\$ —	\$ 125	\$ —	\$ 125

5. Derivative Instruments and Hedging Activities

All derivative financial instruments are recognized at fair value and are recorded in accrued liabilities in the Company's Consolidated Balance Sheets. In January 2008, the Company entered into an interest rate swap agreement to manage its exposure to interest rate movements and the related effect on its variable rate debt. The Company concluded that the interest rate swap met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, the Company has reflected all changes in the fair value of the swap agreement in accumulated other comprehensive income, a component of shareholders' equity. The swap agreement, with a notional amount of \$100.0 million, matured on March 14, 2011. The Company paid a fixed rate of 3.51% and received a variable rate tied to the three month LIBOR rate.

As of February 26, 2011, the Company had recorded the fair value of the interest rate swap of \$0.1 million in current accrued liabilities and a corresponding loss of \$0.1 million in accumulated other comprehensive income, which was net of the associated tax benefit. As of August 28, 2010, the amounts recorded in accrued liabilities and other comprehensive income were \$1.6 million and \$1.0 million, respectively. The \$0.1 million loss deferred in accumulated other comprehensive income as of February 26, 2011 was expected to be reclassified to interest expense prior to the swap agreement maturity on March 14, 2011.

The Company has recorded any realized gains or losses from its interest rate swap as an adjustment to interest expense in its Consolidated Statements of Income. For both the thirteen weeks ended February 26, 2011 and February 27, 2010, the Company reclassified a loss from accumulated other comprehensive income into interest expense totaling \$0.8 million. For both the twenty-six weeks ended February 26, 2011 and February 27, 2010, the Company reclassified a loss from accumulated other comprehensive income into interest expense totaling \$1.6 million.

6. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended February 26, 2011 and February 27, 2010 were \$2.6 million and \$2.7 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended February 26, 2011 and February 27, 2010 were \$5.2 million and \$5.3 million, respectively.

Pension Plans and Supplemental Executive Retirement Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amounts charged to expense related to these plans for both the thirteen weeks ended February 26, 2011 and February 27, 2010 was \$0.5 million. The amounts charged to expense related to these plans for the twenty-six weeks ended February 26, 2011 and February 27, 2010 were \$1.0 million and \$0.9 million, respectively.

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		Twenty-six weeks ended	
	February 26, 2011	February 27, 2010	February 26, 2011	February 27, 2010
Net income	\$ 16,277	\$ 16,226	\$ 40,041	\$ 39,802
Allocation of net income for Basic:				
Common Stock	\$ 12,750	\$ 12,750	\$ 31,356	\$ 31,267
Class B Common Stock	3,218	3,476	7,921	8,535
Unvested participating shares	309	—	764	—
	\$ 16,277	\$ 16,226	\$ 40,041	\$ 39,802
Weighted average number of shares for Basic:				
Common Stock	14,778	14,467	14,766	14,454
Class B Common Stock	4,661	4,931	4,662	4,932
Unvested participating shares	408	—	410	—
	19,847	19,398	19,838	19,386
Earnings per share for Basic:				
Common Stock	\$ 0.86	\$ 0.88	\$ 2.12	\$ 2.16
Class B Common Stock	0.69	0.71	1.70	1.73

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For diluted EPS, 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.

For the thirteen and twenty-six weeks ended February 26, 2011, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares as follows (in thousands, except per share data):

	Thirteen weeks ended February 26, 2011			Twenty-six weeks ended February 26, 2011		
	Earnings to Common shareholders	Common Shares	EPS	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	\$ 12,750	14,778	\$ 0.86	\$ 31,356	14,766	\$ 2.12
Add: effect of dilutive potential common shares						
Share-based awards	—	89		—	75	
Class B Common Stock	3,218	4,661		7,921	4,662	
Add: Undistributed earnings allocated to unvested participating shares	295	—		737	—	
Less: Undistributed earnings reallocated to unvested participating shares	(280)	—		(700)	—	
Diluted EPS – Common Stock	\$ 15,983	19,528	\$ 0.82	\$ 39,314	19,503	\$ 2.02

Share-based awards that would result in the issuance of 19,197 and 127,780 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen and twenty-six weeks ended February 26, 2011, respectively, because they were anti-dilutive.

For the thirteen and twenty-six weeks ended February 27, 2010, the Company's diluted EPS was calculated using the treasury stock method as follows (in thousands, except per share data):

	Thirteen weeks ended February 27, 2010	Twenty-six weeks ended February 27, 2010
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	Earnings to Common shareholders			Earnings to Common Shares		
	Common shareholders	Common Shares	EPS	Common shareholders	Common Shares	EPS
As reported - Basic	\$ 12,750	14,467	\$ 0.88	\$ 31,267	14,454	\$ 2.16
Add: effect of dilutive potential common shares						
Share-based awards	—	79	—	—	69	
Class B Common Stock	3,476	4,931		8,535	4,932	
Diluted EPS – Common Stock	\$ 16,226	19,477	\$ 0.83	\$ 39,802	19,455	\$ 2.05

Share-based awards that would result in the issuance of 110,300 shares of Common Stock were excluded from the calculation of diluted earnings per share for both the thirteen and twenty-six weeks ended February 27, 2010 because they were anti-dilutive.

For the thirteen and twenty-six weeks ended February 27, 2010, the diluted earnings per share calculations assumed the conversion of all of the Company's Class B Common Stock into Common Stock; therefore, no allocation of earnings to Class B Common Stock was required.

8. Asset Retirement Obligations

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

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

	February 26, 2011
Beginning balance as of August 28, 2010	\$ 8,899
Accretion expense	295
Ending balance as of February 26, 2011	\$ 9,194

As of February 26, 2011, the \$9.2 million asset retirement obligation is included in current accrued liabilities in the accompanying Consolidated Balance Sheet.

9. Commitments and Contingencies

The Company and its operations are subject to various federal, state and local laws and regulations governing, among other things, the generation, handling, storage, transportation, treatment and disposal of hazardous waste and other substances. In particular, industrial laundries use and must dispose of detergent waste water and other residues, and, in the past used perchloroethylene and other dry cleaning solvents. The Company is attentive to the environmental concerns surrounding the disposal of these materials and has, through the years, taken measures to avoid their

improper disposal. In the past, the Company has settled, or contributed to the settlement of, actions or claims brought against the Company relating to the disposal of hazardous materials and there can be no assurance that the Company will not have to expend material amounts to remediate the consequences of any such disposal in the future.

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

Under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on, or in, or emanating from, such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of, or was responsible for the presence of such hazardous or toxic substances. There can be no assurances that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon the Company under such laws or expose the Company to third-party actions such as tort suits. The Company continues to address environmental conditions under terms of consent orders negotiated with the applicable environmental authorities or otherwise with respect to sites located in or related to Woburn, Massachusetts, Somerville, Massachusetts, Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites related to former operations in Williamstown, Vermont, as well as a number of additional locations that it acquired as part of its acquisition of Textilease Corporation in September 2003. In addition, the Company is investigating potential contamination at its Landover, Maryland facility in response to a notice it received in 2010 from the Maryland Department of Environment.

The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company continues to implement mitigation measures and to monitor environmental conditions at the Somerville, Massachusetts site. The Company also has potential exposure related to an additional parcel of land (the "Central Area") related to the Woburn, Massachusetts site discussed above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided the Company and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. The Company has accrued costs to perform certain work responsive to EPA's comments.

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

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

- The typical allocation of costs among PRPs.

There is usually a range of reasonable estimates of the costs associated with each site. The Company's accruals reflect the amount within the range that constitutes its best estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using current risk-free interest rates. As of February 26, 2011, the risk-free interest rates utilized by the Company ranged from 3.4% to 4.5%.

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 twenty-six weeks ended February 26, 2011 are as follows (in thousands):

	February 26, 2011
Beginning balance as of August 28, 2010	\$ 18,986
Costs incurred for which reserves have been provided	(1,161)
Insurance proceeds received	139
Interest accretion	341
Change in discount rates	(1,310)
Balance as of February 26, 2011	\$ 16,995

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of February 26, 2011, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	2011	2012	2013	2014	2015	Thereafter	Total
Estimated costs – current dollars	\$ 2,884	\$ 3,061	\$ 1,806	\$ 934	\$ 804	\$ 13,002	\$ 22,491
Estimated insurance proceeds	(18)	(180)	(150)	(180)	(150)	(2,048)	(2,726)
Net anticipated costs	\$ 2,866	\$ 2,881	\$ 1,656	\$ 754	\$ 654	\$ 10,954	\$ 19,765
Effect of Inflation							7,644
Effect of Discounting							(10,414)
Balance as of February 26, 2011							\$ 16,995

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately \$0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of February 26, 2011, the balance in this escrow account, which is held in a trust and is not recorded in the Company's Consolidated Balance Sheet, was approximately \$2.8 million. Also

included in estimated insurance proceeds are amounts the Company is entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

The Company's nuclear garment decontamination facilities are licensed by the Nuclear Regulatory Commission ("NRC"), or, in certain cases, by the applicable state agency, and are subject to regulation by federal, state and local authorities. There can be no assurance that such regulation will not lead to material disruptions in the Company's garment decontamination business.

From time to time, the Company is also subject to legal proceedings and claims arising from the conduct of its business operations, including litigation related to charges for certain ancillary services on invoices, personal injury claims, customer contract matters, employment claims and environmental matters as described above.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits and environmental contingencies, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts accrued or covered by insurance, will not have a material adverse effect on the consolidated financial position and/or results of operations of the Company. It is possible, however, that future financial position or results of operations for any particular period could be materially affected by changes in the Company's assumptions or strategies related to these contingencies or changes out of the Company's control.

10. Income Taxes

The Company's effective income tax rate was 38.2% and 37.5% for the thirteen and twenty-six weeks ended February 26, 2011, respectively, as compared to 39.1% and 39.4% for the thirteen and twenty-six weeks ended February 27, 2010, respectively. The decrease in the effective income tax rate was due to the reversal of tax contingency reserves related to the resolution of certain state tax audits as well as decreases in the Canadian federal and provincial tax rates. 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 twenty-six weeks ended February 26, 2011, there were no material changes in the amount of unrecognized tax benefits or the amount accrued for interest and penalties.

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

11. Long-Term Obligations

The Company has a \$225.0 million unsecured revolving credit agreement ("Credit Agreement") with a syndicate of banks, which matures on September 13, 2011. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on the Eurodollar rate or the bank's prime rate, as selected by the Company. Availability of credit requires compliance with certain financial and other covenants, including a maximum funded debt ratio and minimum interest coverage as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. At February 26, 2011, the interest rates applicable to the Company's borrowings under the Credit Agreement would be calculated as LIBOR plus 50 basis points at the time of the respective borrowing. As of February 26, 2011, the Company had no outstanding borrowings, letters of credit amounting to \$39.2 million, and \$185.8 million available for borrowing under the Credit Agreement.

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

September 2006.

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

As of February 26, 2011, the Company was in compliance with all covenants under the Credit Agreement, the Note Agreement and the 2006 Note Agreement.

The Company’s Credit Agreement expires and their fixed rate notes mature in 2011. The Company is currently in the process of evaluating refinancing alternatives for its Credit Agreement. The Company believes that it will be able to enter into a new revolving credit facility agreement on terms satisfactory to the Company and that the repayment or refinancing of the Fixed Rate Notes will not adversely affect its financial condition. If the Company chooses not to refinance, it would utilize its current cash reserves to satisfy this debt obligation. The Company believes that utilizing its cash in this manner would not negatively impact its liquidity or operations.

12. Other Comprehensive Income

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

	Thirteen weeks ended		Twenty-six weeks ended	
	February	February	February	February
	26,	27,	26,	27,
	2011	2010	2011	2010
Net income	\$ 16,277	\$ 16,226	\$ 40,041	\$ 39,802
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	3,907	143	6,798	2,357
Interest rate swap	461	314	917	361
Comprehensive income	\$ 20,645	\$ 16,683	\$ 47,756	\$ 42,520

13. Segment Reporting

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

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

laundry locations.”

The MFG operating segment designs and manufactures uniforms and non-garment items solely for the purpose of providing these goods to the US and Canadian Rental and Cleaning reporting segment. MFG revenues are generated when goods are shipped from the Company’s manufacturing facilities to other Company locations. These revenues are recorded at a transfer price which is typically in excess of the actual manufacturing cost. The transfer price is determined by management and may not necessarily represent the fair value of the products manufactured. Products are carried in inventory and subsequently placed in service and amortized at this transfer price. On a consolidated basis, intercompany revenues and income are eliminated and the carrying value of inventories and rental merchandise in service is reduced to the manufacturing cost. Income before income taxes from MFG net of the intercompany MFG elimination offsets the merchandise amortization costs incurred by the US and Canadian Rental and Cleaning reporting segment as the merchandise costs of this reporting segment are amortized and recognized based on inventories purchased from MFG at the transfer price which is above the Company’s manufacturing cost.

The Corporate operating segment consists of costs associated with the Company’s distribution center, sales and marketing, information systems, engineering, materials management, manufacturing planning, finance, budgeting, human resources, other general and administrative costs and interest expense. The revenues generated from the Corporate operating segment represent certain direct sales made by the Company directly from its distribution center. The products sold by this operating segment are the same products rented and sold by the US and Canadian Rental and Cleaning reporting segment. In the table below, no assets or capital expenditures are presented for the Corporate operating segment because no assets are allocated to this operating segment in the information reviewed by the chief executive officer. However, depreciation and amortization expense related to certain assets are reflected in income from operations and income before income taxes for the Corporate operating segment. The assets that give rise to this depreciation and amortization are included in the total assets of the US and Canadian Rental and Cleaning reporting segment as this is how they are tracked and reviewed by the Company. The majority of expenses accounted for within the Corporate segment relate to costs of the US and Canadian Rental and Cleaning segment, with the remainder of the costs relating to the Specialty Garment and First Aid segments.

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

The Company refers to the US and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as its “core laundry operations,” which is included as a subtotal in the following tables (in thousands):

Thirteen weeks ended	US and Canadian		Net Interco MFG Elim	Corporate	Subtotal Core Laundry Operations		Specialty Garments	First Aid	Total
	Rental and Cleaning	MFG			Operations	Specialty			
February 26, 2011									
Revenues	\$ 244,306	\$ 34,880	\$ (34,880)	\$ 2,562	\$ 246,868	\$ 23,516	\$ 8,211	\$ 278,595	
Income (loss) from operations	\$ 32,802	\$ 11,567	\$ (1,739)	\$ (19,552)	\$ 23,078	\$ 3,728	\$ 867	\$ 27,673	

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Interest (income) expense, net	\$ (604)	\$ —	\$ —	\$ 2,152	\$ 1,548	\$ —	\$ —	\$ 1,548
Income (loss) before taxes	\$ 33,396	\$ 11,516	\$ (1,739)	\$ (21,705)	\$ 21,468	\$ 4,009	\$ 867	\$ 26,344
February 27, 2010								
Revenues	\$ 225,671	\$ 22,082	\$ (22,082)	\$ 1,611	\$ 227,282	\$ 19,428	\$ 6,852	\$ 253,562
Income (loss) from operations	\$ 35,307	\$ 7,943	\$ (737)	\$ (15,723)	\$ 26,790	\$ 2,122	\$ 169	\$ 29,081
Interest (income) expense, net	\$ (518)	\$ —	\$ —	\$ 2,158	\$ 1,640	\$ —	\$ —	\$ 1,640
Income (loss) before taxes	\$ 35,826	\$ 7,953	\$ (737)	\$ (17,888)	\$ 25,154	\$ 1,335	\$ 169	\$ 26,658
	US and Canadian		Net Interco MFG Elim	Corporate	Subtotal Core Laundry Operations	Specialty Garments	First Aid	Total
Twenty-six weeks ended	Rental and Cleaning	MFG						
February 26, 2011								
Revenues	\$ 480,498	\$ 72,585	(72,585)	\$ 5,061	\$ 485,559	\$ 49,327	\$ 16,799	\$ 551,685
Income (loss) from operations	\$ 74,986	\$ 25,448	(6,798)	\$ (36,144)	\$ 57,492	\$ 7,757	\$ 1,594	\$ 66,843
Interest (income) expense, net	\$ (1,113)	\$ —	—	\$ 4,282	\$ 3,169	\$ —	\$ —	\$ 3,169
Income (loss) before taxes	\$ 76,083	\$ 25,345	(6,798)	\$ (40,422)	\$ 54,208	\$ 8,263	\$ 1,594	\$ 64,065
February 27, 2010								
Revenues	\$ 449,550	\$ 42,462	(42,462)	\$ 3,518	\$ 453,068	\$ 42,305	\$ 14,368	\$ 509,741

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Income (loss) from operations	\$ 76,722	\$ 16,346	(1,999)	\$ (28,887)	\$ 62,182	\$ 6,735	\$ 591	\$ 69,508
Interest (income) expense, net	\$ (985)	\$ —	—	\$ 4,285	\$ 3,300	\$ —	\$ —	\$ 3,300
Income (loss) before taxes	\$ 77,713	\$ 16,290	(1,999)	\$ (33,168)	\$ 58,836	\$ 6,199	\$ 591	\$ 65,626

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

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any documents incorporated by reference contain forward looking statements within the meaning of the federal securities laws. Forward looking statements contained in this Quarterly Report on Form 10-Q and any documents incorporated by reference are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by words such as “estimates,” “anticipates,” “projects,” “plans,” “expects,” “intends,” “believes,” “seeks,” “could,” “should,” “may,” “will,” or their variations thereof, and similar expressions and by the context in which they are used. Such forward looking statements are based upon our current expectations and speak only as of the date made. Such statements are highly dependent upon a variety of risks, uncertainties and other important factors that could cause actual results to differ materially from those reflected in such forward looking statements. Such factors include, but are not limited to, uncertainties regarding our ability to consummate and successfully integrate acquired businesses, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, our ability to compete successfully without any significant degradation in our margin rates, seasonal fluctuations in business levels, our ability to preserve positive labor relationships and avoid becoming the target of corporate labor unionization campaigns that could disrupt our business, the effect of currency fluctuations on our results of operations and financial condition, our dependence on third parties to supply us with raw materials, any loss of key management or other personnel, increased costs as a result of any future changes in federal or state laws, rules and regulations or governmental interpretation of such laws, rules and regulations, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the impact of adverse economic conditions and the current tight credit markets on our customers and such customers' workforces, the level and duration of workforce reductions by our customers, the continuing increase in domestic healthcare costs, demand and prices for our products and services, rampant criminal activity and instability in Mexico where our principal garment manufacturing plants are located, additional professional and internal costs necessary for compliance with recent and proposed future changes in Securities and Exchange Commission (including the Sarbanes-Oxley Act of 2002), New York Stock Exchange and accounting rules, strikes and unemployment levels, our efforts to evaluate and potentially reduce internal costs, economic and other developments associated with the war on terrorism and its impact on the economy, general economic conditions and other factors described under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended August 28, 2010 and in other filings with the Securities and Exchange Commission. We undertake no obligation to update any forward looking statements to reflect events or circumstances arising after the date on which such statements are made.

Business Overview

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

We serve businesses of all sizes in numerous industry categories. Typical customers include automobile service centers and dealers, delivery services, food and general merchandise retailers, food processors and service operations, light manufacturers, maintenance facilities, restaurants, service companies, soft and durable goods wholesalers, transportation companies, and others who require employee clothing for image, identification, protection or utility

purposes. We also provide our customers with restroom supplies, including air fresheners, paper products and hand soaps.

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

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

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

Critical Accounting Policies and Estimates

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

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

Results of Operations

The amounts of revenues and certain expense items as well as the related percentage of total revenues for the thirteen and twenty-six weeks ended February 26, 2011 and the thirteen and twenty-six weeks ended February 27, 2010, and the percentage changes in revenues and certain expense items as a percentage of total revenues between these periods, are presented in the following table. Cost of revenues presented in the table below include merchandise costs related to the amortization of rental merchandise in service and direct sales as well as labor and other production, service and delivery costs associated with operating our industrial laundries, Specialty Garments facilities, First Aid locations and our distribution center. Selling and administrative costs include costs related to our sales and marketing functions as well as general and administrative costs associated with our corporate offices and operating locations including information systems, engineering, materials management, manufacturing planning, finance, budgeting, and human resources.

(In thousands, except percentages)	February 26, 2011	Thirteen weeks ended				Twenty-six weeks ended				
		February 27, 2010	% of Rev.	% of Rev.	% Change	February 26, 2011	% of Rev.	February 27, 2010	% of Rev.	% Change
Revenues	\$278,595	\$253,562	100.0%	100.0%	9.9%	\$551,685	100.0%	\$509,741	100%	8.2%

Operating expenses:										
Cost of revenues (1)	176,233	63.3	157,025	61.9	12.2	339,468	61.5	306,249	60.1	10.8
Selling and administrative expenses (1)	58,614	21.0	52,423	20.7	11.8	113,797	20.6	103,895	20.4	9.5
Depreciation and amortization	16,075	5.8	15,033	5.9	6.9	31,577	5.7	30,089	5.9	4.9
	250,922	90.1	224,481	88.5	11.8	484,842	87.9	440,233	86.4	10.1
Income from operations	27,673	9.9	29,081	11.5	-4.8	66,843	12.1	69,508	13.6	-3.8
Other expense (income)	1,329	0.5	2,423	1.0	-45.2	2,778	0.5	3,882	0.8	-28.4
Income before income taxes	26,344	9.5	26,658	10.5	-1.2	64,065	11.6	65,626	12.9	-2.4
Provision for income taxes	10,067	3.6	10,432	4.1	-3.5	24,024	4.4	25,824	5.1	-7.0
Net income	\$ 16,277	5.8 %	\$ 16,226	6.4 %	0.3 %	\$ 40,041	7.3 %	\$ 39,802	7.8 %	0.6 %

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

General

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

As part of our recent revenue growth, we have been experiencing increased merchandise costs. This increase has been primarily due to our increased investment in merchandise to the levels needed to support our existing wearer base. During fiscal 2009 and early fiscal 2010, our results of operations benefitted from our utilization of used garments that our customers returned to us as a result of reductions in their workforces. Over the last few quarters, we have put significantly more new garments into service to meet the day-to-day needs of our existing wearer base. In addition, increased new account sales, including some larger national accounts, have also required us to make a large initial investment in merchandise. Finally, certain OSHA regulations have mandated that many of our customers provide their employees with flame resistant garments, which are higher cost garments. These regulations, combined with an increase in oil prices that has positively impacted the wearer levels of certain of our customers, particularly in Texas, has caused us to place significantly more of these higher cost specialized garments into service. We expect the increase in merchandise costs to continue for at least the remainder of the fiscal year, which will have a negative effect on our margins throughout this period.

In addition, throughout the first half of fiscal 2011, the prices of cotton and oil-based fabrics have continued to increase. Unless these costs moderate, our results of operations may be negatively impacted.

The price of fuel and energy needed to run our vehicles and equipment is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries, regional production patterns, limits on refining capacities, natural disasters and environmental concerns. As discussed below, the recent increases in fuel costs have had a negative impact on our delivery and production costs. At the current cost of fuel and energy, our results of operations may continue to be negatively affected for at least the balance of our fiscal year.

Thirteen weeks ended February 26, 2011 compared with thirteen weeks ended February 27, 2010

Revenues

(In thousands, except percentages)	February 26, 2011	February 27, 2010	Dollar Change	Percent Change	
Core Laundry Operations	\$ 246,868	\$ 227,282	\$ 19,586	8.6	%
Specialty Garments	23,516				