

UNIFIRST CORP  
Form 10-K  
October 26, 2016  
Table Of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Fiscal Year Ended August 27, 2016**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**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) (IRS Employer Identification No.)

**68 Jonspin Road**

**Wilmington, Massachusetts 01887**

(Address of Principal Executive Offices)(Zip Code)

Registrant's telephone number, including area code: (978) 658-8888

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.10 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Check one):

Edgar Filing: UNIFIRST CORP - Form 10-K

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

The number of outstanding shares of the Registrant's Common Stock and Class B Common Stock as of October 14, 2016 were 15,424,127 and 4,845,519, respectively. The aggregate market value of the voting stock of the Registrant held by non-affiliates as of February 26, 2016 (the last business day of the Registrant's most recently completed second fiscal quarter), computed by reference to the closing sale price of such shares on such date, was approximately \$1,581,777,889.

Documents Incorporated By Reference

The Registrant intends to file a Definitive Proxy Statement pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, for its 2017 Annual Meeting of Shareholders within 120 days of the end of the fiscal year ended August 27, 2016. Portions of such Proxy Statement are incorporated by reference in Part III of this Annual Report on Form 10-K.

---

Table Of Contents

**UniFirst Corporation**

**Annual Report on Form 10-K**

**For the Fiscal Year Ended August 27, 2016**

**Table of Contents**

**PART I**

Item 1. Business

Item 1A. Risk Factors

Item 1B. Unresolved Staff Comments

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Mine Safety Disclosures

**PART II**

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

Consolidated statements of income for each of the three years in the period ended August 27, 2016

Consolidated statements of comprehensive income for each of the three years in the period ended August 27, 2016

Consolidated balance sheets as of August 27, 2016 and August 29, 2015

Consolidated statements of shareholders' equity for each of the three years in the period ended August 27, 2016

Consolidated statements of cash flows for each of the three years in the period ended August 27, 2016

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Item 9A. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Item 9B. Other Information

**PART III**

Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 14. Principal Accounting Fees and Services

**PART IV**

Item 15. Exhibits, Financial Statement Schedules

Ex-21 List of Subsidiaries

Ex-23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

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**

*This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; “Safe Harbor for Forward Looking Statements” and “Risk Factors” included elsewhere in this Annual Report on Form 10-K.*

**ITEM 1. BUSINESS**

**GENERAL**

UniFirst Corporation, a corporation organized under the laws of the Commonwealth of Massachusetts in 1950, 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. 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.

Our principal services include providing customers with uniforms and other non-garment items, picking up soiled uniforms or other items on a periodic basis (usually weekly), and delivering, at the same time, cleaned and processed items. We offer uniforms in a wide variety of styles, colors, sizes and fabrics and with personalized emblems selected by the customer. Our centralized services, specialized equipment and economies of scale generally allow us to be more cost effective in providing garment services than customers could be themselves, particularly those customers with high employee turnover rates. During fiscal 2016, we manufactured approximately 71% of the garments we placed in service. These were primarily work pants and shirts manufactured at three of our plants located in San Luis Potosi, Mexico, one plant located in Managua, Nicaragua, as well as at subcontract manufacturers that we utilize to supplement our manufacturing capacity in periods of high demand. Because we design and manufacture a majority of our own uniforms and protective clothes, we can produce custom garment programs for our larger customers, offer a diverse range of such designs within our standard line of garments and better control the quality, price and speed at which we produce such garments. In addition, among our competitors, we believe we have the largest in-house digital image processing capability, allowing us to convert an image provided by a customer into customized, mass

producible embroidered emblems, typically within two days.

We have six operating segments: US Rental and Cleaning, Canadian Rental and Cleaning, Manufacturing (“MFG”), Specialty Garments Rental and Cleaning (“Specialty Garments”), First Aid and Corporate. 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. 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 Corporate operating segment consists of costs associated with our 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 directly from our 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 segments. 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. 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. Refer to Note 15, “Segment Reporting”, of our Consolidated Financial Statements for our disclosure of segment information.

In fiscal 2016, we generated \$1.468 billion in revenue, of which approximately 91% was derived from the US and Canadian Rental and Cleaning and Corporate segments. Specialty Garments and First Aid accounted for approximately 6% and 3% of our 2016 revenues, respectively.

## **PRODUCTS AND SERVICES**

We provide our customers with personalized workplace uniforms and protective work clothing in a broad range of styles, colors, sizes and fabrics. Our uniform products include shirts, pants, jackets, coveralls, lab coats, smocks, aprons and specialized protective wear, such as flame resistant and high visibility garments. At certain specialized facilities, we also decontaminate and clean clothes and other items which may have been exposed to radioactive materials and service special cleanroom protective wear and facilities. We also offer non-garment items and services, such as industrial wiping products, floor mats, dry and wet mops, restroom and cleaning supplies and other textile products.

## Table Of Contents

We offer our customers a range of garment service options, including full-service rental programs in which garments are cleaned and serviced by us, lease programs in which garments are cleaned and maintained by individual employees and purchase programs to buy garments and related items directly. As part of our rental business, we pick up a customer's soiled uniforms and/or other items on a periodic basis (usually weekly) and deliver back cleaned and processed replacement items. We believe our centralized services, specialized equipment and economies of scale generally allow us to be more cost effective in providing garment and related services than customers would be themselves, particularly those customers with high employee turnover rates. Our uniform program is intended not only to help our customers foster greater company identity, but to enhance their corporate image and improve employee safety, productivity and morale. We primarily serve our customers pursuant to written service contracts that range in duration from three to five years.

## **CUSTOMERS**

We serve businesses of all sizes in numerous industry categories. During each of the past five years, no single customer in our Core Laundry Operations accounted for more than 1% of our revenues. Our 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. Among our largest customers of our conventional uniform rental business are divisions, units, regional operations or franchised agencies of major, nationally recognized organizations. With respect to our Specialty Garment segment, typical customers include government agencies, research and development laboratories, high technology companies and utilities operating nuclear reactors. We currently service over 300,000 customer locations in the United States, Canada and Europe from over 240 customer service, distribution and manufacturing facilities.

## **MARKETING, SALES, AND CUSTOMER SERVICE**

We market our products and services to a diverse customer base and to prospects that range across virtually all industry segments. Marketing contact is made through print advertising, direct mail, publicity, trade shows, catalogs, telemarketing, multiple web sites and direct field sales representation. We have built and maintain an extensive, proprietary database of prescreened and qualified business prospects that have been sourced from our various promotional initiatives, including mailers, web site contacts, advertising responses, sales calls and lists purchased from third-party providers. These prospect records serve as a primary targeting resource for our professional sales organization and are constantly updated, expanded and maintained by an in-house team of specialist database qualifiers and managers. To aid in the effective marketing of products and services, we supply sales representatives with an extensive selection of sales aids, brochures, presentation materials and vertical market communications tools. We also provide representatives with detailed on-line profiles of high opportunity markets to educate them to the typical issues, needs and concerns of those markets. This helps establish credibility and aids their ability to deliver value-based solutions.



We employ a large team of trained professional sales representatives whose sole function is to market our services to potential customers and develop new accounts. While most of our sales representatives are capable of presenting a full range of service solutions, some are dedicated to developing business for a limited range of products and services or have a specific market focus.

For example, in select geographic markets we employ teams of dedicated facility services sales representatives who focus exclusively on developing business for our floor care, restroom and related service programs. We employ specialist executive-level salespeople in our National Account Organization—some who specialize in rental programs and some who specialize in direct sale programs—to target the very largest national companies with known uniform and/or facility services program needs. We believe that effective customer service is the most important element in developing and maintaining our market position. Our commitment to service excellence is reflected throughout our organization. Our route sales representatives are the first line of continuing customer contact, who are supported by local customer service representatives, local service management staff and local operations management leaders, all of whom are focused on addressing the ongoing needs of customers, constantly delivering high-value service and pursuing total customer satisfaction. Our proprietary customer relationship management (“CRM”) information system enables us to respond to customer inquiries or issues within 24 hours and our service personnel are specially trained to handle the daily contact work necessary to effectively manage customer relations.

We measure the speed and accuracy of our customer service efforts on a weekly basis and, through our “Customers for Life” program, we continuously survey, record and report satisfaction levels as a means of evaluating current performance and highlighting areas for improvement.

## **COMPETITION**

The uniform rental and sales industry is highly competitive. The principal methods of competition in the industry are the quality of products, the quality of service and price. Our principal competitors include Cintas Corporation, Aramark Corporation and G&K Services, Inc. It was recently announced that Cintas Corporation will acquire G&K Services Inc., subject to obtaining certain regulatory approvals and satisfying other closing conditions. The remainder of the market, however, is divided among more than 600 smaller businesses, many of which serve one or a limited number of markets or geographic service areas. In addition to our traditional rental competitors, we may increasingly compete in the future with businesses that focus on selling uniforms and other related items. We also compete with industry competitors for acquisitions.

Table Of Contents

**MANUFACTURING AND SOURCING**

We manufactured approximately 71% of all garments which we placed in service during fiscal 2016. These garments were primarily work pants and shirts manufactured at three of our plants located in San Luis Potosi, Mexico, one plant located in Managua, Nicaragua, as well as at subcontract manufacturers that we utilize to supplement our manufacturing capacity in periods of high demand. The balance of the garments used in our programs are purchased from a variety of industry suppliers. While we currently acquire the raw materials with which we produce our garments from a limited number of suppliers, we believe that such materials are readily available from other sources. To date, we have experienced no significant difficulty in obtaining any of our raw materials or supplies. Currently, we also manufacture approximately 74% of the mats we place in service at our plant in Cave City, Arkansas.

**EMPLOYEES**

As of August 27, 2016, we employed approximately 13,000 persons and approximately 2% of our United States employees are represented by a union pursuant to a collective bargaining agreement. We consider our employee relations to be good.

**EXECUTIVE OFFICERS**

Our executive officers are as follows:

<b>NAME</b>	<b>AGE</b>	<b>POSITION</b>
Ronald D. Croatti	73	Chairman of the Board, President, and Chief Executive Officer
Steven S. Sintros	43	Senior Vice President and Chief Financial Officer
Cynthia Croatti	61	Executive Vice President and Treasurer
David A. DiFillippo	59	Senior Vice President, Operations
David M. Katz	53	Senior Vice President, Sales and Marketing
Michael A. Croatti	47	Senior Vice President, Operations
William M. Ross	55	Senior Vice President, Operations

The principal occupation and positions for the past five years of our executive officers named above are as follows:

Ronald D. Croatti joined our Company in 1965. Mr. Croatti became Director of our Company in 1982, Vice Chairman of the Board in 1986 and has served as Chief Executive Officer since 1991. He has also served as President since 1995 and Chairman of the Board since 2002. Mr. Croatti has overall responsibility for the management of our Company.

Steven S. Sintros joined our Company in 2004. Mr. Sintros is a Senior Vice President and has served as our Chief Financial Officer since January 2009. He has primary responsibility for overseeing the financial functions of our Company, as well as our information systems department. Mr. Sintros served as a Finance Manager in 2004 and Corporate Controller from 2005 until January 2009.

Cynthia Croatti joined our Company in 1980. Ms. Croatti has served as Director since 1995, Treasurer since 1982 and Executive Vice President since 2001. In addition, she has primary responsibility for overseeing the human resources and purchasing functions of our Company.

David A. DiFillippo joined our Company in 1979. Mr. DiFillippo has served as Senior Vice President, Operations since 2002 and has primary responsibility for overseeing the operations of certain regions in the United States and Canada. From 2000 through 2002, Mr. DiFillippo served as Vice President, Central Rental Group and, prior to 2000, he served as a Regional General Manager.

David M. Katz joined our Company in 2009. Mr. Katz is a Senior Vice President and has primary responsibility for overseeing the sales and marketing functions of our Company. Prior to joining our Company, Mr. Katz worked for DHL Express where he served as the Northeast Vice President of Field Sales, from 2003 to 2007, the Northeast Vice President of National Account Sales from 2007 to 2008 and the Senior Vice President and General Manager of the Northeast from 2008 until 2009.

Michael A. Croatti joined our Company in 1987. Mr. Croatti became Senior Vice President, Operations in 2015 and has primary responsibility for overseeing specified regions in the United States and the Company's overall service operations. From 2012 through 2015, he served as Senior Vice President, Service; from 2002 through 2012, he served as Vice President, Central Rental Group; and prior to 2002, he held various operating positions within the Company.

William M. Ross joined our Company in 1989. Mr. Ross became Senior Vice President of Operations in 2016 and has primary responsibility for overseeing specified regions in the United States. From 2002 to 2016, Mr. Ross served as Regional Vice President of the Company. Prior to 2002, Mr. Ross held several sales and operations management positions at the Company.

Table Of Contents

Ronald D. Croatti and Cynthia Croatti are siblings. Michael A. Croatti is the son of Ronald D. Croatti.

**ENVIRONMENTAL MATTERS**

We, like our competitors, 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. Further, under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in or emanating from such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of or was responsible for the presence of such hazardous or toxic substances. There can be no assurance that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon us under such laws or expose us to third-party actions such as tort suits. We continue to address environmental conditions under terms of consent orders negotiated with the applicable environmental authorities or otherwise with respect to sites located in, or related to, Woburn, Massachusetts, Somerville, Massachusetts, Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites related to former operations in Williamstown, Vermont, as well as sites located in Goldsboro, North Carolina, Wilmington, North Carolina, Landover, Maryland and Syracuse, New York. For additional discussion refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the risk factors set forth in this Annual Report on Form 10-K.

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

**AVAILABLE INFORMATION**

We make available free of charge our Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. These reports are available on our website at [www.unifirst.com](http://www.unifirst.com). In addition, you may request a copy of our filings, excluding exhibits, by contacting our Investor Relations group at (978) 658-8888 or at UniFirst Corporation, 68 Jonspin Road, Wilmington, MA 01887. Information included on our website is not deemed to be incorporated into this Annual Report on Form 10-K or the documents incorporated by reference into this Annual Report on Form 10-K.

## **ITEM 1A. RISK FACTORS**

The statements in this section, as well as statements described elsewhere in this Annual Report on Form 10-K, or in other SEC filings, describe risks that could materially and adversely affect our business, financial condition and results of operations and the trading price of our securities. These risks are not the only risks that we face. Our business, financial condition and results of operations could also be materially affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

## **SAFE HARBOR FOR FORWARD LOOKING STATEMENTS**

This Annual Report on Form 10-K and any documents incorporated by reference may contain forward looking statements within the meaning of the federal securities laws. Forward looking statements contained in this Annual Report on Form 10-K 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 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’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, 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 our 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. We undertake no obligation to update any forward looking statements to reflect events or circumstances arising after the date on which they are made.

---

Table Of Contents

**RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

*We face intense competition within our industry, which may adversely affect our results of operations and financial condition.*

The uniform rental and sales industry is highly competitive. The principal methods of competition in the industry are quality of products, quality of service and price. Our leading competitors include Cintas Corporation, Aramark Corporation and G&K Services, Inc. It was recently announced that Cintas Corporation will acquire G&K Services Inc., subject to obtaining certain regulatory approvals and satisfying other closing conditions. The remainder of the market, however, is divided among more than 600 smaller businesses, many of which serve one or a limited number of markets or geographic service areas. In addition to our traditional rental competitors, we may increasingly compete in the future with businesses that focus on selling uniforms and other related items, including single-use disposable garments for use in the nuclear industry. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material effect on our results of operations and financial condition. We also compete with industry competitors for acquisitions, which has the effect of increasing the price for acquisitions and reducing the number of acquisition candidates available to us. If we pay higher prices for businesses we acquire, our returns on investment and profitability may be reduced.

*Adverse economic and business conditions or geopolitical events may affect our customer base and negatively impact our sales and operating results.*

We supply uniform services to many industries that have been in the past, and may be in the future, subject to adverse economic and business conditions resulting in shifting employment levels, workforce reductions, changes in worker productivity, uncertainty regarding the impacts of rehiring and shifts to offshore manufacturing. In addition, geopolitical conflicts, calamities or other events may disrupt domestic and global business and financial markets and conditions. Any conditions or events that adversely affect our current customers or sales prospects may cause such customers or prospects to restrict expenditures, reduce workforces or even to cease to conduct their businesses. Any of these circumstances would have the effect of reducing the number of employees utilizing our uniform services, which adversely affects our sales and results of operations. The current slow economic growth in the United States and Europe negatively impacted our revenues and operating performance in fiscal 2016 and may continue to adversely affect our results of operations in 2017 and beyond due to the impact on spending plans and employment levels of our customers and sales prospects.

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

We, like our competitors, are subject to various federal, state and local laws and regulations governing, among other things, 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. Further, under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in or emanating from such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of or was responsible for the presence of such hazardous or toxic substances. There can be no assurance that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon us under such laws or expose us to third-party actions such as tort suits.

We continue to address environmental conditions under terms of consent orders negotiated with the applicable environmental authorities or otherwise with respect to sites located in or related to Woburn, Massachusetts, Somerville, Massachusetts, Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites related to former operations in Williamstown, Vermont, as well as sites located in Goldsboro, North Carolina, Wilmington, North Carolina, Landover, Maryland and Syracuse, New York.

---



Table Of Contents

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 cited 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 EPA’s comments remain to be resolved. We have implemented mitigation measures and continue to monitor environmental conditions at the Somerville, Massachusetts site. We also 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. We have also received notice that the Massachusetts Department of Environmental Protection is conducting an audit of our investigation and remediation work with respect to the Somerville site.

On a quarterly basis, we assess each of our environmental sites to determine whether the costs of investigation and remediation of environmental conditions are probable and can be reasonably estimated as well as the adequacy of our accruals with respect to such costs. There can be no assurance that our accruals with respect to our environmental sites will be sufficient or that the costs of remediation and investigation will not substantially exceed our accruals as new facts, circumstances or estimates arise.

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

In addition, our nuclear garment decontamination operations are subject to asset retirement obligations related to the decommissioning of our nuclear laundry facilities. We recognize as a liability the present value of the estimated future costs to decommission these facilities. The estimated liability is based on historical experience in decommissioning nuclear laundry facilities, estimated useful lives of the underlying assets, external vendor estimates as to the cost to decommission these assets in the future, and federal and state regulatory requirements. No assurances can be given that these accruals will be sufficient or that the costs of such decommissioning will not substantially exceed such accruals, as our facts, circumstances or estimates change, including changes in the Company’s estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates.

***In addition to contingencies and claims relating to environmental compliance matters, we may from time to time be subject to legal proceedings and claims related to our business operations which may adversely affect our financial condition and operating results.***

In addition to contingencies and claims relating to environmental compliance matters, we are subject from time to time to legal proceedings and claims arising from the conduct of our business operations, including personal injury claims, customer contract matters and employment claims. Certain of these claims are typically not covered by our available insurance. In addition, claims occasionally result in significant investigation and litigation expenses and, if successful, may result in material losses to us. Certain claims may also result in significant adverse publicity against us. As a consequence, successful claims against us not covered by our available insurance coverage, or the impact of adverse publicity against us, could have a material adverse effect on our business, financial condition and results of operation.

***Our failure to implement successfully our acquisition strategy and to grow our business could adversely affect our ability to increase our revenues and could negatively impact our profitability.***

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

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

Table Of Contents

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

On September 19, 2016, we completed an acquisition of Arrow Uniform (“Arrow”) for approximately \$122.0 million. The all-cash transaction is structured as an asset acquisition, with UniFirst acquiring substantially all of Arrow’s assets and virtually none of its liabilities. Arrow, headquartered in Taylor, Michigan, provides uniform and facility service rental programs as well as direct sale uniform programs to a wide range of large and small customers. Arrow operates from 12 locations with nearly 700 employees in five Midwestern states.

***If we are unable to preserve positive labor relationships or become the target of corporate labor unionization campaigns, the resulting labor unrest could disrupt our business by impairing our ability to produce and deliver our products.***

As of August 27, 2016, we employ approximately 13,000 persons and approximately 2% of our United States employees are represented by a union pursuant to a collective bargaining agreement. Competitors within our industry have been the target of corporate unionization campaigns by multiple labor unions. While our management believes that our employee relations are good, we cannot assure you that we will not experience pressure from labor unions or become the target of campaigns similar to those faced by our competitors. The potential for unionization could increase if the United States Congress passes federal “card check” legislation. If we do encounter pressure from labor unions, any resulting labor unrest could disrupt our business by impairing our ability to produce and deliver our products. In addition, significant union representation would require us to negotiate wages, salaries, benefits and other terms with many of our employees collectively and could adversely affect our results of operations by increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

***We may incur unexpected cost increases due to rising healthcare costs, the Affordable Care Act and other labor 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 (“ACA”) 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.

A recent update to the Fair Labor Standards Act expanded the number of employees entitled to overtime pay. In addition, federal, state and municipal governments are mandating increases to minimum wage and other employee benefits. We have raised, and expect to continue to raise, our wage rates and benefits to reflect these changes, which has the effect of increasing our labor costs, which in turn adversely affects our results of operation and financial condition. Our failure to comply with these regulatory requirements would expose us to applicable penalties and increase the likelihood that we would be subject to unionization campaigns. Further mandates would require additional increases to our labor costs and adversely affect our operating margin.

***Our failure to retain our current customers and renew our existing customer contracts could adversely affect our results of operations and financial condition.***

Our success depends on our ability to retain our current customers and renew our existing customer contracts. Our ability to do so generally depends on a variety of factors, including the quality, price and responsiveness of our services, as well as our ability to market these services effectively and to differentiate ourselves from our competitors. In addition, renewal rates are generally adversely affected by the difficult economic and business conditions. We cannot assure you that we will be able to renew existing customer contracts at the same or higher rates or that our current customers will not turn to competitors, cease operations, elect to self-operate or terminate contracts with us. The failure to renew a significant number of our existing contracts would have an adverse effect on our results of operations and financial condition.

***Increases in fuel and energy costs could adversely affect our operating costs.***

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. Any increase in fuel and energy costs could adversely affect our operating costs.

***As a result of our significant presence in energy producing regions, the prolonged drop in energy prices has and may continue to negatively impact our financial results.***

We have a substantial number of plants and conduct a significant portion of our business in energy producing regions in the US and Canada. The price of oil declined dramatically in 2014 and has remained relatively low since then. This decline has directly affected our customers in the oil industry, as they have curtailed their level of operations, and has 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 fiscal 2016 organic growth has been

negatively impacted by elevated headcount reductions in our wearer base, increased lost accounts and a reduction in new sales. Further declines in oil prices may exacerbate these effects. Accordingly, we believe that if oil prices remain at or near current levels, our revenues and profits will continue to be adversely affected as a result of the cutbacks by our customers in the oil industry and other effected businesses.

---

Table Of Contents

***Fluctuations in the nuclear portion of our Specialty Garments segment could disproportionately impact our revenue and net income and create volatility in the price of our Common Stock.***

Our nuclear decontamination business is affected by shut-downs, outages and clean-ups of the nuclear facilities we service. We are not able to control or predict with certainty when such shut-downs, outages and clean-ups will occur. In addition, our nuclear decontamination business tends to generate more revenue in the first and third fiscal quarters, which is when nuclear power plants typically schedule their plant outages and refuelings and thereby increase nuclear garment utilization. Moreover, a significant percentage of this segment's revenues are generated from a limited number of nuclear power plant operators. This concentration subjects this business to significant risks and may result in greater volatility in this segment's results of operations. Fluctuations in our nuclear decontamination business could adversely affect our results of operations and financial condition.

***Our international business results are influenced by currency fluctuations and other risks that could have an adverse effect on our results of operations and financial condition.***

A portion of our sales is derived from international markets. Revenue denominated in currencies other than the U.S. dollar represented approximately 7.9%, 8.4% and 9.8% of total consolidated revenues for each of fiscal 2016, 2015 and 2014, 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. The strength of the U.S. dollar has generally increased recently as compared to other currencies, which has had, and may continue to have, an adverse effect on our operating results as reported in U.S. dollars. In addition, a weaker Canadian dollar increases the costs to our Canadian operations of merchandise and other operational inputs that are sourced from outside Canada, which has the effect of reducing the operating margins of our Canadian business if we are unable to recover these additional costs through price adjustments with our Canadian customers. Our international operations are also subject to other risks, including the requirement to comply with changing and conflicting national and local regulatory requirements; potential difficulties in staffing and labor disputes; managing and obtaining support and distribution for local operations; credit risk or financial condition of local customers; potential imposition of restrictions on investments; potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries; foreign exchange controls; and local political and social conditions. There can be no assurance that the foregoing factors will not have an adverse effect on our international operations or on our consolidated financial condition and results of operations. We own and operate manufacturing facilities in Mexico. Violence, crime and instability in Mexico has had, and may continue to have, an adverse effect on our operations, including the hijacking of our trucks and the implementation of security measures to protect our employees. We are not insured against such criminal attacks and there can be no assurance that losses that could result from an attack on our trucks or our personnel would not have a material adverse effect on our business, results of operations and financial condition. Operations in developing nations present several additional risks, including greater fluctuation in currencies relative to the U.S. dollar, economic and governmental instability, civil disturbances, volatility in gross domestic production, Foreign Corrupt Practice Act compliance issues and nationalization and expropriation of private assets.

***Adverse global financial and economic conditions may result in impairment of our goodwill and intangibles.***

Our market capitalization, from time to time, has experienced volatility due in part to turbulent economic conditions and disruption in the global equity and credit markets. Under accounting principles generally accepted in the United States (“US GAAP”), we may be required to record an impairment charge if changes in circumstances or events indicate that the carrying values of our goodwill and intangible assets exceed their fair value and are not recoverable. Any significant and other-than-temporary decrease in our market capitalization could be an indicator, when considered together with other factors, that the carrying values of our goodwill and intangible assets exceed their fair value, which may result in our recording an impairment charge. We are unable to predict economic trends, but we continue to monitor the impact of changes in economic and financial conditions on our operations and on the carrying value of our goodwill and intangible assets. Should the value of our acquired goodwill or one or more of our acquired intangibles become impaired, our consolidated earnings and net worth may be materially adversely affected.

***Our failure to properly and efficiently design, construct, implement and operate our new customer relationship management computer system could adversely affect our operations and financial performance.***

We are in the process of modernizing our customer relationship management (“CRM”) computer system. The new system will combine enterprise resource planning (“ERP”) solutions and custom-built applications to address, among other areas, account management, billing and customer service. The new system is intended to improve functionality and information flow and increase automation in servicing our customers. As with any major new computer system that includes custom applications, there are risks inherent in the cost estimates, design, construction, implementation and operation of our new CRM system. These risks include the potential failures to properly design the system, to efficiently and economically construct and implement the system and to effectively operate the system. We are using well-regarded third-party consultants to assist us in this process. While we believe that our new CRM system will provide the anticipated information technology and customer service enhancements we expect, no assurances can be given in this regard. This project has experienced significant delays in completion from our original timetable. Once implementation of the new CRM system begins, we will begin depreciating, generally over between five and ten years, its capitalized costs, which totaled \$47.9 million as of August 27, 2016. The failure to properly, efficiently and economically complete and operate the new system on a timely basis could disrupt our operations and adversely affect our financial results.

---

Table Of Contents

***If our information technology systems suffer interruptions or failures, including as a result of cyber-attacks, our business operations could be disrupted.***

Our information technology systems serve an important role in the efficient operation of our business. The failure of these information technology systems to perform as we anticipate could disrupt our business and negatively impact our results of operations. In addition, our information technology systems could be damaged or cease to function properly due to any number of causes, such as catastrophic events, power outages, security breaches, computer viruses or cyber-based attacks. While we have contingency plans in place to prevent or mitigate the impact of these events, if such events were to occur and our disaster recovery plans do not effectively address the issues on a timely basis, we could suffer interruptions in our ability to manage our operations and service our customers, and we may be required to make a significant investment to fix or replace our information technology systems, each of which may have a material adverse effect on our business and financial results. In addition, if customer or our proprietary information is compromised by a security breach or cyber-attack, it could have a material adverse effect on our business.

***Failure to comply with the other state and federal regulations to which we are subject may result in penalties or costs that could have a material adverse effect on our business.***

Our business is subject to various other 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. Any appreciable increase in the statutory minimum wage rate, income or overtime pay, costs of complying with healthcare insurance mandates, changes in OSHA requirements, changes in environmental compliance requirements, or changes to immigration laws and citizenship requirements would likely result in an increase in our labor costs and/or contribute to a shortage of available labor and such cost increase or labor shortage, or the penalties for failing to comply with such statutory minimums or regulations, could have an adverse effect on our business, liquidity and results of operations.

***Our business may be subject to seasonal and quarterly fluctuations.***

Historically, our revenues and operating results have varied from quarter to quarter and are expected to continue to fluctuate in the future. In addition, our operating results historically have been seasonally lower during the second and fourth fiscal quarters than during the other quarters of the fiscal year. We incur various costs in integrating or establishing newly acquired businesses or start-up operations, and the profitability of a new location is generally expected to be lower in the initial period of its operation than in subsequent periods. Start-up operations in particular lack the support of an existing customer base and require a significantly longer period to develop sales opportunities and meet targeted operating results.



These factors, among others, may cause our results of operations in some future quarters to be below the expectations of securities analysts and investors, which could have an adverse effect on the market price of our Common Stock.

***Loss of our key management or other personnel could adversely impact our business.***

Our success is largely dependent on the skills, experience and efforts of our senior management and certain other key personnel. If, for any reason, one or more senior executives or key personnel were not to remain active in our Company, our results of operations could be adversely affected. Our future success also depends upon our ability to attract and retain qualified managers and technical and marketing personnel, as well as sufficient numbers of hourly workers. There is competition in the market for the services of such qualified personnel and hourly workers and our failure to attract and retain such personnel or workers could adversely affect our results of operations.

***We depend on third parties to supply us with raw materials and our results of operations could be adversely affected if we are unable to obtain adequate raw materials in a timely manner.***

We manufactured approximately 71% of all garments which we placed in service during fiscal 2016. These were primarily work pants and shirts manufactured at three of our plants located in San Luis Potosi, Mexico, one plant located in Managua, Nicaragua, as well as at subcontract manufacturers that we utilize to supplement our manufacturing capacity in periods of high demand. The balance of the garments used in our programs are purchased from a variety of industry suppliers. While we currently acquire the raw materials with which we produce our garments from a limited number of suppliers, we believe that such materials are readily available from other sources. To date, we have experienced no significant difficulty in obtaining any of our raw materials or supplies. However, if we were to experience difficulty obtaining any of our raw materials from such suppliers and were unable to obtain new materials or supplies from other industry suppliers, it could adversely affect our results of operations.

***Unexpected events could disrupt our operations and adversely affect our operating results.***

Unexpected events, including, without limitation, fires at facilities, natural disasters, such as hurricanes and tornados, public health emergencies, war or terrorist activities, unplanned utility outages, supply disruptions, failure of equipment or information systems, temporary or long-term disruption of our computer systems, or changes in laws and/or regulations impacting our business, could adversely affect our operating results. These events could result in disruption of customer service, physical damage to one or more key operating facilities, the temporary closure of one or more key operating facilities or the temporary disruption of information systems. In addition, the destruction or temporary loss of our distribution facility in Owensboro, Kentucky would have a material adverse effect on our operations and financial results.



Table Of Contents

***Changes in or new interpretations of the governmental regulatory framework may affect our contract terms and may reduce our sales or profits.***

A portion of our total consolidated revenues is derived from business with U.S. federal, state and local governments and agencies. Changes or new interpretations in, or changes in the enforcement of, the statutory or regulatory framework applicable to services provided under governmental contracts or bidding procedures could result in fewer new contracts or contract renewals, modifications to the methods we apply to price government contracts or in contract terms of shorter duration than we have historically experienced, any of which could result in lower sales or profits than we have historically achieved, which could have an adverse effect on our results of operations.

***The price of our Common Stock may be highly volatile, which could result in significant price declines.***

The price of our Common Stock may experience significant volatility. Such volatility may be caused by fluctuations in our operating results, changes in earnings estimated by investment analysts, the number of shares of our Common Stock traded each day, the degree of success we achieve in implementing our business and growth strategies, changes in business or regulatory conditions affecting us, our customers or our competitors and other factors. In addition, the New York Stock Exchange historically has experienced extreme price and volume fluctuations that often have been unrelated to, or disproportionate to, the operating performance of its listed companies. These fluctuations, as well as general economic, political and market conditions, may adversely affect the market price of our Common Stock.

***We are controlled by our principal shareholders, and our other shareholders may be unable to affect the outcome of shareholder voting.***

As of October 14, 2016, to the Company's knowledge, the members of the Croatti family owned, directly or indirectly, in the aggregate approximately 288,492 shares of our Common Stock and approximately 4,845,519 shares of our Class B Common Stock, which represents approximately 25.5% of the aggregate number of outstanding shares of our Common Stock and Class B Common Stock, but approximately 76.5% of the combined voting power of the outstanding shares of our Common Stock and Class B Common Stock. As a result, the members of the Croatti family, acting with other family members, could effectively control most matters requiring approval by our shareholders, including the election of a majority of the directors. While historically the members of the Croatti family have individually voted their respective shares of Class B Common Stock in the same manner, there is no contractual understanding requiring this and there is no assurance that the family members will continue to individually vote their shares of Class B Common Stock in the same manner. This voting control by the members of the Croatti family, together with certain provisions of our by-laws and articles of organization, could have the effect of delaying, deferring or preventing a change in control of our Company that would otherwise be beneficial to our public shareholders.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

As of August 27, 2016, we owned or leased approximately 250 facilities containing an aggregate of approximately 7.0 million square feet located in the United States, Canada, Mexico, Europe and Nicaragua. We owned 120 of these facilities, containing approximately 5.4 million square feet. These facilities include our 325,000 square foot Owensboro, Kentucky distribution center and almost all of our industrial laundry processing plants. We believe our industrial laundry facilities are among the most modern in the industry.

We own substantially all of the machinery and equipment used in our operations. We believe that our facilities and our production, cleaning and decontamination equipment have been well maintained and are adequate for our present needs. We also own a fleet of approximately 3,400 delivery vans, trucks and other vehicles.

## **ITEM 3. 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.

In addition, we, like our competitors, 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. Over the years, we have settled, or contributed to the settlement of, actions or claims brought against us relating to the disposal of hazardous materials and there can be no assurance that we will not have to expend material amounts to remediate the consequences of any such disposal in the future. Further, under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in or emanating from such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of or was responsible for the presence of such hazardous or toxic substances. There can be no assurance that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future

uses or conditions will not result in the imposition of liability upon us under such laws or expose us to third-party actions such as tort suits. Refer to Note 11, "Commitments and Contingencies", of our Consolidated Financial Statements for further discussion.

---

Table Of Contents**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****COMMON STOCK INFORMATION**

Our Common Stock trades on the New York Stock Exchange under the symbol "UNF", while our Class B Common Stock is not publicly traded. The following table sets forth, for the periods indicated, the high and low closing prices of our Common Stock on the New York Stock Exchange, and the dividends per share paid on our Common Stock and Class B Common Stock.

	Price Per Share		Dividends Per Share	
	High	Low	Common Stock	Class B Common Stock
<b>Year ended August 27, 2016</b>				
First Quarter	\$ 112.22	\$ 103.78	\$ 0.0375	\$ 0.0300
Second Quarter	110.55	97.97	0.0375	0.0300
Third Quarter	115.85	104.61	0.0375	0.0300
Fourth Quarter	128.07	105.44	0.0375	0.0300

	Price Per Share		Dividends Per Share	
	High	Low	Common Stock	Class B Stock

**Common  
Stock**

**Year ended August 29, 2015**

First Quarter	\$ 113.64	\$ 95.01	\$ 0.0375	\$ 0.0300
Second Quarter	123.40	108.31	0.0375	0.0300
Third Quarter	122.22	112.61	0.0375	0.0300
Fourth Quarter	117.39	105.72	0.0375	0.0300

The approximate number of shareholders of record of our Common Stock and Class B Common Stock as of October 14, 2016 was 52 and 38, respectively. We believe that the number of beneficial owners of our Common Stock is substantially greater than the number of record holders because a large portion of our Common Stock is held of record in broker “street names”.

We have paid regular quarterly dividends since 1983 and intend to continue such policy subject to, among other factors, our earnings, financial condition, capital requirements and tax law changes. No dividends will be payable unless declared by our Board of Directors and then only to the extent funds are legally available for the payment of such dividends. In the event that our Board of Directors votes to pay a dividend, our Common Stock must receive a dividend equal to no less than 125% of any dividend paid on the Class B Common Stock. On July 6, 2016, our Board of Directors declared a quarterly dividend of \$0.0375 and \$0.0300 per share on our Common Stock and Class B Common Stock, respectively, which was paid on September 30, 2016 to shareholders of record on September 9, 2016.

Table Of Contents

The following table sets forth information concerning our equity compensation plans as of August 27, 2016.

<b>Plan category</b>	<b>Equity Compensation Plan Information</b>		
	<b>Number of securities to be issued upon exercise of outstanding options and stock appreciation rights (a)</b>	<b>Weighted average exercise price of outstanding stock appreciation rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities referenced in column (a)) (c)</b>
Equity compensation plans approved by security holders	610,691	\$ 83.17	787,010
Equity compensation plans not approved by security holders	—	N/A	—
<b>Total</b>	<b>610,691</b>	<b>\$ 83.17</b>	<b>787,010</b>



Table Of Contents

**Stock Performance Graph**

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our Common Stock, based on the market price of our Common Stock, with the cumulative total shareholder return of a peer group and of companies within the Standard & Poor's 500 Stock Index, in each case assuming reinvestment of dividends. The calculation of cumulative total shareholder return assumes a \$100 investment in our Common Stock, the peer group and the S&P 500 Stock Index on August 31, 2011. The peer group is composed of Cintas Corporation and G & K Services, Inc.



Table Of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements included in Item 8.

The selected consolidated balance sheet data set forth below as of August 27, 2016 and August 29, 2015 and the selected consolidated income statement data for each of the three years in the period ended August 27, 2016 are derived from our audited Consolidated Financial Statements included in this Annual Report on Form 10-K. All other selected consolidated financial data set forth below are derived from our audited financial statements not included in this Annual Report on Form 10-K. Current accounting guidance requires the income per share for each class of common stock to be calculated assuming 100% of our earnings are distributed as dividends to each class of common stock based on their respective dividend rights. Our Common Stock has a 25% dividend preference to our Class B Common Stock. The Class B Common Stock, which has ten votes per share as opposed to one vote per share for the Common Stock, is not freely transferable but may be converted at any time on a one-for-one basis into Common Stock at the option of the holder of the Class B Common Stock.

**Five Year Financial Summary****UniFirst Corporation and Subsidiaries****Fiscal Year Ended August**

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>(In thousands, except per share data)</b>					
Selected Balance Sheet Data:					
Total assets	\$1,702,007	\$1,533,237	\$1,424,161	\$1,374,862	\$1,240,534
Notes payable and long-term debt	\$—	\$1,385	\$7,859	\$111,408	\$106,986
Shareholders' equity	\$1,364,781	\$1,242,208	\$1,134,459	\$1,013,398	\$896,925
Selected Income Statement Data:					
Revenues	\$1,468,046	\$1,456,605	\$1,394,897	\$1,355,515	\$1,256,289
Depreciation and amortization	\$81,612	\$77,113	\$71,752	\$69,607	\$66,439
Income from operations	\$201,160	\$200,384	\$193,275	\$186,203	\$151,108
Other (income) expense, net	\$(2,211)	\$(884)	\$(2,076)	\$(1,406)	\$374
Provision for income taxes	\$78,345	\$76,969	\$75,426	\$70,924	\$55,745
Net income	\$125,026	\$124,299	\$119,925	\$116,685	\$94,989
Income per share:					
Basic - Common stock	\$6.51	\$6.50	\$6.29	\$6.14	\$5.02

Edgar Filing: UNIFIRST CORP - Form 10-K

Basic - Class B Common Stock	\$5.21	\$5.20	\$5.03	\$4.91	\$4.01
Diluted - Common stock	\$6.17	\$6.15	\$5.95	\$5.81	\$4.76
Dividends per share:					
Common stock	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15
Class B Common Stock	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12

The Company's fiscal year ends on the last Saturday in August. For financial reporting purposes, fiscal 2013 consisted of 53 weeks, while all other fiscal years presented consisted of 52 weeks.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### 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.

---

Table Of Contents

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.

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 240 customer service, distribution and manufacturing facilities.

US GAAP establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in interim financial reports issued to shareholders. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. Our chief operating decision-maker is our chief executive officer. We have six operating segments based on the information reviewed by our chief executive officer: US Rental and Cleaning, Canadian Rental and Cleaning, Manufacturing (“MFG”), Specialty Garments Rental and Cleaning (“Specialty Garments”), First Aid and Corporate. 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. Refer to Note 15, “Segment Reporting”, of our Consolidated Financial Statements for our disclosure of segment information.

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 operations of the US and Canadian Rental and Cleaning reporting segment are referred to by us as our ‘industrial laundry operations’ and we refer to the locations related to this reporting segment as our ‘industrial laundries’.

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. The amounts reflected as revenues of MFG are primarily generated when goods are shipped from our manufacturing facilities, or subcontract manufacturers, to our other locations. These intercompany revenues are recorded at a transfer price which is typically in excess of the actual manufacturing cost. Products are carried in inventory and subsequently placed in service and

amortized at this transfer price. On a consolidated basis, intercompany MFG revenues and MFG 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 our manufacturing cost.

The Corporate operating segment consists of costs associated with our 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 directly from our 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 segment disclosures in Note 15, "Segment Reporting", of our Consolidated Financial Statements, no assets or capital expenditures are presented for the Corporate operating segment as no assets are allocated to this operating segment in the information reviewed by our 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 us.

We refer to our US and Canadian Rental and Cleaning, MFG, and Corporate segments combined as our "Core Laundry Operations".

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.

Approximately 91% of our revenues in fiscal 2016 were derived from US and Canadian Rental and Cleaning, and Corporate. A key driver of this business is the number of workers employed by our customers. Our revenues are directly impacted by fluctuations in these employment levels. Revenues from Specialty Garments, which accounted for approximately 6% of our 2016 revenues, increase during outages and refueling by nuclear power plants, as garment usage increases at these times. First Aid represented approximately 3% of our total revenue in fiscal 2016.

### **Critical Accounting Policies and Estimates**

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



Table Of Contents

*Use of Estimates*

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

*Foreign Currency Translation*

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

*Revenue Recognition and Allowance for Doubtful Accounts*

We recognize revenue from rental operations in the period in which the services are provided. Direct sale revenue is recognized in the period in which the services are performed or when the product is shipped. Our judgment and estimates are used in determining the collectability of accounts receivable and evaluating the adequacy of the allowance for doubtful accounts. We consider specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances as part of our evaluation. Changes in our estimates are reflected in the period they become known. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Material changes in our estimates may result in significant differences in the amount and timing of bad debt expense recognition for any given period. Our revenues do not include taxes we collect from our customers and remit to governmental authorities.

*Inventories and Rental Merchandise in Service*

Our inventories are stated at the lower of cost or market value, net of any reserve for excess and obsolete inventory. Judgments and estimates are used in determining the likelihood that new goods on hand can be sold to our customers or used in our rental operations. Historical inventory usage and current revenue trends are considered in estimating both excess and obsolete inventories. If actual product demand and market conditions are less favorable than the amount we projected, additional inventory write-downs may be required. We use the first-in, first-out (“FIFO”) method to value our inventories, which primarily consist of finished goods.

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

#### *Goodwill, Intangibles and Other Long-Lived Assets*

In accordance with US GAAP, we do not amortize goodwill. Instead, current accounting guidance requires that companies test goodwill for impairment on an annual basis. In addition, US GAAP requires that companies test goodwill if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit to which goodwill is assigned below its carrying amount. Our evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling.

We complete our annual goodwill impairment test in the fourth quarter of each fiscal year and there have been no impairments of goodwill or other intangible assets in fiscal 2016, 2015 or 2014.

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

Property, plant and equipment, and definite-lived intangible assets are depreciated or amortized over their useful lives. Useful lives are based on our estimates of the period that the assets will generate economic benefits. Long-lived assets are evaluated for impairment whenever events or circumstances indicate an asset may be impaired. There were no material impairments of property, plant and equipment, or definite-lived intangible assets in fiscal 2016, 2015 or 2014.



Table Of Contents

*Insurance*

We self-insure for certain obligations related to health, workers' compensation, vehicles and general liability programs. We also purchase stop-loss insurance policies in certain instances to protect ourselves from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for events that have occurred, but have not been reported. Our estimates consider historical claim experience and other factors. Our liabilities are based on our estimates, and, while we believe that our accruals are adequate, the ultimate liability may be significantly different from the amounts recorded. In certain cases where partial insurance coverage exists, we must estimate the portion of the liability that will be covered by existing insurance policies to arrive at our net expected liability. Receivables for insurance recoveries are recorded as assets, on an undiscounted basis. Changes in our claim experience, our ability to settle claims or other estimates and judgments we use could have a material impact on the amount and timing of expense for any given period.

*Environmental and Other Contingencies*

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

The estimated liability for environmental contingencies has been discounted as of August 27, 2016 using risk-free interest rates ranging from 1.6% to 2.3% over periods ranging from ten to thirty years. The estimated current costs, net of legal settlements with insurance carriers, have been adjusted for the estimated impact of inflation at 3% per year. Changes in enacted laws, regulatory orders or decrees, our estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments, 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. Refer to Note 11, "Commitments and Contingencies", of our Consolidated Financial Statements for additional discussion and analysis.

*Asset Retirement Obligations*

Under US GAAP, asset retirement obligations generally apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. Current accounting guidance requires that we recognize asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

We have recognized as a liability the present value of the estimated future costs to decommission our nuclear laundry facilities in accordance with US GAAP. We depreciate, on a straight-line basis, the amount added to property, plant and equipment and recognize accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-eight years.

Our estimated liability has been based on historical experience in decommissioning nuclear laundry facilities, estimated useful lives of the underlying assets, external vendor estimates as to the cost to decommission these assets in the future, and federal and state regulatory requirements. The estimated current costs have been adjusted for the estimated impact of inflation at 3% per year. The liability has been discounted using credit-adjusted risk-free rates that range from approximately 7.0% to 7.5%. Revisions to the liability could occur due to changes in the estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates. Changes due to revisions in our estimates will be recognized by adjusting the carrying amount of the liability and the related long-lived asset if the assets are still in service, or charged to expense in the period if the assets are no longer in service.

#### *Supplemental Executive Retirement Plan and other Pension Plans*

We recognize pension expense on an accrual basis over our employees' estimated service periods. Pension expense is generally independent of funding decisions or requirements.

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

Table Of Contents*Income Taxes*

We compute income tax expense by jurisdiction based on our operations in each jurisdiction. Deferred income taxes are provided for temporary differences between the amounts recognized for income tax and financial reporting purposes at currently enacted tax rates.

We are periodically reviewed by U.S. domestic and foreign tax authorities regarding the amount of taxes due. These reviews typically include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating our exposure associated with various filing positions, we have recorded estimated reserves. Refer to Note 4, "Income Taxes", of our Consolidated Financial Statements for further discussion regarding our accounting for income taxes and uncertain tax positions for financial accounting purposes.

We have undistributed earnings from our foreign subsidiaries of approximately \$124.8 million as of August 27, 2016. We consider these undistributed earnings as indefinitely reinvested and therefore have not provided for U.S. income taxes or foreign withholding taxes. In addition, we have accumulated \$54.9 million in cash outside the United States that is expected to be invested indefinitely in our foreign subsidiaries. If these funds were distributed to the U.S. in the form of dividends or otherwise, or if the shares of our international subsidiaries were sold or transferred, we would likely be subject to additional U.S. income taxes, net of the impact of any available foreign tax credits as well as foreign withholding taxes. It is not practicable to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

**Results of Operations**

The following table presents certain selected financial data, including the percentage of revenues represented by each item, for our three fiscal years ended August 27, 2016, August 29, 2015 and August 30, 2014.

(In thousands, except for percentages)	FY 2016	% of Revenues	FY 2015	% of Revenues	FY 2014	% of Revenues	% Change	
							FY 2016	FY 2015
							vs.	vs.
							FY 2015	FY 2014
Revenues	\$1,468,046	100.0 %	\$1,456,605	100.0 %	\$1,394,897	100.0 %	0.8 %	4.4 %

Edgar Filing: UNIFIRST CORP - Form 10-K

Costs and expenses:										
Cost of revenue (1)	900,427	61.3	884,664	60.7	858,306	61.5	1.8	3.1		
Selling and administrative expenses (1)	284,847	19.4	294,444	20.2	271,564	19.5	-3.3	8.4		
Depreciation and amortization	81,612	5.6	77,113	5.3	71,752	5.1	5.8	7.5		
	1,266,886	86.3	1,256,221	86.2	1,201,622	86.1	0.8	4.5		
Income from operations	201,160	13.7	200,384	13.8	193,275	13.9	0.4	3.7		
Other (income) expense	(2,211 )	-0.2	(884 )	-0.1	(2,076 )	-0.1	150.1	-57.4		
Income before income taxes	203,371	13.9	201,268	13.8	195,351	14.0	1.0	3.0		
Provision for income taxes	78,345	5.3	76,969	5.3	75,426	5.4	1.8	2.0		
Net income	\$ 125,026	8.5	% \$ 124,299	8.5	% \$ 119,925	8.6	% 0.6	% 3.6	%	

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

Table Of Contents

Revenues and income (loss) from operations by reporting segment for the three fiscal years ended August 27, 2016, August 29, 2015, and August 30, 2014 are presented in the following table. Refer to Note 15, “Segment Reporting”, of our Consolidated Financial Statements for discussion of our reporting segments.

(In thousands)	Fiscal year ended August		
	2016	2015	2014
<b>Segment Information</b>			
Revenues			
US and Canadian Rental and Cleaning	\$1,308,152	\$1,305,240	\$1,244,408
MFG	189,154	192,188	183,340
Net intercompany MFG elimination	(188,904 )	(192,188 )	(183,340 )
Corporate	20,973	17,088	15,077
Subtotal: Core Laundry Operations	1,329,375	1,322,328	1,259,485
Specialty Garments	91,257	87,513	91,484
First Aid	47,414	46,764	43,928
Total consolidated revenues	\$1,468,046	\$1,456,605	\$1,394,897
Income (loss) from operations			
US and Canadian Rental and Cleaning	\$201,148	\$219,430	209,497
MFG	67,385	66,190	63,675
Net intercompany MFG elimination	(711 )	(733 )	(3,777 )
Corporate	(81,748 )	(97,301 )	(87,145 )
Subtotal: Core Laundry Operations	186,074	187,586	182,250
Specialty Garments	10,204	7,355	7,178
First Aid	4,882	5,443	3,847
Total income from operations	\$201,160	\$200,384	\$193,275

*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, Specialty Garments, First Aid and Corporate. 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. The dramatic decrease in oil prices beginning in 2014 and continuing to the present has directly affected our customers in the oil industry as they have curtailed their level of operations. In addition, this decline has 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 has been impacted by elevated headcount reductions in our wearer base as well as increased lost accounts. We expect the headcount reductions that we continue to experience at a higher than normal rate will also have an impact on our organic growth into fiscal 2017. On the other hand, we have benefited from lower 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 lower oil prices, the negative impact on our results from the cutbacks by our customers in the oil industry and other affected businesses have and will continue to outweigh the benefits 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 (“ACA”) 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.

We are currently undertaking a company-wide initiative to update our customer relationship management (“CRM”) systems. As of August 27, 2016, we have capitalized \$47.9 million related to our CRM project (“Unity 20/20”). Although we did not deploy this system in fiscal 2016, we continued to make investments in IT infrastructure, including headcount, to help support this and other technology initiatives that impacted our results of operations. In addition, our future operating results will be impacted by the eventual depreciation of our Unity 20/20 investment.

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 2017 as a result of increases in state and local minimum wage levels as well as the recent update to the regulations under the Fair Labor Standards Act which has expanded the number of employees entitled to overtime pay. The Company is currently evaluating the impact of the updated standard on our labor costs but anticipates that our future operating results will be adversely impacted.

A portion of our sales is derived from international markets, including Canada. Revenues denominated in currencies other than the U.S. dollar represented approximately 7.9%, 8.4% and 9.8% of total consolidated revenues for fiscal years 2016, 2015 and 2014, 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, a weaker Canadian dollar increases the costs to our Canadian operations of merchandise and other operational inputs that are sourced from outside Canada, which has the effect of reducing the operating margins of our Canadian business if we are unable to recover these additional costs through price adjustments with our Canadian customers. In fiscal 2016, 2015 and 2014, foreign currency fluctuations negatively impacted our consolidated revenues by 0.8%, 1.1% and 0.5%, respectively. These impacts were primarily driven by unfavorable fluctuations in the Canadian dollar. Our operating results in future years could be negatively impacted by any further 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.

### **Fiscal Year Ended August 27, 2016 Compared with Fiscal Year Ended August 29, 2015**

#### *Revenues*

	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
	(In thousands, except percentages)				
Core Laundry Operations	\$1,329,375	\$1,322,328	\$7,047	0.5	%
Specialty Garments	91,257	87,513	3,744	4.3	
First Aid	47,414	46,764	650	1.4	
Total consolidated revenues	\$1,468,046	\$1,456,605	\$11,441	0.8	%

In fiscal 2016, our consolidated revenues increased by \$11.4 million from the comparable period in 2015, or 0.8%. The increase in our consolidated revenues was primarily driven by the growth in our Core Laundry Operations, with revenues increasing to \$1.329 billion in fiscal 2016 from \$1.322 billion in fiscal 2015, or 0.5%. Excluding the negative effect of a weaker Canadian dollar of 0.7%, as well as the positive effect of acquisitions of 0.5%, organic growth was 0.7%. Organic growth consists primarily of new sales, price increases, and net changes in the wearer levels at our existing customers, offset by lost accounts. Our organic growth during fiscal 2016 was negatively impacted by reductions in wearer levels at our customers that directly or indirectly support oil or other energy production in the United States and Canada.



Table Of Contents

Specialty Garments' revenue increased from \$87.5 million in fiscal 2015 to \$91.3 million in fiscal 2016, or 4.3%. This increase was primarily the result of strong growth from this segment's cleanroom and European operations. First Aid revenues increased 1.4%, from \$46.8 million in fiscal 2015 to \$47.4 million in fiscal 2016.

*Cost of revenues*

Cost of revenues increased as a percentage of revenues from 60.7%, or \$884.7 million, in fiscal 2015 to 61.3% of revenues, or \$900.4 million, in fiscal 2016. This increase was driven by higher costs as a percent of revenues in our Core Laundry Operations, including merchandise amortization, payroll and healthcare costs and other production costs. These higher costs were partially offset by lower fuel costs associated with our fleet of delivery vehicles and lower natural gas costs used to operate our plants compared to the prior year period. In addition, our Specialty Garments segment partially offset this impact with lower overall costs of revenues as a percent of revenues.

*Selling and administrative expense*

Our selling and administrative expenses decreased to 19.4% of revenues, or \$284.8 million in fiscal 2016, from 20.2% of revenues, or \$294.4 million in fiscal 2015. This decrease was primarily due to the settlement of environmental litigation which resulted in a \$15.9 million gain that was recorded as a reduction to selling and administrative expenses. The comparison of selling and administrative expenses also benefited from lower legal costs. These positive comparisons were offset in part by payroll and other administrative costs which were higher as a percentage of revenues in fiscal 2016 compared to fiscal 2015.

*Depreciation and amortization*

Our depreciation and amortization expense was \$81.6 million, or 5.6% of revenues, in fiscal 2016 compared to \$77.1 million, or 5.3% of revenues, in fiscal 2015. Depreciation and amortization expense increased due to capital expenditure and acquisition activity in earlier periods.

*Income from operations*

Edgar Filing: UNIFIRST CORP - Form 10-K

For the year ended August 27, 2016, the changes in revenues in our Core Laundry Operations, Specialty Garments and First Aid segments, as well as the changes in our costs discussed above, resulted in the following changes in our income from operations:

	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
	(In thousands, except percentages)				
Core Laundry Operations	\$186,074	\$187,586	\$(1,512)	-0.8	%
Specialty Garments	10,204	7,355	2,849	38.7	
First Aid	4,882	5,443	(561)	-10.3	
Total consolidated income from operations	\$201,160	\$200,384	\$776	0.4	%
Percentage of total revenues	13.7	%	13.8	%	

*Other (income) expense*

Other (income) expense, which includes interest expense, interest income and foreign exchange loss, was income of \$2.2 million for fiscal 2016 as compared to income of \$0.9 million for fiscal 2015. The increase of \$1.3 million was primarily due to foreign currency losses of \$0.3 million in fiscal 2016 compared to foreign currency losses of \$1.6 million during fiscal 2015.

*Provision for income taxes*

Our effective tax rate was 38.5% for fiscal 2016 compared to 38.2% for fiscal 2015. The increase in our effective tax rate was due to a change in the mix of our jurisdictional earnings.

Table Of Contents**Fiscal Year Ended August 29, 2015 Compared with Fiscal Year Ended August 30, 2014***Revenues*

	<b>August 29, 2015</b>	<b>August 30, 2014</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
	(In thousands, except percentages)				
Core Laundry Operations	\$1,322,328	\$1,259,485	\$62,843	5.0	%
Specialty Garments	87,513	91,484	(3,971 )	-4.3	
First Aid	46,764	43,928	2,836	6.5	
Total consolidated revenues	\$1,456,605	\$1,394,897	\$61,708	4.4	%

In fiscal 2015, our consolidated revenues increased by \$61.7 million from the comparable period in 2014, or 4.4%. The increase in our consolidated revenues was primarily driven by the growth in our Core Laundry Operations, with revenues increasing to \$1.322 billion in fiscal 2015 from \$1.259 billion in fiscal 2014, or 5.0%. Excluding the negative effect of a weaker Canadian dollar of 0.9%, as well as the positive effect of acquisitions of 0.7%, organic growth was 5.2%. Organic growth consists primarily of new sales, price increases, and net changes in the wearer levels at our existing customers, offset by lost accounts. Organic growth in fiscal 2015 benefited from new account sales and annual price adjustments. These benefits were partially offset by decreases in net wearer counts at our existing customers primarily due to reductions at customers that directly or indirectly support oil or other energy production, as well as higher lost accounts compared to a year ago.

Specialty Garments' revenue decreased from \$91.5 million in fiscal 2014 to \$87.5 million in fiscal 2015, or 4.3%. This decrease was the result of reduced power reactor business in North American compared to a year ago as well as the impact of a weaker Canadian dollar and euro. 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. First Aid revenues increased 6.5%, from \$43.9 million in fiscal 2014 to \$46.8 million in fiscal 2015. This increase was primarily due to solid performance by this segment's wholesale distribution and pill packaging operations.

*Cost of revenues*

Cost of revenues decreased as a percentage of revenues from 61.5%, or \$858.3 million, in fiscal 2014 to 60.7% of revenues, or \$884.7 million, in fiscal 2015. This decrease as a percentage of revenues was primarily due to lower fuel costs associated with our fleet of delivery vehicles, lower natural gas costs and lower payroll related costs in fiscal 2015 compared to the prior year. These costs were offset by higher merchandise amortization costs as a percentage of

revenues during fiscal 2015 as compared to the prior year.

*Selling and administrative expense*

Our selling and administrative expenses increased to 20.2% of revenues, or \$294.4 million in fiscal 2015, from 19.5% of revenues, or \$271.6 million in fiscal 2014. This increase was primarily due to higher legal expenses and reserves related to miscellaneous legal matters, as well as higher cost related to IT infrastructure investments. In fiscal 2015, we also recorded an additional \$3.0 million in expense related to our environmental contingency reserves compared to the prior year. This increase was due to a number of factors, including additional costs we expect to incur associated with the construction of a planned municipal transit station in the area of our Somerville site as well as the impact of lower interest rates on the discounting of our environmental liabilities in the prior year.

*Depreciation and amortization*

Our depreciation and amortization expense was \$77.1 million, or 5.3% of revenues, in fiscal 2015 compared to \$71.8 million, or 5.1% of revenues, in fiscal 2014. Depreciation and amortization expense increased due to capital expenditure and acquisition activity in earlier periods.

---

Table Of Contents*Income from operations*

For the year ended August 29, 2015, the changes in revenues in our Core Laundry Operations, Specialty Garments and First Aid segments, as well as the changes in our costs discussed above, resulted in the following changes in our income from operations:

	<b>August 29, 2015</b>	<b>August 30, 2014</b>	<b>Dollar Change</b>	<b>Percent Change</b>	
	(In thousands, except percentages)				
Core Laundry Operations	\$187,586	\$182,250	\$5,336	2.9	%
Specialty Garments	7,355	7,178	177	2.5	
First Aid	5,443	3,847	1,596	41.5	
Total consolidated income from operations	\$200,384	\$193,275	\$7,109	3.7	%
Percentage of total revenues	13.8	%	13.9	%	

*Other (income) expense*

Other (income) expense, which includes interest expense, interest income and foreign exchange loss, was income of \$0.9 million for fiscal 2015 as compared to income of \$2.1 million for fiscal 2014. The decrease of \$1.2 million in other income was primarily the result of foreign currency losses of approximately \$1.6 million during fiscal 2015 compared to foreign currency losses of approximately \$0.3 million during fiscal 2014.

*Provision for income taxes*

Our effective tax rate was 38.2% for fiscal 2015 compared to 38.6% for fiscal 2014. This decrease was primarily due to a decrease in state income taxes as well as a change in the mix of jurisdictional earnings in fiscal 2015 compared to the prior year.

**Liquidity and Capital Resources**

*General*

Cash and cash equivalents totaled \$363.8 million as of August 27, 2016, an increase of \$87.2 million from \$276.6 million as of August 29, 2015. Our working capital was \$625.0 million as of August 27, 2016 compared to \$477.7 million as of August 29, 2015. Subsequent to August 27, 2016, we completed our acquisition of Arrow Uniform for a cash purchase price of approximately \$122.0 million. We generated \$207.6 million and \$226.9 million in cash from operating activities in the fiscal years ended August 27, 2016 and August 29, 2015, respectively. We believe that our current cash and cash equivalent 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 \$54.9 million in cash outside the United States that 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 U.S. income taxes. However, we do not believe that any resulting taxes payable 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 fiscal year ended August 27, 2016 was \$207.6 million, a decrease of \$19.3 million from the prior fiscal year when cash provided by operating activities was \$226.9 million. This net decrease was partially driven by the timing of income tax payments and the impact of changes in deferred income taxes. In addition, the comparison of cash provided by operating activities was impacted by a settlement related to environmental litigation the Company entered into in the fourth quarter of fiscal 2016 which resulted in a gain of \$15.9 million booked as a reduction of selling and administrative expenses. A significant portion of the funds related to this settlement were received in September 2016 and, therefore, did not translate into operating cash flow during fiscal 2016.

Table Of Contents

*Cash Used in Investing Activities*

Cash used in investing activities for the fiscal year ended August 27, 2016 was \$114.7 million, a decrease of 9.6 million from the prior fiscal year when cash used in investing activities was \$124.3 million. The net decrease in cash used in investing activities was primarily driven by a decrease in cash outflows of \$5.8 million for the acquisition of businesses as well as a decrease in cash outflow of \$2.9 million for capital expenditures.

*Cash Used in Financing Activities*

Cash used in financing activities for the fiscal year ended August 27, 2016 was \$5.6 million compared to cash used in financing activities of \$6.3 million for the fiscal year ended August 29, 2015. This change was primarily due to a net decrease of cash outflows of \$4.9 million related to proceeds and payments on loans payable and long-term debt in fiscal 2016 compared to fiscal 2015. This decrease was offset in part by a decrease in proceeds received from the exercise of share based awards.

*Long-term debt and borrowing capacity*

On April 11, 2016, we entered into an amended and restated \$250.0 million unsecured revolving credit agreement (the "Credit Agreement") with a syndicate of banks, which matures on April 11, 2021. The Credit Agreement amended and restated our prior \$250.0 million revolving credit agreement, which was scheduled to mature on May 4, 2016. 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 August 27, 2016, 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 August 27, 2016, we had no outstanding borrowings and had outstanding letters of credit amounting to \$53.0 million, leaving \$197.0 million available for borrowing under the Credit Agreement.

As of August 27, 2016, 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) income, a component of shareholders’ equity. Upon the maturity of each foreign exchange forward contract, the gain or loss on the contract will be recorded as an adjustment to revenues.

As of August 27, 2016, we had forward contracts with a notional value of approximately 17.1 million CAD outstanding and recorded the fair value of the contracts of \$0.1 million in other long-term assets and \$0.1 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.1 million, which was recorded net of tax. During the fiscal year ended August 27, 2016, we reclassified \$0.2 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of August 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

#### *Environmental and Legal 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.





Table Of Contents

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

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. Due to cost projections of the extension which now substantially exceed original estimates, the local transit authority has placed the extension on hold pending its redesign and receipt of related state and federal approvals and funding increases. 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 our investigation and remediation work with respect to the Somerville site.

During the fourth quarter of fiscal 2016, the Company entered into a settlement related to environmental litigation which resulted in a \$15.9 million gain that was recorded as a reduction of selling and administrative expenses. This gain consisted of amounts previously received but not recognized into income as well as amounts that the Company received in September 2016.

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 represent 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. When we believe that both the amount of a particular liability and the timing of the payments are reliably determinable, we adjust the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discount the cost to present value using current risk-free interest rates. As of August 27, 2016, the risk-free interest rates we utilized ranged from 1.6% to 2.3%.

---

Table Of Contents

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 years ended August 27, 2016 and August 29, 2015 are as follows (in thousands):

<b>Year ended</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>
Beginning balance	\$23,307	\$19,846
Costs incurred for which reserves have been provided	(1,417 )	(2,014 )
Insurance proceeds	101	121
Interest accretion	669	603
Changes in discount rates	1,348	224
Revisions in estimates	2,740	4,527
Ending balance	\$26,748	\$23,307

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of August 27, 2016 for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

<b>Fiscal year ended August</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	<b>Total</b>
Estimated costs – current dollars	\$9,673	\$1,859	\$1,492	\$1,284	\$1,172	\$12,390	\$27,870
Estimated insurance proceeds	(173 )	(159 )	(173 )	(159 )	(173 )	(1,128 )	(1,965 )
Net anticipated costs	\$9,500	\$1,700	\$1,319	\$1,125	\$999	\$11,262	\$25,905
Effect of inflation							7,256
Effect of discounting							(6,413 )
Balance as of August 27, 2016							\$26,748

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 August 27, 2016, the balance in this escrow account, which is held in a trust and is not recorded in our Consolidated Balance Sheet, was approximately \$3.4 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.

---

Table Of Contents*Acquisitions*

As part of our business, we regularly evaluate opportunities to acquire other garment service companies. In recent years, we have typically paid for acquisitions with cash and may continue to do so in the future. To pay for an acquisition, we may use cash on hand, cash generated from operations or borrowings under our Credit Agreement, or we may pursue other forms of debt financing. Our ability to secure short-term and long-term debt financing in the future will depend on several factors, including our future profitability, our levels of debt and equity, and the overall credit and equity market environments.

On September 19, 2016, we completed an acquisition of Arrow Uniform (“Arrow”) for approximately \$122.0 million. The all-cash transaction is structured as an asset acquisition, with UniFirst acquiring substantially all of Arrow’s assets and virtually none of its liabilities. Arrow, headquartered in Taylor, Michigan, provides uniform and facility service rental programs as well as direct sale uniform programs to a wide range of large and small customers. Arrow operates from 12 locations with nearly 700 employees in five Midwestern states.

*Contractual Obligations and Other Commercial Commitments*

The following information is presented as of August 27, 2016 (in thousands).

**Payments Due by Fiscal Period**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>More than 5 years</b>
Retirement plan benefit payments	\$39,696	\$1,868	\$3,217	\$3,400	\$31,211
Asset retirement obligations	13,032	1,275	—	1,165	10,592
Operating leases	32,566	8,698	12,861	8,736	2,271
<b>Total contractual cash obligations</b>	<b>\$85,294</b>	<b>\$11,841</b>	<b>\$16,078</b>	<b>\$13,301</b>	<b>\$44,074</b>

We have uncertain tax positions that are reserved totaling \$3.7 million as of August 27, 2016 that are excluded from the above table as we cannot make a reasonably reliable estimate of the period of cash settlement with the respective taxing authority.

We have accrued \$26.7 million in costs related to certain environmental obligations we have to address under terms of consent orders negotiated with the applicable environmental authorities or otherwise. Refer to “Environmental and Legal Contingencies”, above for additional discussion on our environmental obligations.

As discussed above under “Long-Term Debt and Borrowing Capacity”, as of August 27, 2016, we had borrowing capacity of \$250.0 million under our Credit Agreement, of which approximately \$197.0 million was available for borrowing. Also, as of such date, we had no outstanding borrowings and letters of credit outstanding of \$53.0 million. All letters of credit expire in less than one year. We expect to replace the Credit Agreement prior to its maturity with a new revolving line of credit on appropriate terms.

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) income, a component of shareholders’ equity. Upon the maturity of each foreign exchange forward contract, the gain or loss on the contract will be recorded as an adjustment to revenues.

As of August 27, 2016, we had forward contracts with a notional value of approximately 17.1 million CAD outstanding and recorded the fair value of the contracts of \$0.1 million in other long-term assets and \$0.1 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.1 million, which was recorded net of tax. During the fiscal year ended August 27, 2016, we reclassified \$0.2 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of August 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

#### *Off Balance Sheet Arrangements*

As of August 27, 2016 and August 29, 2015, 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.

## Table Of Contents

### *Seasonality*

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

### *Effects of Inflation*

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

### *Energy Costs*

Significant increases in energy costs, specifically with respect to natural gas and gasoline, can materially affect our operating costs. During fiscal 2016, our energy costs, which include fuel, natural gas, and electricity, represented approximately 3.8% of our total revenue.

## **Recent Accounting Pronouncements**

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



that this guidance will have on our financial statements and related disclosures.

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

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

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

---

Table Of Contents

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

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

In January 2016, the FASB issued updated guidance for the recognition, measurement, presentation, and disclosure of certain financial assets and liabilities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Accordingly, the standard will be effective for us on August 26, 2018. We expect that adoption of this guidance will not have a material impact on our 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 us on September 1, 2019. We are currently evaluating the impact that this guidance will have on our financial statements and related disclosures.

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

**ITEM 7A. 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 effects 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 7.9%, 8.4% and 9.8% of our total consolidated revenues for the fiscal years ended August 27, 2016, August 29, 2015 and August 30, 2014, respectively. Total assets denominated in currencies other than the U.S. dollar represented approximately 8.2% and 8.9% of our total consolidated assets at August 27, 2016 and August 29, 2015, respectively. If exchange rates had increased or decreased by 10% from the actual rates in effect during the year ended August 27, 2016, our revenues and assets for the year ended and as of August 27, 2016 would have increased or decreased by approximately \$11.6 million and \$13.9 million, respectively.

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) income, a component of shareholders' equity. Upon the maturity of each foreign exchange forward contract, the gain or loss on the contract will be recorded as an adjustment to revenues.

---

Table Of Contents

As of August 27, 2016, we had forward contracts with a notional value of approximately 17.1 million CAD outstanding and recorded the fair value of the contracts of \$0.1 million in other long-term assets and \$0.1 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.1 million, which was recorded net of tax. During the fiscal year ended August 27, 2016, we reclassified \$0.2 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of August 27, 2016 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 the functional currencies of our foreign subsidiaries, 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 year ended August 27, 2016, transaction losses included in other (income) expense was approximately \$0.3 million. If exchange rates had changed by 10% during the year ended August 27, 2016, we would have recognized exchange gains or losses of approximately \$0.8 million.

---

Table Of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****Consolidated Statements of Income****UniFirst Corporation and Subsidiaries**

<b>Year ended</b>	<b>August 27,</b>	<b>August 29,</b>	<b>August 30,</b>
<b>(In thousands, except per share data)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ 1,468,046	\$ 1,456,605	\$ 1,394,897
Operating expenses:			
Cost of revenues (1)	900,427	884,664	858,306
Selling and administrative expenses (1)	284,847	294,444	271,564
Depreciation and amortization	81,612	77,113	71,752
Total operating expenses	1,266,886	1,256,221	1,201,622
Income from operations	201,160	200,384	193,275
Other (income) expense:			
Interest expense	927	873	772
Interest income	(3,470 )	(3,310 )	(3,131 )
Foreign exchange loss	332	1,553	283
Total other (income) expense	(2,211 )	(884 )	(2,076 )
Income before income taxes	203,371	201,268	195,351
Provision for income taxes	78,345	76,969	75,426
Net income	\$ 125,026	\$ 124,299	\$ 119,925
<b>Income per share – Basic:</b>			
Common Stock	\$6.51	\$6.50	\$6.29
Class B Common Stock	\$5.21	\$5.20	\$5.03
<b>Income per share – Diluted:</b>			
Common Stock	\$6.17	\$6.15	\$5.95
<b>Income allocated to – Basic:</b>			
Common Stock	\$99,282	\$98,665	\$94,849
Class B Common Stock	\$25,093	\$24,761	\$23,705
<b>Income allocated to – Diluted:</b>			
Common Stock	\$124,409	\$123,472	\$118,626

**Weighted average number of shares outstanding – Basic:**

Common Stock	15,245	15,182	15,080
Class B Common Stock	4,816	4,763	4,711

**Weighted average number of shares outstanding – Diluted:**

Common Stock	20,154	20,079	19,939
--------------	--------	--------	--------

**Dividends per share:**

Common Stock	\$0.15	\$0.15	\$0.15
Class B Common Stock	\$0.12	\$0.12	\$0.12

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

The accompanying notes are an integral part of these

Consolidated Financial Statements.

Table Of Contents**Consolidated Statements of Comprehensive Income****UniFirst Corporation and Subsidiaries**

<b>Year ended</b>	<b>August 27,</b>	<b>August 29,</b>	<b>August 30,</b>
<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 125,026	\$ 124,299	\$ 119,925
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(391 )	(23,134 )	(2,852 )
Pension benefit liabilities, net of income taxes	(3,532 )	525	(1,126 )
Change in fair value of derivatives, net of income taxes	(398 )	708	—
Derivative financial instruments (gain) loss reclassified	(215 )	21	—
Other comprehensive (loss) income	(4,536 )	(21,880 )	(3,978 )
Comprehensive income	120,490	102,419	115,947

The accompanying notes are an integral part of these

Consolidated Financial Statements.

Table Of Contents**Consolidated Balance Sheets****UniFirst Corporation and Subsidiaries**

<b>(In thousands, except share and par value data)</b>	<b>August 27, 2016 (1)</b>	<b>August 29, 2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$363,795	\$276,553
Receivables, less reserves of \$7,675 and \$6,007 respectively	156,578	151,851
Inventories	78,887	80,449
Rental merchandise in service	138,105	140,384
Prepaid and deferred income taxes	10,418	204
Prepaid expenses and other current assets	29,831	12,382
<b>Total current assets</b>	<b>777,614</b>	<b>661,823</b>
Property, plant and equipment, net	539,818	513,853
Goodwill	320,641	313,133
Customer contracts, net	35,854	38,024
Other intangible assets, net	2,810	2,025
Deferred income taxes	97	1,475
Other assets	25,173	2,904
<b>Total assets</b>	<b>\$1,702,007</b>	<b>\$1,533,237</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Loans payable	\$—	\$1,385
Accounts payable	50,884	50,826
Accrued liabilities	100,782	113,022
Accrued and deferred income taxes	969	18,878
<b>Total current liabilities</b>	<b>152,635</b>	<b>184,111</b>
Accrued liabilities	104,921	54,566
Accrued and deferred income taxes	79,670	52,352
<b>Total liabilities</b>	<b>337,226</b>	<b>291,029</b>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred Stock, \$1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding	—	—
	1,542	1,525



Edgar Filing: UNIFIRST CORP - Form 10-K

Common Stock, \$0.10 par value; 30,000,000 shares authorized; 15,415,125 and 15,246,588 shares issued and outstanding in 2016 and 2015, respectively		
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,849,519 and 4,854,519 shares issued and outstanding in 2016 and 2015, respectively	485	485
Capital surplus	72,561	67,611
Retained earnings	1,319,142	1,197,000
Accumulated other comprehensive (loss) income	(28,949 )	(24,413 )
Total shareholders' equity	1,364,781	1,242,208
Total liabilities and shareholders' equity	\$1,702,007	\$1,533,237

(1) In the second fiscal quarter of 2016, the Company adopted updated accounting guidance on the presentation of deferred income taxes. This adoption required that deferred tax liabilities and assets be classified as noncurrent in the Consolidated Balance Sheet. The Company elected to account for this change in presentation prospectively and prior periods were not retroactively adjusted.

The accompanying notes are an integral part of these

Consolidated Financial Statements.

Table Of Contents**Consolidated Statements of Shareholders' Equity****UniFirst Corporation and Subsidiaries**

(In thousands)	Common Shares	Class B Common Shares	Common Stock	Class B Common Stock	Capital Surplus	Retained Earnings	Accumulated	Total Equity
							Other Comprehensive (Loss) Income	
Balance, August 31, 2013	15,130	4,872	\$1,513	\$487	\$51,445	\$958,508	\$1,445	\$1,013,398
Net income	—	—	—	—	—	119,925	—	119,925
Pension benefit liabilities, net (1)	—	—	—	—	—	—	(1,126)	(1,126)
Foreign currency translation	—	—	—	—	—	—	(2,852)	(2,852)
Dividends declared	—	—	—	—	—	(2,861)	—	(2,861)
Shares converted	12	(12)	1	(1)	—	—	—	—
Share-based compensation, net (2)	(36)	—	(3)	—	2,079	—	—	2,076
Share-based awards exercised, net (1)(3)	84	—	8	—	5,891	—	—	5,899
Balance, August 30, 2014	15,190	4,860	\$1,519	\$486	\$59,415	\$1,075,572	\$(2,533)	\$1,134,459
Net income	—	—	—	—	—	124,299	—	124,299
Pension benefit liabilities, net (1)	—	—	—	—	—	—	525	525

Edgar Filing: UNIFIRST CORP - Form 10-K

Change in fair value of derivatives	—	—	—	—	—	—	729	729
Foreign currency translation	—	—	—	—	—	—	(23,134)	(23,134)
Dividends declared	—	—	—	—	—	(2,871)	—	(2,871)
Shares converted	1	(1)	—	—	—	—	—	—
Share-based compensation, net (2)	(36)	(5)	(4)	(1)	406	—	—	401
Share-based awards exercised, net (1)(3)	91	—	10	—	7,790	—	—	7,800
Balance, August 29, 2015	15,246	4,854	\$1,525	\$485	\$67,611	\$1,197,000	\$(24,413)	\$1,242,208
Net income	—	—	—	—	—	125,026	—	125,026
Pension benefit liabilities, net (1)	—	—	—	—	—	—	(3,532)	(3,532)
Change in fair value of derivatives	—	—	—	—	—	—	(613)	(613)
Foreign currency translation	—	—	—	—	—	—	(391)	(391)
Dividends declared	—	—	—	—	—	(2,884)	—	(2,884)
Share-based compensation, net (2)	104	(5)	10	—	(343)	—	—	(333)
Share-based awards exercised, net (1)(3)	65	—	7	—	5,293	—	—	5,300
Balance, August 27, 2016	15,415	4,849	\$1,542	\$485	\$72,561	\$1,319,142	\$(28,949)	\$1,364,781

(1) These amounts are shown net of the effect of income taxes.

(2) These amounts are shown net of any shares withheld by the Company to satisfy certain tax withholdings obligations in connection with the vesting of certain shares of restricted stock.

- (3) These amounts include excess tax benefits that the Company realized as part of the exercise of share-based awards.

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

---

Table Of Contents**Consolidated Statements of Cash Flows****UniFirst Corporation and Subsidiaries**

<b>Year ended</b>	<b>August 27,</b>	<b>August 29,</b>	<b>August 30,</b>
<b>(In thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 125,026	\$ 124,299	\$ 119,925
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>			
Depreciation	72,983	68,164	62,791
Amortization of intangible assets	8,629	8,949	8,961
Amortization of deferred financing costs	184	209	209
Share-based compensation	5,628	5,366	5,601
Accretion on environmental contingencies	669	603	716
Accretion on asset retirement obligations	826	690	941
Deferred income taxes	9,899	(3,473 )	8,439
<b>Changes in assets and liabilities, net of acquisitions:</b>			
Receivables, less reserves	(3,949 )	(3,494 )	(11,541 )
Inventories	1,467	(2,236 )	(4,450 )
Rental merchandise in service	3,945	4,900	(14,002 )
Prepaid expenses and other current assets	(38,443 )	(4,005 )	2,623
Accounts payable	49	(7,648 )	13,646
Accrued liabilities	31,954	17,832	6,890
Prepaid and accrued income taxes	(11,231 )	16,761	(6,130 )
Net cash provided by operating activities	207,636	226,917	194,619
<b>Cash flows from investing activities:</b>			
Acquisition of businesses, net of cash acquired	(16,583 )	(22,359 )	(3,635 )
Capital expenditures	(98,235 )	(101,163)	(91,808 )
Other	149	(747 )	1,269
Net cash used in investing activities	(114,669)	(124,269)	(94,174 )
<b>Cash flows from financing activities:</b>			
Proceeds from loans payable and long-term debt	—	6,866	9,388
Payments on loans payable and long-term debt	(1,301 )	(13,055 )	(113,247)
Payment of deferred financing costs	(813 )	—	—
Proceeds from exercise of share-based awards, including excess tax benefits	5,313	7,799	5,899
Taxes withheld and paid related to net share settlement of equity awards	(5,965 )	(5,002 )	(3,527 )
Payment of cash dividends	(2,878 )	(2,869 )	(2,860 )
Net cash used in financing activities	(5,644 )	(6,261 )	(104,347)

Edgar Filing: UNIFIRST CORP - Form 10-K

Effect of exchange rate changes	(81 )	(11,603 )	(1,808 )
Net increase (decrease) in cash and cash equivalents	87,242	84,784	(5,710 )
Cash and cash equivalents at beginning of period	276,553	191,769	197,479
Cash and cash equivalents at end of period	\$363,795	\$276,553	\$191,769
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$763	\$662	\$763
Income taxes paid, net of refunds received	\$73,658	\$59,826	\$69,755

The accompanying notes are an integral part of these

Consolidated Financial Statements.

Table Of Contents

**Notes to Consolidated Financial Statements**

**UniFirst Corporation and Subsidiaries**

**1. Summary of Significant Accounting Policies**

*Business Description*

UniFirst Corporation (the “Company”) is one of the largest providers of workplace uniforms and protective clothing in the United States. The Company designs, manufactures, personalizes, rents, cleans, delivers, and sells a wide range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks, aprons and specialized protective wear, such as flame resistant and high visibility garments. The Company also rents and sells industrial wiping products, floor mats, facility service products and other non-garment items, and provides restroom and cleaning supplies and first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies.

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

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

As discussed and described in Note 15, “Segment Reporting”, to these Consolidated Financial Statements, the Company has five reporting segments: US and Canadian Rental and Cleaning, Manufacturing (“MFG”), Specialty Garments Rental and Cleaning (“Specialty Garments”), First Aid and Corporate. The operations of the US and Canadian Rental and Cleaning reporting segment are referred to by the Company as its “industrial laundry operations” and the locations related to this reporting segment are referred to as “industrial laundries”. The Company refers to its US and Canadian Rental and Cleaning, MFG, and Corporate segments combined as its “Core Laundry Operations”.

*Principles of Consolidation*

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

*Use of Estimates*

The preparation of these Consolidated Financial Statements is in conformity with accounting principles generally accepted in the United States (“US GAAP”) which requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. These estimates are based on historical information, current trends, and information available from other sources. Actual results could differ from these estimates.

*Fiscal Year*

The Company’s fiscal year ends on the last Saturday in August. For financial reporting purposes, fiscal 2016, fiscal 2015 and fiscal 2014 consisted of 52 weeks.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash in banks, money market securities, and bank short-term investments with maturities of less than ninety days at the date of purchase.

*Financial Instruments*

The Company’s financial instruments, which may expose the Company to concentrations of credit risk, include cash and cash equivalents, receivables, accounts payable, loans payable and long-term debt. Each of these financial instruments is recorded at cost, which approximates its fair value given the short maturity of each financial instrument.





Table Of Contents*Revenue Recognition and Allowance for Doubtful Accounts*

The Company recognizes revenue from rental operations in the period in which the services are provided. Direct sales revenue is recognized in the period in which the services are performed or when the product is shipped. Management judgments and estimates are used in determining the collectability of accounts receivable and evaluating the adequacy of the allowance for doubtful accounts. The Company considers specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances as part of its evaluation. Changes in estimates are reflected in the period they become known. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Material changes in its estimates may result in significant differences in the amount and timing of bad debt expense recognition for any given period. Revenues do not include taxes we collect from our customers and remit to governmental authorities.

*Inventories and Rental Merchandise in Service*

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

The components of inventory as of August 27, 2016 and August 29, 2015 were as follows (in thousands):

	<b>August 27, 2016</b>	<b>August 29, 2015</b>
Raw materials	\$16,826	\$17,658
Work in process	2,275	2,415
Finished goods	59,786	60,376
Total inventory	\$78,887	\$80,449

Rental merchandise in service is amortized, primarily on a straight-line basis, over the estimated service lives of the merchandise, which range from 6 to 36 months. In establishing estimated lives for merchandise in service, management considers historical experience and the intended use of the merchandise. Material differences may result

in the amount and timing of operating profit for any period if management makes significant changes to these estimates.

*Property, plant and equipment*

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred, while expenditures for renewals and betterments are capitalized.

The components of property, plant and equipment as of August 27, 2016 and August 29, 2015 were as follows (in thousands):

	<b>August 27,</b>	<b>August 29,</b>
	<b>2016</b>	<b>2015</b>
Land, buildings and leasehold equipment	\$432,716	\$402,781
Machinery and equipment	569,627	535,698
Motor vehicles	198,770	193,643
	1,201,113	1,132,122
Less: accumulated depreciation	661,295	618,269
Total property, plant and equipment	\$539,818	\$513,853

The Company provides for depreciation on the straight-line method based on the date the asset is placed in service using the following estimated useful lives:

Buildings (in years)	30 - 40
Building components (in years)	10 - 20
Leasehold improvements	Shorter of useful life or term of lease
Machinery and equipment (in years)	3 - 10
Motor vehicles (in years)	3 - 5

Long-lived assets, including property, plant and equipment, are evaluated for impairment whenever events or circumstances indicate an asset may be impaired. There have been no material impairments of long-lived assets in fiscal 2016, 2015 or 2014. Expenditures for computer software, including amounts capitalized related to the Company's ongoing project to update its customer relationship management ("CRM") systems, are included within

machinery and equipment. As of August 27, 2016, the Company had capitalized approximately \$47.9 million related to its CRM project, which has not been placed in service as of that date.

---

Table Of Contents

*Goodwill and Other Intangible Assets*

In accordance with US GAAP, the Company does not amortize goodwill. Instead, the Company tests goodwill for impairment on an annual basis. Management completes its annual goodwill impairment test in the fourth quarter of each fiscal year. In addition, US GAAP requires that companies test goodwill if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit to which goodwill is assigned below its carrying amount. The Company's evaluation considers changes in the operating environment, competitive information, market trends, operating performance and cash flow modeling.

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

Definite-lived intangible assets are amortized over their estimated useful lives, which are based on management's estimates of the period that the assets will generate economic benefits. Definite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable in accordance with US GAAP. There were no impairments of goodwill or indicators of impairment for definite-lived intangible assets in fiscal 2016, 2015 or 2014.

As of August 27, 2016, definite-lived intangible assets have a weighted average useful life of approximately 14.1 years. Customer contracts have a weighted average useful life of approximately 14.8 years and other intangible assets, net, which consist of primarily, restrictive covenants, deferred financing costs and trademarks, have a weighted average useful life of approximately 5.3 years.

*Environmental and Other Contingencies*

The Company is subject to legal proceedings and claims arising from the conduct of its business operations, including environmental matters, personal injury, customer contract matters and employment claims. Accounting principles generally accepted in the United States require that a liability for contingencies be recorded when it is probable that a liability has occurred and the amount of the liability can be reasonably estimated. Significant judgment is required to determine the existence of a liability, as well as the amount to be recorded. The Company regularly consults with attorneys and outside consultants, in its consideration of the relevant facts and circumstances, before recording a

contingent liability. The Company records accruals for environmental and other contingencies based on enacted laws, regulatory orders or decrees, the Company's estimates of costs, insurance proceeds, participation by other parties, the timing of payments, and the input of outside consultants and attorneys.

The estimated liability for environmental contingencies has been discounted as of August 27, 2016 using risk-free interest rates ranging from 1.6% to 2.3% over periods ranging from ten to thirty years. The estimated current costs, net of legal settlements with insurance carriers, have been adjusted for the estimated impact of inflation at 3% per year. Changes in enacted laws, regulatory orders or decrees, management's estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments, 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. Refer to Note 11, "Commitments and Contingencies", of these Consolidated Financial Statements for additional discussion and analysis.

#### *Asset Retirement Obligations*

Under US GAAP, asset retirement obligations generally apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. 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 has recognized as a liability the present value of the estimated future costs to decommission its nuclear laundry facilities. The Company depreciates, 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-eight years.

The estimated liability has been based on historical experience in decommissioning nuclear laundry facilities, estimated useful lives of the underlying assets, external vendor estimates as to the cost to decommission these assets in the future, and federal and state regulatory requirements. The estimated current costs have been adjusted for the estimated impact of inflation at 3% per year. The liability has been discounted using credit-adjusted risk-free rates that range from approximately 7.0% to 7.5%. Revisions to the liability could occur due to changes in the Company's estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates. Changes due to revised estimates will be recognized by adjusting the carrying amount of the liability and the related long-lived asset if the assets are still in service, or charged to expense in the period if the assets are no longer in service.



Table Of Contents

*Insurance*

The Company is self-insured for certain obligations related to health, workers' compensation, vehicles and general liability programs. The Company also purchases stop-loss insurance policies in certain instances to protect itself from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for events that have occurred, but have not been reported. The Company's estimates consider historical claims experience and other factors. In certain cases where partial insurance coverage exists, we must estimate the portion of the liability that will be covered by existing insurance policies to arrive at our net expected liability. Receivables for insurance recoveries are recorded as assets, on an undiscounted basis. The Company's liabilities are based on estimates, and, while the Company believes that its accruals are adequate, the ultimate liability may be significantly different from the amounts recorded. Changes in claims experience, the Company's ability to settle claims or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

*Supplemental Executive Retirement Plan and other Pension Plans*

Pension expense is recognized on an accrual basis over employees' estimated service periods. Pension expense is generally independent of funding decisions or requirements.

The Company (1) recognizes in its statement of financial position the over-funded or under-funded status of its defined benefit postretirement plans measured as the difference between the fair value of plan assets and the benefit obligation, (2) recognizes as a component of other comprehensive (loss) income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measures defined benefit plan assets and defined benefit plan obligations as of the date of its statement of financial position, and (4) discloses additional information in the notes to financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the actuarial gains and losses and the prior service costs and credits. Refer to Note 7, "Employee Benefit Plans", of these Consolidated Financial Statements for further discussion regarding the Company's pension plans.

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



*Income Taxes*

The Company computes income tax expense by jurisdiction based on its operations in each jurisdiction. Deferred income taxes are provided for temporary differences between the amounts recognized for income tax and financial reporting purposes at currently enacted tax rates.

The Company is periodically reviewed by U.S. domestic and foreign tax authorities regarding the amount of taxes due. These reviews typically include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, the Company records estimated reserves. Refer to Note 4, "Income Taxes", of these Consolidated Financial Statements for further discussion regarding the Company's accounting for income taxes and its uncertain tax positions for financial accounting purposes.

The Company has undistributed earnings from its foreign subsidiaries of approximately \$124.8 million as of August 27, 2016. The Company considers these undistributed earnings as indefinitely reinvested and therefore has not provided for U.S. income taxes or foreign withholding taxes. If these earnings were ultimately distributed to the U.S. in the form of dividends or otherwise, or if the shares of its international subsidiaries were sold or transferred, the Company would likely be subject to additional U.S. income taxes, net of the impact of any available foreign tax credits as well as foreign withholding taxes. It is not practicable to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

*Advertising Costs*

Advertising costs are expensed as incurred and are classified as selling and administrative expenses. The Company incurred advertising costs of \$1.5 million, \$1.3 million and \$1.5 million for the fiscal years ended August 27, 2016, August 29, 2015 and August 30, 2014, respectively.

---

Table Of Contents

*Share-Based Compensation*

The Company adopted a stock incentive plan (the “1996 Plan”) in November 1996 and reserved 1,500,000 shares of Common Stock for issuance under the 1996 Plan. The 1996 Plan provided for the issuance of stock options and stock appreciation rights (collectively referred to as “Share-Based Awards”). The Company ceased granting new awards under the 1996 Plan as of January 21, 2011, and the 1996 Plan expired in accordance with its terms on January 8, 2012. The Company adopted a stock incentive plan (the “2010 Plan”) in October 2010 and reserved 600,000 shares of Common Stock for issuance under the 2010 Plan. The 2010 Plan replaced the Company’s 1996 Plan. The 2010 Plan permits the award of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, performance shares, dividend equivalent rights and cash-based awards. No awards may be made under the 2010 Plan after January 11, 2021. On October 27, 2014, the Board of Directors, subject to the approval of the Company’s shareholders, which was received at the 2015 annual meeting of shareholders, adopted an amendment to the 2010 Plan to, among other matters, reserve for issuance an additional 750,000 shares and extend to 2025 the time period awards may be granted under the 2010 Plan. As of August 27, 2016, the number of remaining shares available for future grants under the 2010 Plan was 787,010. Share-based compensation, which includes expense related to Share-Based Awards and unrestricted and restricted stock grants, has been recorded in the accompanying Consolidated Statements of Income in selling and administrative expenses.

All Share-Based Awards issued to management were recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. All Share-Based Awards and shares of unrestricted stock issued to the Company’s non-employee members of the Board of Directors (the “Directors”) under the 2010 Plan were recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. Share-Based Awards and shares of unrestricted stock granted to non-employee Directors are granted on the third business day following the annual shareholders’ meeting.

All Share-Based Awards issued to employees were granted with an exercise price equal to the fair market value of the Company’s Common Stock on the date of grant and are subject to a five-year cliff-vesting schedule under which the awards become fully vested or exercisable after five years from the date of grant and expire ten years after the grant date. Share-Based Awards and shares of unrestricted stock granted to the Company’s non-employee Directors were fully vested as of the date of grant. Prior to fiscal 2009, non-employee Director Share-Based Award grants expired ten years from the grant date. Beginning in fiscal 2009, non-employee Director Share-Based Award grants expire on the earlier of the eighth anniversary of the grant date or the second anniversary of the date that the Director ceases to be a member of the Board of Directors.

US GAAP requires that share-based compensation cost be measured at the grant date based on the value of the award and be recognized as expense over the requisite service period, which is generally the vesting period. Determining the fair value of Share-Based Awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of Share-Based Awards that are expected to be forfeited. The fair value of each Share-Based Award is estimated on the date of grant using the Black-Scholes option pricing model.

Compensation expense for all Share-Based Awards is recognized ratably over the related vesting period. Certain Share-Based Awards and shares of unrestricted stock were granted during fiscal 2016, 2015 and 2014 to non-employee Directors of the Company, which were fully vested upon grant and, with respect to stock appreciation rights, expire eight years after the grant date. Accordingly, compensation expense related to these Share-Based Awards and shares of unrestricted stock in fiscal 2016, 2015 and 2014 were recognized on the date of grant.

The Company recognizes compensation expense for restricted stock grants over the related vesting period. The fair value for each restricted and unrestricted stock grant is determined by using the closing price of the Company's stock on the date of the grant. Refer to Note 12, "Share-Based Compensation", of these Consolidated Financial Statements for further discussion regarding the Company's share-based compensation plans.

On April 21, 2016, the Company entered into an Amended and Restated Employment Agreement (the "Amended Employment Agreement") with Ronald D. Croatti, the Company's Chairman, Chief Executive Officer and President, which extended the term of Mr. Croatti's existing Employment Agreement, dated as of April 5, 2010, that expired on April 5, 2016. The Amended Employment Agreement provides for the employment of Mr. Croatti for a term of four years, subject to earlier termination as set forth in the Amended Employment Agreement.

Also on April 21, 2016, the Company entered into a Restricted Stock Award Agreement (the "Award Agreement") with Mr. Croatti pursuant to which the Company granted 140,000 shares (the "Performance Restricted Shares") of restricted Common Stock to Mr. Croatti, of which all remain unvested as of August 27, 2016. The number of Performance Restricted Shares to be earned will depend on whether and the extent to which the Company achieves certain consolidated revenues and adjusted operating margins as set forth in the Award Agreement during certain performance periods set forth in such agreement, including performance periods relating to the second half of fiscal year 2016 and fiscal years 2017 and 2018 (collectively, the "Performance Criteria"). The threshold, target and maximum numbers of Performance Restricted Shares eligible to be earned under the Award Agreement are 100,000, 120,000 and 140,000, respectively. The Performance Restricted Shares earned upon achievement of the Performance Criteria will vest in two equal amounts on the third and fourth anniversaries of the grant date provided that Mr. Croatti continues to be employed by the Company on each such date. In the event that Mr. Croatti's employment is terminated without cause or by reason of death or disability prior to the vesting of the Performance Restricted Shares, all of the Performance Restricted Shares that have been or will be earned upon achievement of the Performance Criteria through the end of the fiscal year during which such termination occurred will become fully vested.

The fair value of each Share-Based Award is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used:

<b>Fiscal year ended August</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Risk-free interest rate	1.76%	1.92%	1.90%
Expected dividend yield	0.25%	0.27%	0.27%
Expected life in years	7.40	7.44	7.45

Expected volatility 29.3% 32.2% 32.9%

---

Table Of Contents

The weighted average fair values of Share-Based Awards granted during fiscal years 2016, 2015 and 2014 were \$35.81, \$40.06 and \$39.08, respectively.

*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 Class B Common Stock may be converted at any time on a one-for-one basis into Common Stock at the option of the holder of the Class B Common Stock. Diluted earnings per share for the Company’s Common Stock assumes the conversion of all of the Company’s Class B Common Stock into Common Stock, full vesting of outstanding restricted stock, and the exercise of Share-Based Awards under the Company’s stock incentive plans.

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):

<b>Year ended</b>	<b>August 27,  2016</b>	<b>August 29,  2015</b>	<b>August 30,  2014</b>
Net income available to shareholders	\$ 125,026	\$ 124,299	\$ 119,925
Allocation of net income for Basic:			
Common Stock	\$ 99,282	\$ 98,665	\$ 94,849
Class B Common Stock	25,093	24,761	23,705
Unvested participating shares	651	873	1,371
	\$ 125,026	\$ 124,299	\$ 119,925
Weighted average number of shares for Basic:			
Common Stock	15,245	15,182	15,080
Class B Common Stock	4,816	4,763	4,711
Unvested participating shares	107	153	249
	20,168	20,098	20,040

Earnings per share for Basic:

Edgar Filing: UNIFIRST CORP - Form 10-K

Common Stock	\$6.51	\$6.50	\$6.29
Class B Common Stock	\$5.21	\$5.20	\$5.03

The Company calculates diluted EPS for Common Stock using the more dilutive of the following two methods:

•The treasury stock method; or

•The two-class method assuming a participating security is not exercised or converted.

---

Table Of Contents

For the years ended August 27, 2016, August 29, 2015 and August 30, 2014, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares as it was the more dilutive of the two approaches. The following presents a reconciliation of basic and diluted net income per share (in thousands, except per share data):

	<b>Year Ended August 27, 2016</b>			<b>Year Ended August 29, 2015</b>			<b>Year Ended August 30, 2014</b>		
	<b>Earnings to Common shareholders</b>	<b>Common Shares</b>	<b>EPS</b>	<b>Earnings to Common shareholders</b>	<b>Common Shares</b>	<b>EPS</b>	<b>Earnings to Common shareholders</b>	<b>Common Shares</b>	<b>EPS</b>
As reported – Basic	\$99,282	15,245	\$6.51	98,665	15,182	\$6.50	\$94,849	15,080	\$6.29
Add: effect of dilutive potential common shares									
Share-Based Awards	—	93		—	134		—	148	
Class B Common Stock	25,093	4,816		24,761	4,763		23,705	4,711	
Add: Undistributed earnings allocated to unvested participating shares	636	—		853	—		1,339	—	
Less: Undistributed earnings reallocated to unvested participating shares	(602 )	—		(807 )	—		(1,267 )	—	
Diluted EPS – Common Stock	\$124,409	20,154	\$6.17	123,472	20,079	\$6.15	\$118,626	19,939	\$5.95

Share-Based Awards that would result in the issuance of 9,883 shares of Common Stock were excluded from the calculation of diluted earnings per share for the year ended August 27, 2016 because they were anti-dilutive. Share-Based Awards that would result in the issuance of 10,702 shares of Common Stock were excluded from the calculation of diluted earnings per share for the year ended August 29, 2015 because they were anti-dilutive. Share-Based Awards that would result in the issuance of 185 shares of Common Stock were excluded from the calculation of diluted earnings per share for the year ended August 30, 2014 because they were anti-dilutive.

*Foreign Currency Translation*

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

#### *Recent Accounting Pronouncements*

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

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

---



Table Of Contents

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

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

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

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

In January 2016, the FASB issued updated guidance for the recognition, measurement, presentation, and disclosure of certain financial assets and liabilities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Accordingly, the standard will be effective for us on August 26, 2018. We expect that adoption of this guidance will not have a material impact on our 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 us on September 1, 2019. We are currently evaluating the impact that this guidance will have on our financial statements and related disclosures.

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

## 2. Acquisitions

During the fiscal year ended August 27, 2016, the Company completed six business acquisitions with an aggregate purchase price of approximately \$17.7 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.

Aggregate information relating to the acquisition of businesses which were accounted for as purchases is as follows (in thousands, except number of businesses acquired):

<b>Year ended</b>	<b>August 27,</b>	<b>August 29,</b>	<b>August 30,</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Number of businesses acquired	6	7	7
Tangible assets acquired	\$3,572	\$4,179	\$949
Intangible assets and goodwill acquired	14,239	18,190	2,686
Liabilities assumed	(80 )	(10 )	—
Acquisition of businesses	\$17,731	\$22,359	\$3,635

Table Of Contents

Tangible assets acquired primarily relate to accounts receivable, inventory, prepaid expenses and property, plant and equipment. Liabilities assumed primarily relate to accounts payable and accrued liabilities.

The amount assigned to intangible assets acquired was based on their respective fair values determined as of the acquisition date. The excess of the purchase price over the tangible and intangible assets was recorded as goodwill. In fiscal 2016 and 2015, all of the goodwill was allocated to the US and Canadian Rental and Cleaning segment and is deductible for tax purposes.

### 3. Fair Value Measurements

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

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

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

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

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

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

**As of August 27, 2016**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets:</b>				
Cash equivalents	\$172,760	\$—	\$ —	\$172,760
Pension plan assets	—	4,753	—	4,753
Foreign currency forward contracts	—	188	—	188
Total assets at fair value	\$172,760	\$4,941	\$ —	\$177,701

**As of August 29, 2015**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>Assets:</b>				
Cash equivalents	\$42,093	\$—	\$ —	\$42,093
Pension plan assets	—	4,757	—	4,757
Foreign currency forward contracts	—	524	—	524
Total assets at fair value	\$42,093	\$5,281	\$ —	\$47,374

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

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

Table Of Contents

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

**4. Income Taxes**

The provision for income taxes consists of the following (in thousands):

<b>Year ended</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>August 30, 2014</b>
Current:			
Federal	\$54,654	\$65,656	\$54,005
Foreign	1,672	3,350	3,480
State	9,996	11,184	9,216
Total current	\$66,322	\$80,190	\$66,701
Deferred:			
Federal	\$10,803	\$(2,705)	\$6,838
Foreign	(217)	34	59
State	1,437	(550)	1,828
Total deferred	\$12,023	\$(3,221)	\$8,725
Total	\$78,345	\$76,969	\$75,426

The following table reconciles the provision for income taxes using the statutory federal income tax rate to the actual provision for income taxes:

	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>August 30, 2014</b>
Income taxes at the statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes	3.5	3.5	3.8
Adjustments to tax reserves	0.2	0.1	0.1
Foreign tax rate differential	-0.4	-0.7	-0.5

Edgar Filing: UNIFIRST CORP - Form 10-K

Permanent and other	0.2	0.3	0.2
Total	38.5 %	38.2 %	38.6 %

The tax effect of items giving rise to the Company's deferred tax assets and liabilities is as follows (in thousands):

	<b>August 27, 2016</b>	<b>August 29, 2015</b>
<b>Deferred Tax Assets</b>		
Payroll and benefit related	\$25,091	\$22,533
Insurance related	14,404	14,565
Environmental	10,465	9,119
Other	10,320	10,438
Total deferred tax assets	\$60,280	\$56,655
<b>Deferred Tax Liabilities</b>		
Tax in excess of book depreciation	\$48,414	\$36,888
Purchased intangible assets	35,697	33,428
Rental merchandise in service	51,869	51,772
Total deferred tax liabilities	135,980	122,088
Net deferred tax liability	\$75,700	\$65,433

The Company has evaluated its deferred tax assets and believes that they will be fully recovered. As a result, the Company has not established a valuation allowance.

Table Of Contents

As of August 27, 2016 and August 29, 2015, there was \$3.3 million and \$0.9 million, respectively, in total unrecognized tax benefits, which if recognized, would favorably impact the Company's effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense which is consistent with the recognition of these items in prior reporting periods. As of August 27, 2016 and August 29, 2015, the Company had accrued a total of \$0.1 million in interest and penalties, in its long-term accrued liabilities. For the years ended August 27, 2016, August 29, 2015 and August 30, 2014 the Company recognized a nominal expense in its Consolidated Statement of Income related to interest and penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at August 30, 2014	\$1,170
Additions based on tax positions related to the current year	395
Statute expirations	(253 )
Balance at August 29, 2015	\$1,312
Additions based on tax positions related to the current year	424
Additions for tax positions of prior years	2,145
Statute expirations	(138 )
Balance at August 27, 2016	\$3,743

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

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

## 5. Loans Payable and Long-term Debt

As of August 27, 2016, the Company had no loans payable outstanding compared to August 29, 2015 when it had \$1.4 million of loans payable outstanding.

On April 11, 2016, the Company entered into an amended and restated \$250.0 million unsecured revolving credit agreement (the "Credit Agreement") with a syndicate of banks, which matures on April 11, 2021. The Credit Agreement amended and restated the Company's prior \$250.0 million revolving credit agreement, which was scheduled to mature on May 4, 2016. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on, at its election, the Eurodollar rate or a base rate, plus in each case a spread based on the Company's consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. At August 27, 2016, the interest rates applicable to the Company's borrowings under the Credit Agreement would be calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of August 27, 2016, the Company had no outstanding borrowings and had outstanding letters of credit amounting to \$53.0 million, leaving \$197.0 million available for borrowing under the Credit Agreement.

As of August 27, 2016, the Company was in compliance with all covenants under the Credit Agreement.

## **6. Derivative Instruments and Hedging Activities**

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

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



Table Of Contents

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

As of August 27, 2016, the Company had forward contracts with a notional value of approximately 17.1 million CAD outstanding and recorded the fair value of the contracts of \$0.1 million in other long-term assets and \$0.1 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of \$0.1 million, which was recorded net of tax. For the fiscal year ended August 27, 2016, the Company reclassified \$0.2 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of August 27, 2016 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

## **7. 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 years ended August 27, 2016, August 29, 2015 and August 30, 2014 were \$13.8 million, \$15.8 million and \$16.4 million, respectively.

### *Pension Plans and Supplemental Executive Retirement Plans*

The Company accounts for its pension plans and Supplemental Executive Retirement Plan on an accrual basis over employees’ estimated service periods.

The Company (1) recognizes in its statement of financial position the over-funded or under-funded status of its defined benefit postretirement plans measured as the difference between the fair value of plan assets and the benefit obligation, (2) recognizes as a component of other comprehensive (loss) income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measures defined benefit plan assets and defined benefit plan obligations as of the date of its statement of financial position, and (4) discloses additional information in the notes to financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the actuarial gains and losses and the prior service costs and credits.

The Company maintains an unfunded Supplemental Executive Retirement Plan (“SERP”) for certain eligible employees of the Company. The benefits are based on the employee’s compensation upon retirement. The amount charged to expense related to this plan amounted to approximately \$2.4 million, \$2.8 million and \$2.1 million for the fiscal years ended 2016, 2015 and 2014, respectively.

The Company maintains a non-contributory defined benefit pension plan (“UniFirst Plan”) covering union employees at one of its locations. The benefits are based on years of service. The UniFirst Plan assets are invested in a Guaranteed Deposit Account (“GDA”) that is 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 annual interest rate applied per the contract must be a minimum of 3.25%. The amount charged to expense related to this plan amounted to approximately \$0.4 million for fiscal years ended 2016, 2015 and 2014.

In connection with one of the Company’s acquisitions, the Company assumed liabilities related to a frozen pension plan covering many of the acquired Company’s former employees (“Textilease Plan”). The pension benefits are based on years of service and the employee’s compensation. The Textilease Plan assets are held in a separate GDA with PRIAC; however the minimum interest rate per the Textilease Plan contract is 1.5%. The amount charged to expense related to this plan amounted to approximately \$0.2 million, \$0.3 million and \$0.2 million for fiscal years ended 2016, 2015 and 2014, respectively.

The Company refers to its UniFirst Plan and Textilease Plan collectively as its “Pension Plans”.

Table Of Contents

The components of net periodic benefit cost related to the Company's Pension Plans and SERP for the years ended August 27, 2016, August 29, 2015 and August 30, 2014 were as follows (in thousands):

	<b>Pension Plans</b>			<b>SERP</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Service cost	\$204	\$192	\$172	\$819	\$821	\$615
Interest cost	307	294	328	984	1,133	942
Expected return on assets	(177)	(182)	(183)	—	—	—
Amortization of prior service cost	84	62	62	368	368	368
Amortization of unrecognized loss	105	152	113	274	461	151
Other events	43	174	72	—	—	—
Net periodic benefit cost	\$566	\$692	\$564	\$2,445	\$2,783	\$2,076

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

The Company's obligations and funded status related to its Pension Plans and SERP as of August 27, 2016 and August 29, 2015 were as follows (in thousands):

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Change in benefit obligation:				
Projected benefit obligation, beginning of year	\$8,479	\$8,755	\$23,755	\$21,284
Service cost	204	192	819	821
Interest cost	307	294	984	1,133
Amendments	—	263	—	—
Actuarial loss (gain)	506	(228 )	5,568	290
Benefits paid	(370 )	(314 )	(430 )	(243 )
Settlements	(126 )	(483 )	—	—
Projected benefit obligation, end of year	\$9,000	\$8,479	\$30,696	\$23,285
Change in plan assets:				
Fair value of plan assets, beginning of year	\$4,757	\$5,008	\$—	\$—
Actual return on plan assets	71	153	—	—

Edgar Filing: UNIFIRST CORP - Form 10-K

Employer contributions	420	394	—	—
Benefits paid	(370 )	(314 )	—	—
Settlements	(125 )	(484 )	—	—
Fair value of plan assets, end of year	\$4,753	\$4,757	\$—	\$—
Funded status (net amount recognized):	\$ (4,247)	\$ (3,722)	\$ (30,696)	\$ (23,285)

As of August 27, 2016 and August 29, 2015, the accumulated benefit obligations for the Company's Pension Plans were \$8.9 million and \$8.3 million, respectively. As of August 27, 2016 and August 29, 2015, the accumulated benefit obligations for the Company's SERP were \$30.7 million and \$18.6 million, respectively.

The amounts recorded on the Consolidated Balance Sheet for the Company's Pension Plans and SERP as of August 27, 2016 and August 29, 2015 were as follows (in thousands):

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Deferred tax assets	\$1,119	\$988	\$4,046	\$1,975
Accrued liabilities	\$4,247	\$3,722	\$30,696	\$23,285
Accumulated other comprehensive loss	\$(1,788)	\$(1,538)	\$(6,463)	\$(3,181)

As of August 27, 2016 and August 29, 2015, the amounts recognized in accumulated other comprehensive loss for the Company's Pension Plans and SERP (in thousands):

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net actuarial loss	\$(1,497)	\$(1,199)	\$(6,429)	\$(2,918)
Unrecognized prior service cost	(291 )	(339 )	(34 )	(263 )
Accumulated other comprehensive loss	\$(1,788)	\$(1,538)	\$(6,463)	\$(3,181)

Table Of Contents

The weighted average assumptions used in calculating the Company's projected benefit obligation as of August 27, 2016 and August 29, 2015, were as follows:

	<b>Pension Plans</b>		<b>SERP</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Discount rate	2.9 %	3.8 %	3.3 %	4.1 %
Rate of compensation increase	N/A	N/A	5.0 %	5.0 %

The weighted average assumptions used in calculating the Company's net periodic service cost for the years ended August 27, 2016, August 29, 2015 and August 30, 2014, were as follows:

	<b>Pension Plans</b>			<b>SERP</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Discount rate	3.8 %	3.6 %	4.3 %	4.2 %	3.8 %	4.6 %
Expected return on plan assets	3.9 %	3.9 %	4.0 %	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	5.0 %	5.0 %	5.0 %

The following benefit payments, which reflect expected future service, that are expected to be paid for the five fiscal years subsequent to August 27, 2016 and thereafter are as follows (in thousands):

	<b>Pension Plans</b>	<b>SERP</b>
2017	\$ 890	\$978
2018	387	1,036
2019	756	1,038
2020	574	1,098
2021	420	1,308
Thereafter	5,973	25,238
Total benefit payments	\$ 9,000	\$30,696

## 8. Goodwill and Other Intangible Assets

As discussed in Note 2, "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 following details the changes in the Company's intangible assets and goodwill related to the

Company's acquisitions for the years ended August 27, 2016 and August 29, 2015 as well as the respective periods over which the assets will be amortized (in thousands, except weighted average life in years). These amounts include additional payments associated with prior year acquisitions as well as changes to acquisition purchase allocations that had not been finalized as of the end of the prior fiscal year:

<b>Year ended</b>	<b>August 27, 2016</b>	<b>Weighted Average Life in Years</b>	<b>August 29, 2015</b>	<b>Weighted Average Life in Years</b>
Goodwill	\$7,481	N/A	\$10,272	N/A
Customer contracts	6,088	14.8	6,199	14.9
Other intangible assets	670	5.3	1,603	5.3
Total intangible assets and goodwill acquired	\$14,239		\$18,074	

The Company does not amortize goodwill, but it is reviewed annually or more frequently if certain indicators arise, for impairment. There were no impairment losses related to goodwill or intangible assets during the years ended August 27, 2016, August 29, 2015 or August 30, 2014.

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

Balance as of August 30, 2014	\$303,648
Goodwill recorded during the period	10,272
Other	(787 )
Balance as of August 29, 2015	\$313,133
Goodwill recorded during the period	7,481
Other	27
Balance as of August 27, 2016	\$320,641

Table Of Contents

As of August 27, 2016, the Company has allocated \$315.9 million, \$4.1 million and \$0.6 million of goodwill to its US and Canadian Rental and Cleaning, Specialty Garments and First Aid segments, respectively.

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

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>August 27, 2016</b>			
Customer contracts	\$ 165,405	\$ 129,551	\$ 35,854
Other intangible assets	31,382	28,572	2,810
	\$ 196,787	\$ 158,123	\$ 38,664
<b>August 29, 2015</b>			
Customer contracts	\$ 159,451	\$ 121,427	\$ 38,024
Other intangible assets	29,927	27,902	2,025
	\$ 189,378	\$ 149,329	\$ 40,049

Estimated amortization expense for the five fiscal years subsequent to August 27, 2016 and thereafter, based on intangible assets, net as of August 27, 2016 is as follows (in thousands):

2017	\$8,940
2018	8,298
2019	5,466
2020	4,795
2021	3,519
Thereafter	7,646
Total estimated amortization expense	\$38,664

**9. Accrued Liabilities**

Accrued liabilities in the accompanying Consolidated Balance Sheet consists of the following (in thousands):

<b>August 27,</b>	<b>August 29,</b>
-----------------------	-----------------------

	2016	2015
Current liabilities:		
Payroll and benefit related	\$47,423	\$48,932
Insurance related	25,612	40,123
Environmental related	9,500	7,254
Asset retirement obligations	1,275	—
Other	16,972	16,713
Total current liabilities	\$100,782	\$113,022
Long-term liabilities:		
Benefit related	\$33,966	\$26,132
Environmental related	17,247	16,053
Asset retirement obligations	11,757	12,381
Insurance related	41,951	—
Total long-term liabilities	\$104,921	\$54,566
Total accrued liabilities	\$205,703	\$167,588

## 10. Asset Retirement Obligations

Asset retirement obligations generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. Accordingly, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company continues to depreciate, on a straight-line basis, the amount added to property, 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-eight years.

---



Table Of Contents

The Company recognized as a liability the present value of the estimated future costs to decommission its nuclear laundry facilities. The estimated liability is based on historical experience in decommissioning nuclear laundry facilities, estimated useful lives of the underlying assets, external vendor estimates as to the cost to decommission these assets in the future, and federal and state regulatory requirements. The estimated current costs have been adjusted for the estimated impact of inflation at 3% per year. The liability has been discounted using credit-adjusted risk-free rates that range from approximately 7.0% to 7.5% over one to twenty-eight years. Revisions to the liability could occur due to changes in the Company's estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates. Changes due to revised estimates will be recognized by adjusting the carrying amount of the liability and the related long-lived asset if the assets are still in service, or charged to expense in the period if the assets are no longer in service.

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

	<b>August 27,</b>	<b>August 29,</b>
	<b>2016</b>	<b>2015</b>
Beginning balance	\$12,381	\$11,675
Accretion expense	826	690
Effect of exchange rate changes	(69 )	(484 )
Asset retirement liabilities settled	(500 )	—
Change in estimate	394	500
Ending balance	\$13,032	\$12,381

The Company's asset retirement obligations are included in current and long-term accrued liabilities in the accompanying Consolidated Balance Sheet.

## **11. Commitments and Contingencies**

### *Lease Commitments*

The Company leases certain buildings and equipment from independent parties. Total rent expense on all leases was \$10.1 million, \$9.8 million and \$9.9 million for the fiscal years ended 2016, 2015 and 2014, respectively. Annual minimum lease commitments for the five fiscal years subsequent to August 27, 2016 and thereafter are as follows (in thousands):

2017	\$8,698
2018	7,168
2019	5,693
2020	4,914
2021	3,822
Thereafter	2,271
Total lease commitments	\$32,566

### *Environmental and Legal Contingencies*

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

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

---

Table Of Contents

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, Landover, Maryland and Syracuse, New York.

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. Due to cost projections of the extension which now substantially exceed original estimates, the local transit authority has placed the extension on hold pending its redesign and receipt of related state and federal approvals and funding increases. The Company has reserved for costs 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.

During the fourth quarter of fiscal 2016, the Company entered into a settlement related to environmental litigation which resulted in a \$15.9 million gain that was recorded as a reduction of selling and administrative expenses. This gain consisted of amounts previously received but not recognized into income as well as amounts that the Company received in September 2016.

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 August 27, 2016, the risk-free interest rates utilized by the Company ranged from 1.6% to 2.3%.

For environmental liabilities that have been discounted, the Company includes interest accretion, based on the effective interest method, in selling and administrative expenses on the accompanying Consolidated Statements of Income. The changes to the Company’s environmental liabilities for the years ended August 27, 2016 and August 29, 2015 were as follows (in thousands):

<b>Year ended</b>	<b>August</b>	<b>August</b>
	<b>27,</b>	<b>29,</b>
	<b>2016</b>	<b>2015</b>
Beginning balance	\$23,307	\$19,846
Costs incurred for which reserves have been provided	(1,417 )	(2,014 )
Insurance proceeds	101	121
Interest accretion	669	603
Changes in discount rates	1,348	224
Revisions in estimates	2,740	4,527
Ending balance	\$26,748	\$23,307

Table Of Contents

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of August 27, 2016, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

<b>(In thousands)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	<b>Total</b>
Estimated costs – current dollars	\$9,673	\$1,859	\$1,492	\$1,284	\$1,172	\$12,390	\$27,870
Estimated insurance proceeds	(173 )	(159 )	(173 )	(159 )	(173 )	(1,128 )	(1,965 )
Net anticipated costs	\$9,500	\$1,700	\$1,319	\$1,125	\$999	\$11,262	\$25,905
Effect of inflation							7,256
Effect of discounting							(6,413 )
Balance as of August 27, 2016							\$26,748

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 August 27 2016, the balance in this escrow account, which is held in a trust and is not recorded in the Company’s accompanying Consolidated Balance Sheet, was approximately \$3.4 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 personal injury claims, customer contract matters, employment claims and environmental matters as described above.

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

be materially affected by changes in the Company's assumptions or strategies related to these contingencies or changes out of the Company's control.

#### *Other Contingent Liabilities*

As security for certain agreements with the NRC and various state agencies related to the nuclear operations (see above) and certain insurance programs, the Company had standby irrevocable bank commercial letters of credit of \$53.0 million and \$52.9 million outstanding as of August 27, 2016 and August 29, 2015, respectively.

## **12. Share-based Compensation**

In fiscal 2016, 2015 and 2014, a total of 885, 1,096 and 583 shares of fully vested unrestricted stock, respectively, were granted to certain non-employee Directors of the Company. Accordingly, compensation expense related to the 2016, 2015 and 2014 unrestricted stock was recognized on the date of grant.

In fiscal 2016, 2015 and 2014, the Company granted a total of 6,675, 4,875 and 4,700 stock appreciation rights, respectively, under the 2010 Plan to the Company's non-employee Directors. Such stock appreciation rights were fully vested upon grant, expire on the earlier of the eighth anniversary of the grant date or the second anniversary of the date that the Director ceases to be a member of the Board of Directors and must be settled in stock at the time of exercise. Accordingly, compensation expense related to the stock appreciation rights was recognized on the date of grant.

All Share-Based Awards issued to employees were granted with an exercise price equal to the fair market value of the Company's Common Stock on the date of grant and are subject to a five-year cliff-vesting schedule under which the awards become fully vested or exercisable after five years from the date of grant and expire ten years after the grant date. Share-Based Awards and shares of unrestricted stock granted to the Company's non-employee Directors were fully vested as of the date of grant. Prior to fiscal 2009, non-employee Director Share-Based Award grants expired ten years from the grant date. Beginning in fiscal 2009, non-employee Director Share-Based Award grants expire on the earlier of the eighth anniversary of the grant date or the second anniversary of the date that the Director ceases to be a member of the Board of Directors.

Table Of Contents

US GAAP requires that share-based compensation cost be measured at the grant date based on the value of the award and be recognized as expense over the requisite service period, which is generally the vesting period. Determining the fair value of Share-Based Awards at the grant date requires judgment, including estimating expected dividends, share price volatility and the amount of Share-Based Awards that are expected to be forfeited. The fair value of each Share-Based Award is estimated on the date of grant using the Black-Scholes option pricing model.

Compensation expense for all Share-Based Awards is recognized ratably over the related vesting period.

The Company recognizes compensation expense for restricted stock grants over the related vesting period. The fair value for each restricted and unrestricted stock grant is determined by using the closing price of the Company's stock on the date of the grant.

On April 21, 2016, the Company entered into an Amended Employment Agreement with Mr. Croatti which extended the term of Mr. Croatti's existing Employment Agreement, dated as of April 5, 2010, that expired on April 5, 2016. The Amended Employment Agreement provides for the employment of Mr. Croatti for a term of four years, subject to earlier termination as set forth in the Amended Employment Agreement.

Also on April 21, 2016, the Company entered into an Award Agreement with Mr. Croatti pursuant to which the Company granted 140,000 Performance Restricted Shares to Mr. Croatti, of which all remain unvested as of August 27, 2016. The number of Performance Restricted Shares to be earned will depend on whether and the extent to which the Company achieves certain Performance Criteria. The threshold, target and maximum numbers of Performance Restricted Shares eligible to be earned under the Award Agreement are 100,000, 120,000 and 140,000, respectively. The Performance Restricted Shares earned upon achievement of the Performance Criteria will vest in two equal amounts on the third and fourth anniversaries of the grant date provided that Mr. Croatti continues to be employed by the Company on each such date. In the event that Mr. Croatti's employment is terminated without cause or by reason of death or disability prior to the vesting of the Performance Restricted Shares, all of the Performance Restricted Shares that have been or will be earned upon achievement of the Performance Criteria through the end of the fiscal year during which such termination occurred will become fully vested.

The fair value of the Performance Restricted Shares was the closing price on April 21, 2016, which was \$111.13.

Compensation expense for all share-based compensation, which includes Share-Based Awards and restricted stock grants, for the five fiscal years subsequent to August 27, 2016, is expected to be as follows (in thousands):

	<b>Share-Based Awards</b>	<b>Restricted Stock</b>	<b>Total</b>
2017	\$ 2,576	\$ 4,101	\$6,677
2018	2,165	4,214	6,379
2019	1,484	3,380	4,864
2020	652	1,181	1,833
2021	83	—	83
Total	\$ 6,960	\$ 12,876	\$19,836

As of August 27, 2016, the total compensation cost not yet recognized related to non-vested Share-Based Awards and restricted stock was approximately \$19.8 million. The weighted average periods over which compensation cost for Share-Based Awards and restricted stock will be recognized are 2.2 years and 3.2 years, respectively.

The following table summarizes the Share-Based Award activity for the fiscal year ended August 27, 2016:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, August 29, 2015	645,001	\$ 73.72
Granted	95,875	104.55
Exercised	(111,935)	46.35
Forfeited	(18,250 )	87.35
Outstanding, August 27, 2016	610,691	\$ 83.17
Exercisable, August 27, 2016	125,441	\$ 64.67

---



Table Of Contents**13. Shareholders' Equity**

The Company has two classes of common stock: Common Stock and Class B Common Stock. Each share of Common Stock is entitled to one vote, is freely transferable, and is entitled to a cash dividend equal to 125% of any cash dividend paid on each share of Class B Common Stock. Each share of Class B Common Stock is entitled to ten votes and can be converted to Common Stock on a share-for-share basis. However, until converted to Common Stock, shares of Class B Common Stock are not freely transferable. For the year ended August 27, 2016, no shares of Class B Common Stock were converted to Common Stock.

**14. Accumulated Other Comprehensive (Loss) Income**

The changes in each component of accumulated other comprehensive (loss) income for the fiscal years ended 2016 and 2015 are as follows (in thousands):

	<b>Foreign Currency Translation</b>	<b>Pension- related (1)</b>	<b>Derivative Financial Instruments (1)</b>	<b>Total Accumulated Other Comprehensive (Loss) Income</b>
Balance as of August 30, 2014	\$ 2,711	\$ (5,244 )	\$ —	\$ (2,533 )
Change during the year	(23,134 )	525	729	(21,880 )
Balance as of August 29, 2015	(20,423 )	(4,719 )	729	(24,413 )
Change during the year	(391 )	(3,532 )	(613 )	(4,536 )
Balance as of August 27, 2016	\$ (20,814 )	\$ (8,251 )	\$ 116	\$ (28,949 )

(1) Amounts are shown net of tax

Amounts reclassified from accumulated other comprehensive (loss) income, net of tax, for the fiscal years ended August 27, 2015 and August 29, 2015 were as follows (in thousands):

	<b>Year ended August 27, 2016</b>		<b>Year ended August 29, 2015</b>	
Pension benefit liabilities, net:				
Actuarial losses	\$ 43	(a)	151	(a)
Total, net of tax	43		151	
Derivative financial instruments, net:				
Forward contracts	(215 )	(b)	21	(b)
Total, net of tax	(215 )		21	
Total amounts reclassified, net of tax	(172 )		172	

(a) Amounts included in selling and administrative expenses in the accompanying Consolidated Statements of Income.

(b) 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, MFG, Specialty Garments, First Aid and Corporate. 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."

Table Of Contents

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 primarily generated when goods are shipped from the Company's manufacturing facilities, or its subcontract manufacturers, to other Company locations. These intercompany 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. 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 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.

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):

<b>As of and for the year ended</b>	<b>US and Canadian</b>	<b>MFG</b>	<b>Net Interco MFG Elim</b>	<b>Corporate</b>	<b>Subtotal Core Laundry</b>	<b>Specialty Garments</b>	<b>First Aid</b>	<b>Total</b>
<b>August 27, 2016</b>								

Edgar Filing: UNIFIRST CORP - Form 10-K

	<b>Rental and Cleaning</b>			<b>Operations</b>				
Revenues	\$1,308,152	\$189,154	\$(188,904)	\$20,973	\$1,329,375	\$91,257	\$47,414	\$1,468,046
Income (loss) from operations	\$201,148	\$67,385	\$(711)	\$(81,748)	\$186,074	\$10,204	\$4,882	\$201,160
Interest (income) expense, net	\$(3,252)	\$—	\$—	\$709	\$(2,543)	\$—	\$—	\$(2,543)
Income (loss) before taxes	\$204,433	\$67,407	\$(711)	\$(82,714)	\$188,415	\$10,074	\$4,882	\$203,371
Depreciation and amortization	\$57,062	\$2,073	\$—	\$16,918	\$76,053	\$4,332	\$1,227	\$81,612
Capital expenditures	\$91,384	\$1,598	\$—	\$—	\$92,982	\$4,682	\$571	\$98,235
Total assets	\$1,567,943	\$32,556	\$—	\$—	\$1,600,499	\$77,728	\$23,780	\$1,702,007

---

Table Of Contents

As of and for the year ended August 29, 2015	US and		Net Interco MFG Elim	Corporate	Subtotal			Total
	Canadian Rental and Cleaning	MFG			Core Laundry Operations	Specialty Garments	First Aid	
Revenues	\$1,305,240	\$192,188	\$(192,188)	\$17,088	\$1,322,328	\$87,513	\$46,764	\$1,456,605
Income (loss) from operations	\$219,430	\$66,190	\$(733)	\$(97,301)	\$187,586	\$7,355	\$5,443	\$200,384
Interest (income) expense, net	\$(3,189)	\$—	\$—	\$752	\$(2,437)	\$—	\$—	\$(2,437)
Income (loss) before taxes	\$222,657	\$66,355	\$(733)	\$(98,418)	\$189,861	\$5,964	\$5,443	\$201,268
Depreciation and amortization	\$53,811	\$1,536	\$—	\$16,393	\$71,740	\$4,331	\$1,042	\$77,113
Capital expenditures	\$93,842	\$2,618	\$—	\$—	\$96,460	\$3,820	\$883	\$101,163
Total assets	\$1,401,346	\$34,075	\$—	\$—	\$1,435,421	\$74,449	\$23,367	\$1,533,237
As of and for the year ended August 30, 2014	US and		Net Interco MFG Elim	Corporate	Subtotal			Total
	Canadian Rental and Cleaning	MFG			Core Laundry Operations	Specialty Garments	First Aid	
Revenues	\$1,244,408	\$183,340	\$(183,340)	\$15,077	\$1,259,485	\$91,484	\$43,928	\$1,394,897
Income (loss) from operations	\$209,497	\$63,675	\$(3,777)	\$(87,145)	\$182,250	\$7,178	\$3,847	\$193,275
Interest (income) expense, net	\$(3,077)	\$—	\$—	\$718	\$(2,359)	\$—	\$—	\$(2,359)
	\$212,551	\$63,540	\$(3,777)	\$(87,897)	\$184,417	\$7,087	\$3,847	\$195,351

Edgar Filing: UNIFIRST CORP - Form 10-K

Income (loss) before taxes								
Depreciation and amortization	\$49,116	\$1,306	\$—	\$ 15,751	\$66,173	\$ 4,646	\$933	\$71,752
Capital expenditures	\$86,430	\$2,264	\$—	\$—	\$88,694	\$ 1,847	\$1,267	\$91,808
Total assets	\$1,286,984	\$38,066	\$—	\$—	\$1,325,050	\$ 77,037	\$22,074	\$1,424,161

The Company's long-lived assets as of August 27, 2016 and August 29, 2015 and revenues and income before income taxes for the years ended August 27, 2016, August 29, 2015 and August 30, 2014 were attributed to the following countries (in thousands):

<b>Long-lived assets as of:</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>
United States	\$880,666	\$831,295
Europe, Canada, Mexico and Nicaragua (1)	43,727	40,119
Total	\$924,393	\$871,414

<b>Revenues for the year ended:</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>August 30, 2014</b>
United States	\$1,352,101	\$1,333,864	\$1,258,609
Europe and Canada (1)	115,945	122,741	136,288
Total	\$1,468,046	\$1,456,605	\$1,394,897

<b>Income before income taxes for the year ended:</b>	<b>August 27, 2016</b>	<b>August 29, 2015</b>	<b>August 30, 2014</b>
United States	\$197,441	\$188,704	\$182,354
Europe, Canada, Mexico and Nicaragua (1)	5,930	12,564	12,997
Total	\$203,371	\$201,268	\$195,351

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

Table Of Contents

**16. Subsequent Event**

On September 19, 2016, the Company completed an acquisition of Arrow Uniform (“Arrow”) for approximately \$122.0 million. The all-cash transaction is structured as an asset acquisition, with UniFirst acquiring substantially all of Arrow’s assets and virtually none of its liabilities. Arrow, headquartered in Taylor, Michigan, provides uniform and facility service rental programs as well as direct sale uniform programs to a wide range of large and small customers. Arrow operates from 12 locations with nearly 700 employees in five Midwestern states.

---

Table Of Contents

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of**

**UniFirst Corporation**

We have audited the accompanying consolidated balance sheets of UniFirst Corporation and subsidiaries (the “Company”) as of August 27, 2016 and August 29, 2015, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended August 27, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UniFirst Corporation and subsidiaries at August 27, 2016 and August 29, 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended August 27, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UniFirst Corporation’s internal control over financial reporting as of August 27, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated October 26, 2016 expressed an unqualified opinion thereon.



/s/ Ernst & Young LLP

Boston, Massachusetts

October 26, 2016

---

Table Of Contents**Quarterly Financial Data (Unaudited)**

The following is a summary of the results of operations for each of the quarters within the years ended August 27, 2016 and August 29, 2015. This quarterly financial information was prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission; however, the Company believes that the information furnished reflects all adjustments (consisting only of normal recurring adjustments) which were, in the opinion of management, necessary for a fair statement of results in the interim periods. This summary should be read in conjunction with these Consolidated Financial Statements and notes to Consolidated Financial Statements.

<b>(In thousands, except per share data)</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth(1)</b>
<b>For the year ended August 27, 2016</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>
Revenues	\$373,384	\$363,097	\$367,799	\$363,766
Income before income taxes	58,358	38,999	48,699	57,315
Provision for income taxes	22,468	15,501	18,555	21,821
Net income	\$35,890	\$23,498	\$30,144	\$35,494
Income per share – basic				
Common Stock	\$1.88	\$1.23	\$1.57	\$1.84
Class B Common Stock	\$1.50	\$0.98	\$1.26	\$1.47
Income per share – diluted				
Common Stock	\$1.78	\$1.16	\$1.49	\$1.74
Income allocated to – basic				
Common Stock	\$28,539	\$18,691	\$23,939	\$28,097
Class B Common Stock	\$7,193	\$4,704	\$6,061	\$7,139
Income allocated to – diluted				
Common Stock	\$35,741	\$23,401	\$30,007	\$35,250
Weighted average number of shares outstanding – basic				
Common Stock	15,218	15,241	15,253	15,268
Class B Common Stock	4,795	4,795	4,827	4,850
Weighted average number of shares outstanding – diluted				
Common Stock	20,132	20,138	20,183	20,223

In the fourth fiscal quarter of 2016, operating results benefited from a settlement of environmental litigation that (1) resulted in the Company recording a \$15.9 million pre-tax gain. This gain translated into a \$0.48 benefit to the Company's diluted earnings per share.



Table Of Contents

<b>(In thousands, except per share data)</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
<b>For the year ended August 29, 2015</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>
Revenues	\$370,361	\$361,462	\$365,574	\$359,208
Income before income taxes	60,834	41,376	52,843	46,215
Provision for income taxes	23,421	15,930	20,344	17,274
Net income	\$37,413	\$25,446	\$32,499	\$28,941
Income per share – basic				
Common Stock	\$1.96	\$1.33	\$1.70	\$1.51
Class B Common Stock	\$1.57	\$1.06	\$1.36	\$1.21
Income per share – diluted				
Common Stock	\$1.85	\$1.26	\$1.61	\$1.43
Income allocated to – basic				
Common Stock	\$29,649	\$20,182	\$25,817	\$23,011
Class B Common Stock	\$7,434	\$5,041	\$6,483	\$5,803
Income allocated to – diluted				
Common Stock	\$37,101	\$25,235	\$32,310	\$28,821
Weighted average number of shares outstanding – basic				
Common Stock	15,128	15,185	15,207	15,210
Class B Common Stock	4,741	4,741	4,773	4,795
Weighted average number of shares outstanding – diluted				
Common Stock	20,008	20,065	20,118	20,142

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. We continue to review our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended August 27, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

---

Table Of Contents

**Management’s Responsibility for Financial Statements**

Our management is responsible for the preparation, integrity and objectivity of our Consolidated Financial Statements and other financial information contained in our Annual Report on Form 10-K. Those Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States. In preparing those Consolidated Financial Statements, management was required to make certain estimates and judgments, which are based upon currently available information and management’s view of current conditions and circumstances.

The Audit Committee of our Board of Directors, which consists solely of independent directors, oversees our process of reporting financial information and the audit of our Consolidated Financial Statements. The Audit Committee stays informed of our financial condition and regularly reviews management’s financial policies and procedures, the independence of our independent auditors, our internal control and the objectivity of our financial reporting. Our independent registered public accounting firm has full access to the Audit Committee and meets with the Audit Committee periodically, both with and without management present.

We have retained Ernst & Young LLP, an independent registered public accounting firm, to audit our Consolidated Financial Statements found in this Annual Report on Form 10-K for the year ended August 27, 2016. We have made available to Ernst & Young LLP all of our financial records and related data in connection with their audit of our Consolidated Financial Statements.

**Management’s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of our internal control over financial reporting as of August 27, 2016. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission in *Internal Control—Integrated Framework* (2013 Framework). Management concluded that based on its assessment, our internal control over financial reporting was effective as of August 27, 2016. The effectiveness of our internal control over financial reporting as of August 27, 2016 has been audited by Ernst & Young LLP, and a copy of its attestation report is included below.



Table Of Contents

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of**

**UniFirst Corporation**

We have audited UniFirst Corporation and subsidiaries' internal control over financial reporting as of August 27, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). UniFirst Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Edgar Filing: UNIFIRST CORP - Form 10-K

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, UniFirst Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of August 27, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UniFirst Corporation and subsidiaries as of August 27, 2016 and August 29, 2015, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended August 27, 2016 of UniFirst Corporation and subsidiaries, and our report dated October 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

October 26, 2016

---

Table Of Contents

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

We have adopted a Statement of Corporate Policy and Code of Business Conduct and Ethics, which applies to our directors and all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and corporate controller. Our Statement of Corporate Policy and Code of Business Conduct and Ethics is available, free of charge, on our website at [www.unifirst.com](http://www.unifirst.com). Information contained on our website is not part of this Annual Report on Form 10-K or the documents incorporated by reference into this Annual Report on Form 10-K. We intend to disclose any amendment to or waiver of a provision of the Statement of Corporate Policy and Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller by posting such information on our website at [www.unifirst.com](http://www.unifirst.com).

Information regarding our directors and executive officers required by this Item 10 will be included in our definitive Proxy Statement to be filed with the Securities and Exchange Commission for our 2017 Annual Meeting of Shareholders and is incorporated by reference into this Item 10. Certain information required by this Item 10 is set forth in Item 1 of this Annual Report on Form 10-K under the heading “Executive Officers”.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item 11 will be included in our definitive Proxy Statement to be filed with the Securities and Exchange Commission for our 2017 Annual Meeting of Shareholders and is incorporated by reference into this Item 11.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this Item 12 will be included in our definitive Proxy Statement to be filed with the Securities and Exchange Commission for our 2017 Annual Meeting of Shareholders and is incorporated by reference into this Item 12.

Information concerning our equity compensation plans contained in the table entitled “Equity Compensation Plan Information” set forth in Item 5 of this Annual Report on Form 10-K is incorporated by reference into this Item 12.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this Item 13 will be included in our definitive Proxy Statement to be filed with the Securities and Exchange Commission for our 2017 Annual Meeting of Shareholders and is incorporated by reference into this Item 13.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required by this Item 14 will be included in our definitive Proxy Statement to be filed with the Securities and Exchange Commission for our 2017 Annual Meeting of Shareholders and is incorporated by reference into this Item 14.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The financial statements listed below are filed as part of this report:

(1) and (2) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES.

The financial statements listed below are included under Item 8 of this Annual Report on Form 10-K:

Consolidated statements of income for each of the three years in the period ended August 27, 2016

Consolidated statements of comprehensive income for each of the three years in the period ended August 27, 2016

Consolidated balance sheets as of August 27, 2016 and August 29, 2015

Consolidated statements of shareholders' equity for each of the three years in the period ended August 27, 2016

---

Table Of Contents

Consolidated statements of cash flows for each of the three years in the period ended August 27, 2016

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The items listed below are included under Item 9a of this Annual Report on Form 10-K

Management's Report on Internal Control Over Financial Reporting

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The following additional schedule is filed herewith:

Schedule II — Valuation and qualifying accounts and reserves for each of the three years in the period ended August 27, 2016

**UNIFIRST CORPORATION AND SUBSIDIARIES**

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED**

**AUGUST 27, 2016 (IN THOUSANDS)**

<b>Description</b>	<b>Balance,</b>	<b>Charged</b>	<b>Charges for</b>	<b>Balance,</b>
	<b>Beginning</b>	<b>to</b>	<b>Which</b>	<b>End of</b>
	<b>of</b>		<b>Reserves</b>	

	<b>Period</b>	<b>Costs and Expenses</b>	<b>Were Created or Deductions</b>	<b>Period</b>
<b>Reserves for Accounts Receivable</b>				
For the year ended August 27, 2016	\$ 6,007	\$ 6,375	\$ (4,707 )	\$ 7,675
For the year ended August 29, 2015	\$ 5,114	\$ 5,098	\$ (4,205 )	\$ 6,007
For the year ended August 30, 2014	\$ 4,894	\$ 4,378	\$ (4,158 )	\$ 5,114
<b>Reserve for Obsolete Inventory</b>				
For the year ended August 27, 2016	\$ 2,614	\$ 1,824	\$ (1,908 )	\$ 2,530
For the year ended August 29, 2015	\$ 1,913	\$ 2,060	\$ (1,359 )	\$ 2,614
For the year ended August 30, 2014	\$ 2,018	\$ 535	\$ (640 )	\$ 1,913

Separate financial statements of the Company have been omitted because the Company is primarily an operating company and all subsidiaries included in the Consolidated Financial Statements are totally held.

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or the notes thereto.

3. EXHIBITS. The list of exhibits filed as part of this Annual Report on Form 10-K is set forth below.

#### DESCRIPTION

Restated Articles of Organization (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006); Articles of Amendment dated January 13, 1988  
3.1 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006); and Articles of Amendment dated January 21, 1993 (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006)

3.2 By-laws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on January 10, 2008)



Table Of Contents

4.1 Specimen Stock Certificate for Shares of Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006)

10.1 Form of UniFirst Corporation stock option award to non-employee directors under the Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10-E to the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2004 filed with the Commission on November 12, 2004)

10.2 Form of UniFirst Corporation stock option award to executive officers under the Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10-F to the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2004 filed with the Commission on November 12, 2004)

10.3 UniFirst Corporation Unfunded Supplemental Executive Retirement Plan dated as of March 8, 2006 (incorporated by reference to the Company's Current Report on Form 8-K and the exhibit thereto filed with the Commission on March 8, 2006)

10.48 Amendment to the UniFirst Corporation Unfunded Supplemental Executive Retirement Plan dated as of January 8, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 10, 2008)

10.5 Form of Restricted Stock Award Agreement under the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 the Company's Quarterly Report on Form 10-Q filed with the Commission on April 9, 2009)

10.6 Amended and Restated Employment Agreement, dated as of April 21, 2016, by and between UniFirst Corporation and Ronald D. Croatti (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 22, 2016)

10.8 Restricted Stock Award Agreement, dated April 21, 2016, by and between UniFirst Corporation and Ronald D. Croatti (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on April 22, 2016)

10.9 UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)

10.10 Second Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)



Edgar Filing: UNIFIRST CORP - Form 10-K

10.11 Third Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)

10.12 Fourth Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)

10.13 Fifth Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Commission on April 8, 2010)

10.14 UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)

---

Table Of Contents

Form of Stock Appreciation Right Award Agreement for Company Employees under the UniFirst Corporation  
10.15 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)

Form of Stock Appreciation Right Agreement for Non-Employee Directors under the UniFirst Corporation 2010  
10.16 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)

Form of Non-Qualified Stock Option Agreement for Company Employees under the UniFirst Corporation 2010  
10.17 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)

10.18 Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)

Amended and Restated Credit Agreement, dated as of April 11, 2016, among UniFirst Corporation and certain of its subsidiaries as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, JPMorgan Chase Bank, N.A., as an L/C Issuer and Syndication Agent, the other lenders a party  
10.19 thereto, Merrill Lynch, Pierce Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as Joint Lead Arrangers and Book Managers, and Santander Bank, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 13, 2016)

10.20 UniFirst Corporation CEO Cash Incentive Bonus Plan, as amended (incorporated by reference to Appendix A to the Company's Proxy Statement filed with the Commission on December 3, 2013)

Amendment to the UniFirst Corporation Unfunded Supplemental Retirement Plan dated as of December 23,  
10.21 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 10-K filed with the Commission on December 23, 2008)

10.22 UniFirst Corporation Amended and Restated 2010 Stock Option and Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the Commission on December 2, 2014).

\* 21 List of Subsidiaries

\* 23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

\* 31.1 Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Croatti

\* 31.2 Rule 13a-14(a)/15d-14(a) Certification of Steven S. Sintros

\*\* 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

\*\* 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

The following materials from UniFirst Corporation's Annual Report on Form 10-K for the year ended August 27, 2016, 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 Shareholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements and (vii) Schedule II.

\* Filed herewith

\*\* Furnished herewith

Table Of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UniFirst Corporation

By: /s/ Ronald D. Croatti

Ronald D. Croatti

President and Chief Executive Officer

October 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>NAME</b>	<b>TITLE</b>	<b>DATE</b>
<u>/s/ Ronald D. Croatti</u>	Chairman of the Board, President and Chief Executive Officer	October 26, 2016
Ronald D. Croatti	(Principal Executive Officer)	
<u>/s/ Steven S. Sintros</u>	Senior Vice President and Chief Financial Officer	
Steven S. Sintros	(Principal Financial Officer and Principal Accounting Officer)	October 26, 2016

/s/ Cynthia Croatti

Cynthia Croatti      Director

October 26, 2016

/s/ Phillip L. Cohen

Phillip L. Cohen      Director

October 26, 2016

/s/ Kathleen Camilli

Kathleen Camilli      Director

October 26, 2016

/s/ Donald J. Evans

Donald J. Evans      Director

October 26, 2016

/s/ Michael Iandoli

Michael Iandoli      Director

October 26, 2016

/s/ Thomas Postek

Thomas S. Postek      Director

October 26, 2016

Table Of Contents

**EXHIBIT INDEX**

**DESCRIPTION**

Restated Articles of Organization (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006); Articles of Amendment dated January 13, 1988  
3.1 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006); and Articles of Amendment dated January 21, 1993 (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006)

3.2 By-laws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on January 10, 2008)

4.1 Specimen Stock Certificate for Shares of Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on July 5, 2006)

Form of UniFirst Corporation stock option award to non-employee directors under the Amended 1996 Stock  
10.1 Incentive Plan (incorporated by reference to Exhibit 10-E to the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2004 filed with the Commission on November 12, 2004)

Form of UniFirst Corporation stock option award to executive officers under the Amended 1996 Stock Incentive  
10.2 Plan (incorporated by reference to Exhibit 10-F to the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2004 filed with the Commission on November 12, 2004)

UniFirst Corporation Unfunded Supplemental Executive Retirement Plan dated as of March 8, 2006  
10.3 (incorporated by reference to the Company's Current Report on Form 8-K and the exhibit thereto filed with the Commission on March 8, 2006)

Amendment to the UniFirst Corporation Unfunded Supplemental Executive Retirement Plan dated as of January  
10.4 8, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 10, 2008)

Form of Restricted Stock Award Agreement under the UniFirst Corporation Amended 1996 Stock Incentive Plan  
10.5 (incorporated by reference to Exhibit 10.7 the Company's Quarterly Report on Form 10-Q filed with the Commission on April 9, 2009)

Edgar Filing: UNIFIRST CORP - Form 10-K

Amended and Restated Employment Agreement, dated as of April 21, 2016, by and between UniFirst Corporation and Ronald D. Croatti (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 22, 2016)

Restricted Stock Award Agreement, dated April 21, 2016, by and between UniFirst Corporation and Ronald D. Croatti (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on April 22, 2016)

UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)

Second Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)

---

Table Of Contents

- 10.11 Third Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)
- 10.12 Fourth Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Commission on January 7, 2010)
- 10.13 Fifth Amendment to the UniFirst Corporation Amended 1996 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Commission on April 8, 2010)
- 10.14 UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)
- 10.15 Form of Stock Appreciation Right Award Agreement for Company Employees under the UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)
- 10.16 Form of Stock Appreciation Right Agreement for Non-Employee Directors under the UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)
- 10.17 Form of Non-Qualified Stock Option Agreement for Company Employees under the UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)
- 10.18 Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the UniFirst Corporation 2010 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Commission on January 14, 2011)
- 10.19 Amended and Restated Credit Agreement, dated as of April 11, 2016, among UniFirst Corporation and certain of its subsidiaries as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, JPMorgan Chase Bank, N.A., as an L/C Issuer and Syndication Agent, the other lenders a party thereto, Merrill Lynch, Pierce Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as Joint Lead Arrangers and Book Managers, and Santander Bank, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 13, 2016)



Edgar Filing: UNIFIRST CORP - Form 10-K

10.20 UniFirst Corporation CEO Cash Incentive Bonus Plan, as amended (incorporated by reference to Appendix A to the Company's Proxy Statement filed with the Commission on December 3, 2013)

10.21 Amendment to the UniFirst Corporation Unfunded Supplemental Retirement Plan dated as of December 23, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 10-K filed with the Commission on December 23, 2008)

10.22 UniFirst Corporation Amended and Restated 2010 Stock Option and Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the Commission on December 2, 2014).

\* 21 List of Subsidiaries

\* 23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

---

Table Of Contents

\* 31.1 Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Croatti

\* 31.2 Rule 13a-14(a)/15d-14(a) Certification of Steven S. Sintros

\*\* Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section  
32.1 906 of the Sarbanes Oxley Act of 2002

\*\* Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906  
32.2 of the Sarbanes Oxley Act of 2002

\* The following materials from UniFirst Corporation's Annual Report on Form 10-K for the year ended August 27,  
101 2016, 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 Shareholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated  
Financial Statements and (vii) Schedule II.

\* Filed herewith

\*\* Furnished herewith