

UNIFIRST CORP  
Form 10-Q  
January 03, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended **November 24, 2007**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **1-8504**

**UNIFIRST CORPORATION**

(Exact name of Registrant as Specified in Its Charter)

**Massachusetts**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**68 Jonspin Road, Wilmington, MA**  
(Address of Principal Executive Offices)  
**(978) 658-8888**

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

**01887**  
(Zip Code)

(Registrant's Telephone Number, Including Area Code)

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

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to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at December 28, 2007 were 14,353,049 and 4,937,449, respectively.

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UniFirst Corporation

Quarterly Report on Form 10-Q

For the Quarter ended November 24, 2007

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**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UniFirst Corporation and Subsidiaries****Consolidated Statements of Income***(Unaudited)*

| <b>Thirteen weeks ended</b>                                   | <b>November 24,</b> | <b>November 25,</b> |
|---|---------------------|---------------------|
| <b>(In thousands, except per share data)</b>                  | <b>2007</b>         | <b>2006</b>         |
| Revenues  | \$ 247,260          | \$ 222,377          |
| Cost and expenses:  |                     |                     |
| Operating costs (1)   | 151,147             | 136,919             |
| Selling and administrative expenses (1)                       | 53,548              | 48,390              |
| Depreciation and amortization                                 | 12,787              | 11,585              |
|   | 217,482             | 196,894             |
| Income from operations  | 29,778              | 25,483              |
| Other expense (income):                                       |                     |                     |
| Interest expense  | 3,504               | 3,322               |
| Interest income   | (513)               | (466)               |
|   | 2,991               | 2,856               |
| Income before income taxes                                    | 26,787              | 22,627              |
| Provision for income taxes                                    | 10,313              | 8,881               |
| Net income  | \$ 16,474           | \$ 13,746           |
| <b>Income per share Basic:</b>                                |                     |                     |
| Common Stock  | \$ 0.90             | \$ 0.75             |
| Class B Common Stock  | \$ 0.72             | \$ 0.60             |
| <b>Income per share Diluted:</b>                              |                     |                     |
| Common Stock  | \$ 0.85             | \$ 0.71             |
| <b>Weighted average number of shares outstanding Basic:</b>   |                     |                     |
| Common Stock  | 14,352              | 14,307              |
| Class B Common Stock  | 4,937               | 4,941               |
|   | 19,289              | 19,248              |
| <b>Weighted average number of shares outstanding Diluted:</b> |                     |                     |
| Common Stock  | 19,366              | 19,322              |
| <b>Dividends per share:</b>                                   |                     |                     |
| Common Stock  | \$ 0.0375           | \$ 0.0375           |
| Class B Common Stock  | \$ 0.0300           | \$ 0.0300           |

(1) Exclusive of depreciation and amortization

The accompanying notes are an integral part of these  
consolidated financial statements.

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## UniFirst Corporation and Subsidiaries

## Consolidated Balance Sheets

(Unaudited)

|  | November 24, | August 25, |
|--|--------------|------------|
| (In thousands, except share data)  | 2007         | 2007 (a)   |
| Assets   |              |            |
| Cash and cash equivalents  | \$ 17,333    | \$ 12,698  |
| Receivables, less reserves of \$5,168 and \$4,144, respectively  | 108,854      | 91,906     |
| Inventories  | 44,116       | 44,282     |
| Rental merchandise in service  | 93,003       | 86,129     |
| Prepaid and deferred income taxes  | 12,793       | 13,399     |
| Prepaid expenses   | 3,840        | 1,807      |
| Total current assets   | 279,939      | 250,221    |
| Property and equipment:  |              |            |
| Land, buildings and leasehold improvements   | 291,485      | 286,255    |
| Machinery and equipment  | 308,244      | 299,831    |
| Motor vehicles   | 98,021       | 95,214     |
|  | 697,750      | 681,300    |
| Less -- accumulated depreciation   | 356,661      | 347,233    |
|  | 341,089      | 334,067    |
| Goodwill   |              |            |
| Customer contracts, net  | 245,500      | 224,366    |
| Other intangible assets, net   | 62,707       | 56,558     |
| Other assets   | 6,402        | 5,506      |
|  | 3,517        | 3,746      |
|  | \$ 939,154   | \$ 874,464 |
| Liabilities and shareholders' equity   |              |            |
| Current liabilities:   |              |            |
| Current maturities of long-term obligations  | \$ 384       | \$ 539     |
| Accounts payable   | 52,531       | 45,297     |
| Accrued liabilities  | 87,507       | 86,283     |
| Accrued income taxes   | 8,136        |            |
| Total current liabilities  | 148,558      | 132,119    |
| Long-term obligations, net of current maturities   | 234,080      | 205,510    |
| Deferred income taxes  | 39,782       | 39,508     |
| Commitments and contingencies (Note 5)   |              |            |
| Shareholders' equity:  |              |            |
| Preferred stock, \$1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding                             |              |            |
| Common Stock, \$0.10 par value; 30,000,000 shares authorized; 14,352,349 and 14,351,849 issued and outstanding, respectively | 1,435        | 1,435      |
| Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,937,449 issued and outstanding                       | 494          | 494        |
| Capital surplus  | 16,534       | 16,332     |
| Retained earnings  | 489,722      | 473,934    |
| Accumulated other comprehensive income   | 8,549        | 5,132      |
| Total shareholders' equity   | 516,734      | 497,327    |
|  | \$ 939,154   | \$ 874,464 |

(a) Derived from audited financial statements

The accompanying notes are an integral part of these consolidated financial statements.

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## UniFirst Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(Unaudited)

| Thirteen weeks ended  | November 24, | November 25, |
|---|--------------|--------------|
| (In thousands)  | 2007         | 2006         |
| Cash flows from operating activities:   |              |              |
| Net income  | \$ 16,474    | \$ 13,746    |
| Adjustments to reconcile net income to cash provided by operating activities: |              |              |
| Depreciation  | 10,887       | 9,810        |
| Amortization of intangible assets   | 1,900        | 1,775        |
| Amortization of deferred financing costs                                      | 67           | 326          |
| Deferred income taxes   | 27           | (73)         |
| Stock-based compensation  | 190          | 121          |
| Accretion on asset retirement obligations                                     | 119          | 107          |
| Changes in assets and liabilities, net of acquisitions:                       |              |              |
| Receivables   | (15,477)     | (12,031)     |
| Inventories   | 166          | (421)        |
| Rental merchandise in service   | (4,374)      | 909          |
| Prepaid expenses  | (2,033)      | (3,086)      |
| Accounts payable  | 7,234        | 77           |
| Accrued liabilities   | 885          | 1,515        |
| Accrued income taxes  | 8,994        | 7,156        |
| Net cash provided by operating activities                                     | 25,059       | 19,931       |
| Cash flows from investing activities:   |              |              |
| Acquisition of businesses, net of cash acquired                               | (36,605)     | (2,996)      |
| Capital expenditures  | (14,781)     | (11,724)     |
| Other   | (191)        | 298          |
| Net cash used in investing activities   | (51,577)     | (14,422)     |
| Cash flows from financing activities:   |              |              |
| Proceeds from long-term obligations   | 52,950       | 100,000      |
| Payments on long-term obligations   | (24,535)     | (103,736)    |
| Payment of deferred financing costs   |              | (550)        |
| Proceeds from exercise of Common Stock options                                | 7            | 14           |
| Payment of cash dividends   | (686)        | (685)        |
| Net cash provided by (used in) financing activities                           | 27,736       | (4,957)      |
| Effect of exchange rate changes   | 3,417        | (825)        |
| Net increase (decrease) in cash and cash equivalents                          | 4,635        | (273)        |
| Cash and cash equivalents at beginning of period                              | 12,698       | 8,302        |
| Cash and cash equivalents at end of period                                    | \$ 17,333    | \$ 8,029     |

The accompanying notes are an integral part of these consolidated financial statements.



**UniFirst Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**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 industrial wiping products, floor mats, facility service products and other non-garment items, and provides 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 supplies, including air fresheners, paper products and hand soaps.

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

As discussed and described in Note 10 to the 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.

*Interim Financial Information*

These Consolidated Financial Statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the information furnished reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim period. It is suggested that these Consolidated Financial Statements be read in conjunction with the financial statements and the notes, thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended August 25, 2007. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

*Principles of Consolidation*

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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 financial statements in conformity with accounting principles generally accepted in the United States 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 2008 will consist of 53 weeks, whereas fiscal 2007 consisted of 52 weeks. The additional week will be included in the second quarter of fiscal 2008 which will consist of 14 weeks. Therefore, the quarterly periods ended November 24, 2007 and November 25, 2006 both consisted of 13 weeks.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash in banks and bank short-term investments with maturities of less than ninety days.

### *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, notes payable and long-term obligations. Each of these financial instruments is recorded at cost, which approximates its fair value.

### *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 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.

*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, which primarily consist of finished goods.

Rental merchandise in service is 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, 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 and Equipment*

Property and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred, while expenditures for renewals and betterments are capitalized. The Company provides for depreciation on the straight-line method based on the following estimated useful lives:

|                         |                        |
|-------------------------|------------------------|
| Buildings               | 30-40 years            |
| Leasehold improvements  | Shorter of useful life |
|                         | or term of lease       |
| Machinery and equipment | 3-10 years             |
| Motor vehicles          | 3-5 years              |

In accordance with Statements of Financial Accounting Standards ( SFAS ) No. 142, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, including property and equipment, are evaluated for impairment whenever events or circumstances indicate an asset may be impaired. There were no material impairments of property and equipment in the thirteen weeks ended November 24, 2007 or the year ended August 25, 2007.

*Goodwill and Other Intangible Assets*

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized. SFAS No. 142 requires that companies test goodwill for impairment on an annual basis. Management completes its annual impairment test in the fourth quarter of each fiscal year. In addition, SFAS No. 142 also 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. There were no impairments of goodwill in the year ended August 25, 2007 and no events or circumstances in the thirteen weeks ended November 24, 2007 that would indicate that there may have been any impairment of goodwill during such period. Future events could cause management to conclude that impairment indicators exist and that goodwill or other intangibles associated with previously acquired businesses are impaired. Any resulting

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impairment loss could have a material impact on the Company's financial condition and results of operations.

Definite-lived intangible assets are amortized over their useful lives, which are based management's estimates of the period that the assets will generate revenue. Definite-lived intangible assets are evaluated for impairment in accordance with SFAS No. 144. There were no material impairments of definite-lived intangible assets in the thirteen weeks ended November 24, 2007 or the year ended August 25, 2007.

### *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 to ensure that all of the relevant facts and circumstances are considered before a contingent liability is recorded. 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 using risk-free interest rates ranging from 4% to 5% 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, insurance proceeds, participation by other parties, the timing of payments and the input of outside consultants and attorneys based on changing legal or factual circumstances could have a material impact on the amounts recorded for environmental and other contingent liabilities. Refer to Note 5 of the Consolidated Financial Statements for additional discussion and analysis.

### *Asset Retirement Obligations*

The Company follows the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, which 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. Under this accounting method, 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 in accordance with the provisions of SFAS No. 143. The Company depreciates, on a straight-line basis, the amount added to property and equipment and recognizes accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-four 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 3% to 7%. 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

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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.

### *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 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. 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*

The Company accounts for its Supplemental Executive Retirement Plan and other pension plans in accordance with SFAS No. 87, *Employer's Accounting for Pension*, as amended by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under SFAS No. 87, pension expense is recognized on an accrual basis over employees' estimated service periods. Pension expense calculated under SFAS No. 87 is generally independent of funding decisions or requirements.

The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. 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 accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 computes income tax expense by jurisdiction based on its operations in each jurisdiction.

On August 26, 2007, the Company adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*, which fundamentally changed the way the Company is required to treat its uncertain tax positions for financial accounting purposes. Refer to *Recent Accounting Pronouncements*, in this Note 1 to the Consolidated Financial Statements and Note 6, *Income Taxes*, for further discussion regarding the Company's adoption of FIN No. 48.

### *Net Income Per Share*

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The Company computes net income per share under the provisions of SFAS 128, *Earnings per Share*, and Emerging Issues Task Force (EITF) 03-6 *Participating Securities and Two Class Method under FASB Statement No. 128, Earnings per Share*. EITF Issue No. 03-6 requires that income per share for each class of common stock to be calculated assuming 100% of the Company's earnings are distributed as dividends to each class of common stock based on their respective dividend rights, even though the Company does not anticipate distributing 100% of its earnings as dividends. The Common Stock of the Company has a 25% dividend preference to the Class B Common Stock. The effective result is that the basic earnings per share for the Common Stock will be 25% greater than the basic earnings per share of the Class B Common Stock.

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 the Company's Class B Common Stock into Common Stock and the exercise of outstanding stock options under the Company's stock based employee compensation plans.

The following table shows how net income is allocated using this method (in thousands):

|                                      | November 24, | November 25, |
|--------------------------------------|--------------|--------------|
| <b>Thirteen weeks ended</b>          | <b>2007</b>  | <b>2006</b>  |
| Net income available to shareholders | \$ 16,474    | \$ 13,746    |
| Allocation of net income for Basic:  |              |              |
| Common Stock                         | \$ 12,919    | \$ 10,770    |
| Class B Common Stock                 | 3,555        | 2,976        |
|                                      | \$ 16,474    | \$ 13,746    |

The diluted earnings per share calculation assumes the conversion of all the Company's Class B Common Stock into Common Stock, so no allocation of earnings to Class B Common Stock is required.

The following table illustrates the weighted average number of Common and Class B Common shares outstanding during the thirteen weeks ended November 24, 2007 and November 25, 2006 and is utilized in the calculation of earnings per share (in thousands):

|  | November 24, | November 25, |
|--|--------------|--------------|
| <b>Thirteen weeks ended</b>  | <b>2007</b>  | <b>2006</b>  |
| Weighted average number of Common shares -- basic                                  | 14,352       | 14,307       |
| Add: effect of potentially dilutive common shares -- employee Common Stock options | 77           | 74           |
| Add: assumed conversion of Class B Common shares into Common Stock                 | 4,937        | 4,941        |
| Weighted average number of Common shares -- diluted                                | 19,366       | 19,322       |
| Weighted average number of Class B Common shares -- basic                          | 4,937        | 4,941        |

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Stock options to purchase 7,500 shares of Common Stock were not included in the calculation of diluted earnings per share for the thirteen weeks ended November 24, 2007 because they were anti-dilutive. For the thirteen weeks ended November 25, 2006, there were no shares of Common Stock excluded in the calculation of diluted earnings per share as they were not anti-dilutive.

### *Stock Based Compensation*

The Company adopted an incentive stock option plan (the Plan) in November 1996 and has reserved 800,000 shares of Common Stock for issuance under the Plan. All options issued to management are recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. Such options are generally granted on the date of approval. All options issued to the Company's non-employee members of the Board of Directors are recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. Such options are granted on the third business day following the annual shareholders' meeting. All options are exercisable at a price equal to the fair market value of the Company's Common Stock on the date of grant.

Options granted prior to fiscal 2003 were subject to a proportional four-year vesting schedule and expire eight years from the grant date. Beginning in fiscal 2003, option grants are subject to a five-year cliff-vesting schedule under which options become vested or exercisable after five years from the date of grant and expire ten years after the grant date. Options granted to the Company's non-employee directors are fully vested as of the date of grant.

The Company accounts for its stock based compensation under the provisions of SFAS No. 123(r), *Share-Based Payment*. The fair value recognition provisions of this statement require that the 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 option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Compensation expense for all option grants is recognized ratably over the related vesting period. Certain options were granted during fiscal 2007, 2006 and 2005 to non-employee members of the Board of Directors of the Company, which were fully vested upon grant and expire eight years after the grant date. Compensation expense related to the fiscal 2007 and 2006 grants was recognized on the date of grant. Stock-based compensation, as accounted for under SFAS 123(r), has been recorded in the consolidated statements of operations in operating costs and selling and administrative expenses.

For the thirteen weeks ended November 24, 2007 and November 25, 2006, there were 500 and 925 shares of Common Stock issued as a result of the exercise of Common Stock options, respectively.

### *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 selling and administrative expenses, 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 income in the accompanying consolidated balance sheets.

The Company reported in selling and administrative expenses, net, foreign currency transaction gains totaling \$0.5 million and \$0.1 million for the thirteen weeks ended November 24, 2007 and November 25, 2006, respectively.

#### *Recent Accounting Pronouncements*

On August 26, 2007, the Company adopted FASB Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There were no significant adjustments to the Company's Consolidated Financial Statements as a result of the implementation of FIN No. 48. The Company's adoption of FIN No. 48 is more fully described in Note 6 to the Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years and must be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently evaluating the impact SFAS No 157 will have on its Consolidated Financial Statements.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS No. 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 also establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, and the Company does not expect that its adoption will have a material effect on its consolidated financial statements.

## **2. Acquisitions**

During the thirteen weeks ended November 24, 2007, the Company completed three acquisitions with an aggregate purchase price of approximately \$36.6 million. In addition, the Company made deferred acquisition payments of \$0.5 million related to a prior year acquisition. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. None of these acquisitions was significant, individually or in the aggregate, in relation to the Company's consolidated financial results and, therefore, pro forma financial information has not been presented.

## **3. Employee Benefit Plans**

### *Defined Contribution Retirement Savings Plan*



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The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended November 24, 2007 and November 25, 2006 were \$2.6 and \$2.3 million, respectively.

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

The Company maintains an unfunded Supplemental Executive Retirement Plan ( SERP ) for certain eligible employees of the Company, a non-contributory defined benefit pension plan ( UniFirst Plan ) covering union employees at one of its locations, and a frozen pension plan ( Textilease Plan ) the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amounts charged to expense related to these plans for the thirteen weeks ended November 24, 2007 and November 25, 2006 were both \$0.3 million.

#### **4. Asset Retirement Obligations**

The Company accounts for its asset retirement obligations under the provisions of SFAS No. 143, which 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 and equipment and recognizes accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-four years.

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

|   | <b>November<br/>24, 2007</b> |
|---|------------------------------|
| Beginning balance as of August 25, 2007 | \$7,437                      |
| Accretion expense                       | 119                          |
| Asset retirement costs incurred         | (2 )                         |
| Ending balance as of November 24, 2007  | \$7,554                      |

As of November 24, 2007, the \$7.6 million asset retirement obligation is included in accrued liabilities in the accompanying consolidated balance sheet.

#### **5. Commitments and Contingencies**

The Company and its operations are subject to various federal, state and local laws and regulations governing, among other things, the generation, handling, storage, transportation, treatment and disposal of hazardous waste and other substances. In particular, industrial laundries use and must dispose of detergent waste water and other residues. 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.

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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 to ensure that all of the relevant facts and circumstances are considered, before a contingent liability is recorded. Changes in enacted laws, regulatory orders or decrees, management's estimates of costs, insurance proceeds, participation by other parties, the timing of payments and the input of outside consultants and attorneys based on changing legal or factual circumstances could have a material impact on the amounts recorded for environmental and other contingent liabilities.

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

The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company continues to investigate environmental conditions at the Somerville, Massachusetts site. The full nature and extent of those conditions, and of the remedial solutions that may be employed to address them, have not yet been finally determined. In the interim, as the investigation proceeds, the Company is implementing measures to mitigate potential impacts in the vicinity of the site. The Company also has potential exposure related to an additional parcel of land (the Central Area) related to the Woburn, Massachusetts site discussed above. Currently, the consent order for the Woburn, Massachusetts site discussed above does not define or require any remediation work in the Central Area. The Company has not accrued for this contingency as the Company believes, at this time, the liability is not probable and the amount of such contingent liability cannot be reasonably estimated.

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

Management's judgment and experience in remediating and monitoring the Company's sites;

Information available from regulatory agencies as to costs of remediation and monitoring;

The number, financial resources and relative degree of responsibility of other potentially responsible parties (PRPs) who may be liable for remediation and monitoring of a specific site; and

The typical allocation of costs among PRPs.

There is usually a range of reasonable estimates of the costs associated with each site. The Company's accruals reflect the amount within the range that constitutes its best estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using risk-free rates of interest ranging from 4% to 5%.

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For environmental liabilities that have been discounted, the Company includes interest accretion, based on the effective interest method, in operating costs on the consolidated statements of income. The changes to the Company's environmental liabilities for the thirteen weeks ended November 24, 2007 are as follows (in thousands):

|  |                              |
|--|------------------------------|
|  | <b>November<br/>24, 2007</b> |
| Beginning balance as of August 25, 2007              | \$ 15,683                    |
| Costs incurred for which reserves have been provided | (830 )                       |
| Insurance proceeds received                          | 42                           |
| Interest accretion                                   | 196                          |
| Balance as of November 24, 2007                      | \$ 15,091                    |

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of November 24, 2007, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

| Fiscal year ended August          | 2008     | 2009     | 2010     | 2011     | 2012   | Thereafter | Total     |
|-----------------------------------|----------|----------|----------|----------|--------|------------|-----------|
| Estimated costs – current dollars | \$ 5,836 | \$ 2,436 | \$ 1,456 | \$ 1,041 | \$ 996 | \$ 10,750  | \$ 22,515 |
| Estimated insurance proceeds      | (224 )   | (266 )   | (266 )   | (274 )   | (266 ) | (3,874 )   | (5,170 )  |
| Net anticipated costs             | \$ 5,612 | \$ 2,170 | \$ 1,190 | \$ 767   | \$ 730 | \$ 6,876   | \$ 17,345 |
| Effect of Inflation               |          |          |          |          |        |            | 3,781     |
| Effect of Discounting             |          |          |          |          |        |            | (6,035 )  |
| Balance as of August 25, 2007     |          |          |          |          |        |            | \$ 15,091 |

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately \$0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of November 24, 2007, the balance in this escrow account, which is held in a trust and is not recorded on the Company's consolidated balance sheet, was approximately \$2.2 million. Also included in estimated insurance proceeds are amounts the Company is entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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

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

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

## 6. Income Taxes

The Company's effective income tax rate was 38.5% for the thirteen weeks ended November 24, 2007 as compared to 39.25% for the thirteen weeks ended November 25, 2006. The decrease was due to the Company's utilization of net operating losses available in certain states.

As noted in Note 1, *Recent Accounting Pronouncements*, the Company adopted FIN No. 48 in fiscal 2008. FIN No. 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN No. 48, companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. There were no significant adjustments to the Company's Consolidated Financial Statements as a result of the implementation of FIN No. 48.

As of August 26, 2007, there was \$3.2 million 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 26, 2007, the Company had accrued a total of \$1.1 million in interest and penalties in its current accrued liabilities.

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. domestic states and also in the Canadian provinces of Alberta, British Columbia, Ontario, Saskatchewan and Quebec. At times, the Company is subject to audits in these jurisdictions, which, by nature, are sometimes complex and can require several years to resolve. The final resolution of any such tax audit 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.

All U.S. and Canadian federal income tax examinations have substantially concluded through fiscal years 2004 and 2001, respectively. With a few exceptions, we are no longer subject to state and local income tax examinations for periods prior to fiscal 2003. 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.

## 7. Long-Term Obligations

The Company has a \$225.0 million unsecured revolving credit agreement ( *Credit Agreement* ), with a syndicate of banks, which matures on September 13, 2011. Under the *Credit Agreement*, the Company is able to borrow funds at variable interest rates based on the Eurodollar rate or the bank's prime rate, as selected by the Company. Availability of credit requires compliance with certain financial and other covenants, including a maximum funded debt ratio and minimum interest coverage as defined in the *Credit Agreement*. The Company generally tests its compliance with these financial covenants on a fiscal quarterly basis. At November 24, 2007, the interest rates applicable to the Company's borrowings under the *Credit Agreement* were calculated as LIBOR plus 50 basis points at the time of the respective borrowing and ranged from 5.16% to 5.38%. As of November 24, 2007, the Company had outstanding borrowings of approximately \$58.6 million, letters of credit of \$35.2 million and \$131.2 million available for borrowing.

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On June 14, 2004, the Company issued \$75.0 million of fixed rate notes pursuant to a Note Purchase Agreement ( 2004 Note Agreement ) with a seven year term (June 2011) bearing interest at 5.27% ( Fixed Rate Notes ). The Company also issued \$90.0 million of floating rate notes which were repaid in September 2005 and September 2006.

On September 14, 2006, the Company issued \$100.0 million of floating rates notes ( Floating Rate Notes ) pursuant to a Note Purchase Agreement ( 2006 Note Agreement ). The Floating Rate Notes mature on September 14, 2013, bear interest at LIBOR plus 50 basis points and may be repaid at face value two years from the date of issuance. The proceeds from the issuance of the Floating Rate Notes were used to first repay the outstanding floating rate notes under the 2004 Note Agreement in the amount of \$75.0 million and then to pay down outstanding amounts under the Credit Agreement.

As of November 24, 2007, the Company was in compliance with all covenants under the 2004 Note Agreement, 2006 Note Agreement and the Credit Agreement.

### 8. 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, Class B Common shares are not freely transferable.

For the thirteen weeks ended November 24, 2007 and November 25, 2006, there were no shares of Class B Common Stock converted to Common Stock.

### 9. Comprehensive Income

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

|  | November<br>24,<br>2007 | November<br>25,<br>2006 |
|--|-------------------------|-------------------------|
| <b>Thirteen weeks ended</b>              |                         |                         |
| Net income                               | \$ 16,474               | \$ 13,746               |
| Other comprehensive income:              |                         |                         |
| Foreign currency translation adjustments | 3,417                   | 826                     |
| Comprehensive income                     | \$ 19,891               | \$ 14,572               |

### 10. Segment Reporting

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SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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 stockholders. 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, as defined under SFAS No. 131, is the Company's chief executive officer. The Company has six operating segments based on the information reviewed by its chief executive officer; US Rental and Cleaning, Canadian Rental and Cleaning, Manufacturing (MFG), Corporate, Specialty Garments Rental and Cleaning (Specialty Garments) and First Aid. The US Rental and Cleaning and Canadian Rental and Cleaning operating segments have been combined to form the US and Canadian Rental and Cleaning reporting segment, and as a result, the Company has five reporting segments.

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

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

The Corporate operating segment consists of costs associated with the Company's distribution center, sales and marketing, information systems, engineering, materials management, manufacturing planning, finance, budgeting, human resources, other general and administrative costs and interest expense. The revenues generated from the Corporate operating segment represent certain direct sales made by the Company directly from its distribution center. The products sold by this operating segment are the same products rented and sold by the US and Canadian Rental and Cleaning reporting segment. In the table below, no assets or capital expenditures are presented for the Corporate operating segment as 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 clean room applications. The First Aid operating segment sells first aid cabinet services and other safety supplies.

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

|                             | <b>US and<br/>Canadian</b>     | <b>Net Interco</b> | <b>Corporate</b> | <b>Subtotal<br/>Core<br/>Laundry<br/>Operations</b> | <b>Specialty<br/>Garments</b> | <b>First Aid</b> | <b>Total</b> |
|-----------------------------|--------------------------------|--------------------|------------------|---|-------------------------------|------------------|--------------|
| <b>Thirteen weeks ended</b> | <b>Rental and<br/>Cleaning</b> | <b>MFG</b>         | <b>MFG Elim</b>  | <b>Operations</b>                                   | <b>Garments</b>               | <b>First Aid</b> | <b>Total</b> |

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**November 24, 2007**

|                                |           |           |              |              |            |           |          |            |
|--------------------------------|-----------|-----------|--------------|--------------|------------|-----------|----------|------------|
| Revenues                       | \$219,664 | \$ 23,814 | \$ (23,814 ) | \$ 2,448     | \$ 222,112 | \$ 17,255 | \$ 7,893 | \$ 247,260 |
| Income (loss) from operations  | \$37,090  | \$ 8,928  | \$ (2,081 )  | \$ (16,211 ) | \$ 27,726  | \$ 2,055  | \$ (3 )  | \$ 29,778  |
| Interest (income) expense, net | \$(510 )  | \$        | \$           | \$ 3,501     | \$ 2,991   | \$        | \$       | \$ 2,991   |
| Income (loss) before taxes     | \$37,600  | \$ 8,928  | \$ (2,081 )  | \$ (19,712 ) | \$ 24,735  | \$ 2,055  | \$ (3 )  | \$ 26,787  |

**November 25, 2006**

|                                |           |           |              |              |            |           |          |            |
|--------------------------------|-----------|-----------|--------------|--------------|------------|-----------|----------|------------|
| Revenues                       | \$195,483 | \$ 22,886 | \$ (22,886 ) | \$ 1,981     | \$ 197,464 | \$ 17,180 | \$ 7,733 | \$ 222,377 |
| Income (loss) from operations  | \$31,169  | \$ 8,299  | \$ (2,270 )  | \$ (15,209 ) | \$ 21,989  | \$ 2,925  | \$ 569   | \$ 25,483  |
| Interest (income) expense, net | \$(442 )  | \$        | \$           | \$ 3,298     | \$ 2,856   | \$        | \$       | \$ 2,856   |
| Income (loss) before taxes     | \$31,611  | \$ 8,299  | \$ (2,270 )  | \$ (18,507 ) | \$ 19,133  | \$ 2,925  | \$ 569   | \$ 22,627  |

The Company's long-lived assets as of November 24, 2007 and August 25, 2007, revenues for the periods ended November 24, 2007 and November 25, 2006, and income before income taxes for the periods ended November 24, 2007 and November 25, 2006 were attributed to the following countries (in thousands):

|                                   | <b>November<br/>24,<br/>2007</b> | <b>August 25,<br/>2007</b>       |
|-----------------------------------|----------------------------------|----------------------------------|
| <b>Long-lived assets</b>          |                                  |                                  |
| United States                     | \$618,115                        | \$ 585,149                       |
| Europe, Canada, and Mexico (1)    | 41,100                           | 39,094                           |
| Total                             | \$659,215                        | \$ 624,243                       |
|                                   | <b>November<br/>24,<br/>2007</b> | <b>November<br/>25,<br/>2006</b> |
| <b>Thirteen weeks ended</b>       |                                  |                                  |
| <b>Revenues</b>                   |                                  |                                  |
| United States                     | \$224,450                        | \$ 202,907                       |
| Europe, Canada, and Mexico (1)    | 22,810                           | 19,470                           |
| Total                             | \$247,260                        | \$ 222,377                       |
| <b>Income before income taxes</b> |                                  |                                  |
| United States                     | \$23,245                         | \$ 19,197                        |
| Europe, Canada, and Mexico (1)    | 3,542                            | 3,430                            |
| Total                             | \$26,787                         | \$ 22,627                        |

(1) No country accounts for greater than 10% of total long-lived assets or revenues.

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

**SAFE HARBOR FOR FORWARD LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q and any documents incorporated by reference contain forward looking statements within the meaning of the federal securities laws. Forward looking statements contained in this Quarterly Report on Form 10-Q and any documents incorporated by reference are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by words such as estimates, anticipates, projects, plans, expects, intends, believes, seeks, could, should, may, versions thereof, and similar expressions and by the context in which they are used. Such forward looking statements are based upon our current expectations and speak only as of the date made. Such statements are highly dependent upon a variety of risks, uncertainties and other important factors that could cause actual results to differ materially from those reflected in such forward looking statements. Such factors include, but are not limited to, uncertainties regarding our ability to consummate and successfully integrate acquired businesses, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, our ability to compete successfully without any significant degradation in our margin rates, seasonal fluctuations in business levels, uncertainties regarding the price levels of natural gas, electricity, fuel and labor, the impact of negative economic conditions on our customers and such customers' workforce, the continuing increase in domestic healthcare costs, demand and prices for our products and services, additional professional and internal costs necessary for compliance with recent and proposed future changes in Securities and Exchange Commission (including the Sarbanes-Oxley Act of 2002), New York Stock Exchange and accounting rules, strikes and unemployment levels, our efforts to evaluate and potentially reduce internal costs, economic and other developments associated with the war on terrorism and its impact on the economy 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 such statements are made.

***Business Overview***

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

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

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

We continue to expand into additional geographic markets through acquisitions and organic growth. We currently service over 200,000 customer locations in the United States, Canada and Europe from approximately 200 customer service, distribution and manufacturing facilities.



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As discussed and described in Note 10 to the Consolidated Financial Statements, we have five reporting segments: US and Canadian Rental and Cleaning, Manufacturing (MFG), Corporate, Specialty Garments and First Aid. We refer to the laundry locations of the US and Canadian Rental and Cleaning reporting segment as industrial laundries or industrial laundry locations, and to the US and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as our core laundry operations.

### *Results of Operations*

The amounts of revenues and certain expense items for the thirteen weeks ended November 24, 2007 and November 25, 2006, and the percentage changes in revenues and certain expense items as a percentage of total revenues between these periods are presented in the following table. Operating costs include merchandise costs related to the amortization of rental merchandise in service and direct sales, as well as labor and other production, service and delivery costs associated with operating our industrial laundries, Specialty Garments facilities, First Aid locations and our distribution center. Selling and administrative costs include costs related to our sales and marketing functions, as well as general and administrative costs associated with our corporate offices and operating locations; including information systems, engineering, materials management, manufacturing planning, finance, budgeting, and human resources.

| (in thousands, except for percentages)  | Thirteen weeks ended |                  |                 |                  |        |   |
|---|----------------------|------------------|-----------------|------------------|--------|---|
|   | November<br>24,      |                  | November<br>25, |                  | %      |   |
|   | 2007                 | % of<br>Revenues | 2006            | % of<br>Revenues | Change |   |
| Revenues                                | \$ 247,260           | 100.0            | % \$ 222,377    | 100.0            | % 11.2 | % |
| Costs and expenses:                     |                      |                  |                 |                  |        |   |
| Operating costs (1)                     | 151,147              | 61.1             | 136,919         | 61.5             | 10.4   |   |
| Selling and administrative expenses (1) | 53,548               | 21.7             | 48,390          | 21.8             | 10.7   |   |
| Depreciation and amortization           | 12,787               | 5.2              | 11,585          | 5.2              | 10.4   |   |
|   | 217,482              | 88.0             | 196,894         | 88.5             | 10.5   |   |
| Income from operations                  | 29,778               | 12.0             | 25,483          | 11.5             | 16.8   |   |
| Other expense (income)                  | 2,991                | 1.2              | 2,856           | 1.3              | 4.6    |   |
| Income before income taxes              | 26,787               | 10.8             | 22,627          | 10.2             | 18.4   |   |
| Provision for income taxes              | 10,313               | 4.2              | 8,881           | 4.0              | 16.1   |   |
| Net income                              | \$ 16,474            | 6.7              | % \$ 13,746     | 6.2              | % 19.9 | % |

(1) Exclusive of depreciation and amortization

### *General*

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

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laundry operations.

Operating costs include merchandise costs related to the amortization of rental merchandise in service and direct sales as well as labor and other production, service and delivery costs, 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 and operating locations including information systems, engineering, materials management, manufacturing planning, finance, budgeting, and human resources.

### Thirteen Weeks Ended November 24, 2007 Compared with Thirteen Weeks Ended November 25, 2006

#### Revenues

| (In millions, except percentages) | November<br>24,<br>2007 | November<br>25,<br>2006 | Dollar<br>Change | Percent<br>Change |   |
|-----------------------------------|-------------------------|-------------------------|------------------|-------------------|---|
| Core Laundry Operations           | \$222.1                 | \$197.5                 | \$24.6           | 12.5              | % |
| Specialty Garments                | 17.3                    | 17.2                    | 0.1              | 0.4               |   |
| First Aid                         | 7.9                     | 7.7                     | 0.2              | 2.1               |   |
| Consolidated total                | \$247.3                 | \$222.4                 | \$24.9           | 11.2              | % |

For the thirteen weeks ended November 24, 2007, our consolidated revenues increased by \$24.9 million from the comparable period in fiscal 2006, or 11.2%. This increase was primarily driven by growth in our core laundry operations, where revenues increased in the thirteen weeks ended November 24, 2007 by \$24.6 million, or 12.5%, compared to the comparable period ended November 25, 2006. Revenues from our core laundry operations increased due to organic growth of 8.0%, acquisition-related growth of 3.4% and favorable exchange rate fluctuations accounting for the remaining 1.1%. Specialty Garments and First Aid revenues increased by 0.4% and 2.1%, respectively.

#### Operating costs

Operating costs decreased as a percentage of revenues from 61.5%, or \$136.9 million, for the thirteen weeks ended November 25, 2006, to 61.1%, or \$151.1 million, for the thirteen weeks ended November 24, 2007. This decrease was driven by lower merchandise costs in our core laundry business as a percentage of revenues compared to the first quarter of fiscal 2007. In addition, the strong revenue growth within our core laundry operations resulted in a decrease in certain production payroll costs as a percentage of revenue.

#### Selling and administrative expense

Our selling and administrative expenses decreased as a percentage of revenues to 21.7%, or \$53.5 million, for the thirteen weeks ended November 24, 2007 from 21.8%, or \$48.4 million, for the thirteen weeks ended November 25, 2006. This decrease was primarily due to the strong revenue growth within our core laundry operations, which resulted in a decrease in certain administrative payroll and other costs as a percentage of revenue. These benefits were substantially offset by higher selling payroll costs as well as higher healthcare costs. The growth within the selling payroll was due to management's decision to continue to grow our sales force.

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### *Depreciation and amortization*

Our depreciation and amortization expense increased to \$12.8 million for the thirteen weeks ended November 24, 2007 from \$11.6 million for the thirteen weeks ended November 25, 2006. The increase in depreciation and amortization expense was due to capital expenditures and acquisitions activity. As a percentage of revenues, however, depreciation and amortization was 5.2% for both quarterly periods.

### *Income from Operations*

For the thirteen weeks ended November 24, 2007 and November 25, 2006, the revenue growth in our core laundry operations, as well as the change in our costs, discussed above, resulted in the following changes in our income from operations:

| (In millions, except percentages) | November 24,<br>2007 | November 25,<br>2006 | Dollar<br>Change | Percent<br>Change |   |
|-----------------------------------|----------------------|----------------------|------------------|-------------------|---|
| Core Laundry Operations           | \$27.7               | \$22.0               | \$5.7            | 26.1              | % |
| Specialty Garments                | 2.1                  | 2.9                  | (0.8)            | -29.7             | ) |
| First Aid                         | (0.0)                | ) 0.6                | (0.6)            | -100.5            | ) |
| Consolidated total                | \$29.8               | \$25.5               | \$4.3            | 16.9              | % |

### *Other expense (income)*

Other expense (income), which includes interest expense and interest income, was \$3.0 million for the thirteen weeks ended November 24, 2007 as compared with \$2.9 million for the thirteen weeks ended November 25, 2006. This increase was due to an increase in interest expense of \$0.1 million. This increase was attributable to an increase in our average debt outstanding during the period related to our acquisition of Western Uniform & Towel Service. The average debt outstanding in the thirteen weeks ended November 24, 2007 was \$220.3 million as compared to \$208.7 million during the thirteen weeks ended November 25, 2006.

### *Provision for income taxes*

Our effective income tax rate was 38.5% for the thirteen weeks ended November 24, 2007, as compared to 39.25% for the thirteen weeks ended November 25, 2006. The decrease was due to our utilization of net operating losses available in certain states.

### **Liquidity and Capital Resources**

*General.* As of November 24, 2007, we had cash and cash equivalents of \$17.3 million and working capital of \$131.4 million. We believe that current cash and cash equivalent balances, cash generated from operations and amounts available under our Credit Agreement (defined below) will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

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*Sources and uses of cash.* During the thirteen weeks ended November 24, 2007, we generated cash from operating activities of \$25.1 million, resulting primarily from net income of \$16.5 million, amounts charged for depreciation and amortization of \$12.8 million, and increases in accounts payable and accrued liabilities of \$8.1 million and accrued income taxes of \$9.0 million, offset by increases in accounts receivable of \$15.5 million, prepaid expenses of \$2.0 million, rental merchandise in service of \$4.4 million, and net inventories of \$0.2 million. We used our cash to, among other things, fund \$14.8 million in capital expenditures and fund the acquisitions of businesses of approximately \$36.6 million. Our long-term debt increased by approximately \$28.4 million as a result of \$52.9 million of borrowings offset by \$24.5 million of repayments during the thirteen weeks ended November 24, 2007.

*Long-term debt and borrowing capacity.* The Company has a \$225.0 million unsecured revolving credit agreement ( Credit Agreement ) with a syndicate of banks, which matures on September 13, 2011. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on the Eurodollar rate or the bank's prime rate, as selected by the Company. Availability of credit requires compliance with certain financial and other covenants, including a maximum funded debt ratio and minimum interest coverage as defined in the Credit Agreement. The Company generally tests its compliance with these financial covenants on a fiscal quarterly basis. At November 24, 2007, the interest rates applicable to the Company's borrowings under the Credit Agreement were calculated as LIBOR plus 50 basis points at the time of the respective borrowing and ranged from 5.16% to 5.38%. As of November 24, 2007, the Company had outstanding borrowings of approximately \$58.6 million, letters of credit of \$35.2 million and \$131.2 million available for borrowing.

On June 14, 2004, the Company issued \$75.0 million of fixed rate notes pursuant to a Note Purchase Agreement ( 2004 Note Agreement ) with a seven year term (June 2011) bearing interest at 5.27% ( Fixed Rate Notes ). The Company also issued \$90.0 million of floating rate notes which were repaid in September 2005 and September 2006.

On September 14, 2006, the Company issued \$100.0 million of floating rate notes ( Floating Rate Notes ) pursuant to a Note Purchase Agreement ( 2006 Note Agreement ). The Floating Rate Notes mature on September 14, 2013, bear interest at LIBOR plus 50 basis points and may be repaid at face value two years from the date of issuance. The proceeds from the issuance of the Floating Rate Notes were used to first repay the outstanding floating rate notes under the 2004 Note Agreement in the amount of \$75.0 million and then to pay down outstanding amounts under the Credit Agreement.

As of November 24, 2007, the Company was in compliance with all covenants under the 2004 Note Agreement, 2006 Note Agreement and the Credit Agreement.

### *Commitments and Contingencies*

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

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 attorneys and outside consultants to ensure that all of the relevant

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facts and circumstances are considered, before a contingent liability is recorded. Changes in enacted laws, regulatory orders or decrees, management's estimates of costs, insurance proceeds, participation by other parties, the timing of payments and the input of outside consultants and attorneys based on changing legal or factual circumstances could have a material impact on the amounts recorded for environmental and other contingent liabilities.

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

We have accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. We continue to investigate environmental conditions at the Somerville, Massachusetts site. The full nature and extent of those conditions, and of the remedial solutions that may be employed to address them, have not yet been finally determined. In the interim, as the investigation proceeds, we are implementing measures to mitigate potential impacts in the vicinity of the site. We also have potential exposure related to an additional parcel of land (the Central Area) related to the Woburn, Massachusetts site discussed above. Currently, the consent order for the Woburn, Massachusetts site discussed above does not define or require any remediation work in the Central Area. We have not accrued for this contingency as we believe, at this time, the liability is not probable and the amount of such contingent liability cannot be reasonably estimated.

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. We generally use the amount within the range that constitutes our best estimate. When we believe that both the amount of a particular liability and the timing of the payments are reliably determinable, we adjust the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discount the cost to present value using risk-free interest rates ranging from 4% to 5%.

For environmental liabilities that have been discounted, we include interest accretion, based on the effective interest method, in operating costs on the consolidated statements of income. The changes to our environmental liabilities for the thirteen weeks ended November 24, 2007 are as follows (in thousands):

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|  | <b>November<br/>24, 2007</b> |
|--|------------------------------|
| Beginning balance as of August 25, 2007              | \$ 15,683                    |
| Costs incurred for which reserves have been provided | (830 )                       |
| Insurance proceeds received                          | 42                           |
| Interest accretion                                   | 196                          |
| Balance as of November 24, 2007                      | \$ 15,091                    |

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of November 24, 2007, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

| Fiscal year ended August        | 2008     | 2009     | 2010     | 2011     | 2012   | Thereafter | Total     |
|---------------------------------|----------|----------|----------|----------|--------|------------|-----------|
| Estimated costs current dollars | \$ 5,836 | \$ 2,436 | \$ 1,456 | \$ 1,041 | \$ 996 | \$ 10,750  | \$ 22,515 |
| Estimated insurance proceeds    | (224 )   | (266 )   | (266 )   | (274 )   | (266 ) | (3,874 )   | (5,170 )  |
| Net anticipated costs           | \$ 5,612 | \$ 2,170 | \$ 1,190 | \$ 767   | \$ 730 | \$ 6,876   | \$ 17,345 |
| Effect of Inflation             |          |          |          |          |        |            | 3,781     |
| Effect of Discounting           |          |          |          |          |        |            | (6,035 )  |
| Balance as of August 25, 2007   |          |          |          |          |        |            | \$ 15,091 |

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately \$0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of November 24, 2007, the balance in this escrow account, which is held in a trust and is not recorded on our consolidated balance sheet, was approximately \$2.2 million. Also included in estimated insurance proceeds are amounts we are entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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

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

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits and environmental contingencies, we believe that the aggregate amount of such liabilities, if any, in excess of amounts accrued or covered by insurance, will not have a material adverse effect on our consolidated financial position or results of operation. It is possible, however, that future financial position 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.

### ***Recent Accounting Pronouncements***

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On August 26, 2007, we adopted FASB Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There were no adjustments to our Consolidated Financial Statements as a result of the implementation of FIN No. 48. Our adoption of FIN No. 48 is more fully described in Note 6 to the Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years and must be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. We are currently evaluating the impact SFAS No 157 will have on our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS No. 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 also establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, and we do not expect that its adoption will have a material effect on our Consolidated Financial Statements.

### **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.

#### *Use of Estimates*

The preparation of our financial statements is in conformity with accounting principles generally accepted in the United States, which requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. 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 selling and administrative expenses, 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 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.

*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 SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized. SFAS No. 142 requires that companies test goodwill for impairment on an annual basis. In addition, SFAS No. 142 also 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 impairment test in the fourth quarter of each fiscal year and there were no impairments of goodwill in the year ended August 25, 2007 and no events or circumstances in the thirteen weeks ended November 24, 2007 that would indicate that there may have been any impairment of goodwill during such period. Future events could cause us to conclude that impairment indicators exist and that goodwill or other intangibles associated with previously acquired businesses are impaired. Any resulting impairment loss could have a material impact on our financial condition and results of operations.

Property 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 revenue. Long-lived assets are evaluated for impairment whenever events and circumstances indicate an asset may be impaired. There were no material impairments of property and equipment or definite-lived intangible assets in the thirteen weeks ended November 24, 2007 or the year ended August 25, 2007.



*Insurance*

We self-insure for certain obligations related to health, workers' compensation, vehicles and general liability programs. We also purchase stop-loss insurance policies 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. 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 to ensure that all of the relevant facts and circumstances are being considered, before a contingent liability is recorded. 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 using risk-free interest rates ranging from 4% to 5% 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, insurance proceeds, participation by other parties, the timing of payments and the input of our attorneys and outside consultants based on changing legal or factual circumstances could have a material impact on the amounts recorded for our environmental and other contingent liabilities. Refer to Note 5 of the Consolidated Financial Statements for additional discussion and analysis.

*Asset Retirement Obligations*

We follow the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, which 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. Under this accounting method, 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 the provisions of SFAS No. 143. We depreciate, on a straight-line basis, the amount added to property and equipment and recognize accretion expense in connection with the discounted liability over the various remaining lives which range from approximately one to twenty-four 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

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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 3% to 7%. 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 account for our Supplemental Executive Retirement Plan and other pension plans in accordance with SFAS No. 87, *Employer's Accounting for Pension*, as amended by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under SFAS No. 87, pension expense is recognized on an accrual basis over employees' estimated service periods. Pension expense calculated under SFAS No. 87 is generally independent of funding decisions or requirements.

The calculation of pension expense and the corresponding liability requires us to use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in our 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 our pension plans will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

### *Income Taxes*

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 compute income tax expense by jurisdiction based on our operations in each jurisdiction.

On August 26, 2007, we adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which fundamentally changed the way we are required to treat our uncertain tax positions for financial accounting purposes. Refer to *Recent Accounting Pronouncements*, in Note 1 to the Consolidated Financial Statements and Note 6, *Income Taxes*, for further discussion regarding our adoption of FIN No. 48.

### *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 the Company's markets; the timing of acquisitions and of commencing start-up operations and related costs; the effectiveness of 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 natural gas and gasoline, can materially affect our results of operations and financial condition.

*Contractual Obligations and Other Commercial Commitments*

As of November 24, 2007, there were no material changes in our contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended August 25, 2007.

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

*Foreign Currency Exchange Risk*

We have determined that all of our foreign subsidiaries operate primarily in local currencies that represent the functional currencies of the subsidiaries. All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars using the exchange rate prevailing at the balance sheet date. The effect of exchange rate fluctuations on the translation of assets and liabilities are recorded as a component of stockholders' equity. Income and expense accounts are translated at average exchange rates during the 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. Revenue denominated in currencies other than the U.S. dollar represented approximately 9% of total consolidated revenues for the thirteen weeks ended November 24, 2007, and total assets denominated in currencies other than the U.S. dollar represented approximately 9% of total consolidated assets at November 24, 2007. If exchange rates had changed by 10% from the actual rates in effect during the thirteen weeks ended and as of November 24, 2007, our revenues and assets for the thirteen weeks ended and as of November 24, 2007 would have changed by approximately \$2.3 million and \$8.4 million, respectively.

We do not operate a hedging program to mitigate the effect of a significant rapid change in the value of the Canadian Dollar, Euro, British Pound, or Mexican Peso as compared to the U.S. dollar. Any gains or losses resulting from foreign currency transactions, including exchange rate fluctuations on intercompany accounts, are reported as transaction gains (losses) in selling and administrative expenses. The intercompany payables and receivables are denominated in Canadian Dollars, Euros, British Pounds and Mexican Pesos. During the thirteen weeks ended November 24, 2007, transaction gains included in selling and administrative expenses were approximately \$0.5 million. If the exchange rates had changed by 10% during the thirteen weeks ended November 24, 2007, we would have recognized an exchange gain or loss in other income (expense) of approximately \$0.1 million.

*Interest Rate Sensitivity*

We are exposed to market risk from changes in interest rates which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage these exposures through our regular operating and financing activities. We are exposed to interest rate risk primarily through our borrowings under our \$225.0 million Credit Agreement with a syndicate of banks and our 2006 Floating Rate Notes which were purchased by a group of insurance companies pursuant to our 2006 Note Agreement. Under both agreements, we borrow funds at variable interest rates based on the Eurodollar rate or LIBOR rates. If the LIBOR and Eurodollar rates fluctuated by 10% from the actual rates in effect during the thirteen weeks ended November 24, 2007, our interest expense would have increased or decreased, as applicable, by approximately \$0.3 million from the interest expense recognized for the thirteen weeks ended November 24, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* As required by Rule 13a-15 under the Securities Exchange Act of 1934 (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. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. We continue to review our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

*Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting during the first quarter of fiscal year 2008 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are subject to legal proceedings and claims arising from the conduct of our business operations, including personal injury, customer contract, employment claims and environmental matters as described in the Consolidated Financial Statements above. We maintain insurance coverage providing indemnification against the majority of such claims, and we do not expect that we will sustain any material loss as a result thereof. Refer to Note 5, Commitments and Contingencies, to the Consolidated Financial Statements for further discussion.

**ITEM 1A. RISK FACTORS**

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In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended August 25, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

- \* 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 John B. Bartlett
- \*\* 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*\* 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith

\*\* Furnished herewith

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**SIGNATURES**

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

January 3, 2008

UniFirst Corporation

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

January 3, 2008

UniFirst Corporation

By: /s/ John B. Bartlett  
John B. Bartlett  
Senior Vice President and Chief Financial Officer

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