

Aramark  
Form 10-Q  
February 11, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

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For the quarterly period ended January 2, 2015

Commission File Number: 001-36223

Aramark  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of  
incorporation or organization)  
Aramark Tower  
1101 Market Street  
Philadelphia, Pennsylvania  
(Address of principal executive offices)  
(215) 238-3000  
(Registrant's telephone number, including area code)

20-8236097  
(I.R.S. Employer  
Identification Number)  
19107  
(Zip Code)

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of January 30, 2015, the number of shares of the registrant's common stock outstanding is 236,995,253.

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## PART I

## Item 1. Financial Statements

## ARAMARK AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share amounts)

	January 2, 2015	October 3, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 120,814	\$ 111,690
Receivables (less allowances: 2015 - \$43,537; 2014 - \$37,381)	1,549,801	1,582,431
Inventories	541,431	553,815
Prepayments and other current assets	197,780	217,040
Total current assets	2,409,826	2,464,976
Property and Equipment, net	957,923	997,331
Goodwill	4,574,437	4,589,680
Other Intangible Assets	1,214,044	1,252,741
Other Assets	1,143,519	1,150,965
	\$ 10,299,749	\$ 10,455,693
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term borrowings	\$ 93,443	\$ 89,805
Accounts payable	725,670	986,240
Accrued expenses and other current liabilities	1,010,621	1,302,828
Total current liabilities	1,829,734	2,378,873
Long-Term Borrowings	5,714,444	5,355,789
Deferred Income Taxes and Other Noncurrent Liabilities	990,749	993,118
Redeemable Noncontrolling Interest	9,841	9,877
Stockholders' Equity:		
Common stock, par value \$.01 (authorized: 600,000,000 shares; issued: 2015—259,717,687 shares and 2014—256,086,839 shares; and outstanding: 2015—235,864,025 shares and 2014—233,910,487 shares)	2,597	2,561
Capital surplus	2,628,444	2,575,011
Accumulated deficit	(317,417	) (382,463
Accumulated other comprehensive loss	(139,287	) (106,298
Treasury stock (shares held in treasury: 2015—23,853,662 shares and 2014—22,176,352 shares)	(419,356	) (370,775
Total stockholders' equity	1,754,981	1,718,036
	\$ 10,299,749	\$ 10,455,693

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

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ARAMARK AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)  
 (in thousands, except per share data)

	Three Months Ended	
	January 2, 2015	December 27, 2013
Sales	\$3,702,353	\$3,763,081
Costs and Expenses:		
Cost of services provided	3,287,281	3,354,819
Depreciation and amortization	125,283	136,824
Selling and general corporate expenses	87,886	114,216
	3,500,450	3,605,859
Operating income	201,903	157,222
Interest and Other Financing Costs, net	71,923	83,353
Income Before Income Taxes	129,980	73,869
Provision for Income Taxes	44,360	28,953
Net income	85,620	44,916
Less: Net income attributable to noncontrolling interest	123	154
Net income attributable to Aramark stockholders	\$85,497	\$44,762
Earnings per share attributable to Aramark stockholders:		
Basic	\$0.36	\$0.22
Diluted	0.35	0.21
Weighted Average Shares Outstanding:		
Basic	234,621	206,462
Diluted	244,724	215,294

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

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ARAMARK AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (in thousands)

	Three Months Ended	
	January 2, 2015	December 27, 2013
Net income	\$85,620	\$44,916
Other comprehensive income (loss), net of tax:		
Pension plan adjustments	—	(155 )
Foreign currency translation adjustments	(24,211 )	1,370 )
Fair value of cash flow hedges	(8,778 )	4,336 )
Other comprehensive income (loss), net of tax	(32,989 )	5,551 )
Comprehensive income	52,631	50,467
Less: Net income attributable to noncontrolling interest	123	154
Comprehensive income attributable to Aramark stockholders	\$52,508	\$50,313

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

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ARAMARK AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(in thousands)

	Three Months Ended	
	January 2, 2015	December 27, 2013
Cash flows from operating activities:		
Net income	\$85,620	\$44,916
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	125,283	136,824
Income taxes deferred	(11,955)	(21,162)
Share-based compensation expense	15,792	45,398
Changes in operating assets and liabilities	(455,004)	(493,545)
Other operating activities	(3,566)	6,311
Net cash used in operating activities	(243,830)	(281,258)
Cash flows from investing activities:		
Purchases of property and equipment, client contract investments and other	(127,732)	(85,722)
Disposals of property and equipment	1,813	8,791
Proceeds from divestitures	—	24,000
Acquisition of certain businesses, net of cash acquired	(944)	(8,176)
Other investing activities	2,225	2,278
Net cash used in investing activities	(124,638)	(58,829)
Cash flows from financing activities:		
Proceeds from long-term borrowings	370,710	197,969
Payments of long-term borrowings	(14,595)	(377,534)
Net change in funding under the Receivables Facility	25,000	—
Payments of dividends	(20,225)	—
Proceeds from initial public offering, net	—	524,081
Proceeds from issuance of common stock	3,784	1,837
Other financing activities	12,918	(1,666)
Net cash provided by financing activities	377,592	344,687
Increase in cash and cash equivalents	9,124	4,600
Cash and cash equivalents, beginning of period	111,690	110,998
Cash and cash equivalents, end of period	\$120,814	\$115,598
	Three Months Ended	
(dollars in millions)	January 2, 2015	December 27, 2013
Interest paid	\$52.6	\$66.6
Income taxes paid	13.8	16.5

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

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## ARAMARK AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands)

	Total Stockholders' Equity	Common Stock	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
Balance, October 3, 2014	\$1,718,036	\$2,561	\$2,575,011	\$(382,463 )	\$ (106,298 )	\$(370,775 )
Net income attributable to Aramark stockholders	85,497			85,497		
Other comprehensive (loss)	(32,989 )				(32,989 )	
Capital contributions from issuance of common stock	23,227	36	23,191			
Compensation expense related to stock incentive plans	15,792		15,792			
Tax benefits related to stock incentive plans	14,450		14,450			
Repurchases of common stock	(48,581 )					(48,581 )
Payments of dividends	(20,451 )			(20,451 )		
Balance, January 2, 2015	\$1,754,981	\$2,597	\$2,628,444	\$(317,417 )	\$ (139,287 )	\$(419,356 )

	Total Stockholders' Equity	Common Stock	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
Balance, September 27, 2013	\$903,707	\$2,194	\$1,693,663	\$(479,233 )	\$ (59,225 )	\$(253,692 )
Net income attributable to Aramark stockholders	44,762			44,762		
Other comprehensive (loss)	5,551				5,551	
Capital contributions from issuance of common stock	2,398	4	2,394			
Capital contributions from initial public offering	524,081	280	523,801			
Compensation expense related to stock incentive plans	45,398		45,398			
Tax benefits related to stock incentive plans	473		473			
Change due to termination of provision in Stockholders' Agreement	158,708		158,708			
Repurchases of common stock	(1,747 )					(1,747 )
Balance, December 27, 2013	\$1,683,331	\$2,478	\$2,424,437	\$(434,471 )	\$ (53,674 )	\$(255,439 )

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





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ARAMARK AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

On January 26, 2007, Aramark (the "Company"), a Delaware corporation controlled by investment funds associated with GS Capital Partners, CCMP Capital Advisors, J.P. Morgan Partners, Thomas H. Lee Partners and Warburg Pincus LLC (collectively the "Sponsors"), Joseph Neubauer, former Chairman and Chief Executive Officer of Aramark, and certain other members of Aramark's management, acquired all of the outstanding shares of Aramark in a going-private transaction (the "2007 Transaction").

On December 12, 2013, Aramark's common stock began trading on the New York Stock Exchange under the symbol "ARMK" after its initial public offering ("IPO") of 28,000,000 shares of its common stock at a price of \$20.00 per share.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited consolidated financial statements, and the notes to those statements, included in the Company's Form 10-K filed with the SEC on December 3, 2014. The Condensed Consolidated Balance Sheet as of October 3, 2014 was derived from audited financial statements which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of the Company, the statements include all adjustments, which are of a normal, recurring nature, required for a fair presentation for the periods presented. The results of operations for interim periods are not necessarily indicative of the results for a full year, due to the seasonality of some of the Company's business activities and the possibility of changes in general economic conditions.

The condensed consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling financial interest is maintained. All significant intercompany transactions and accounts have been eliminated. The Company has an ownership interest in a subsidiary with a redeemable noncontrolling interest. The Company classifies redeemable noncontrolling interest outside of stockholders' equity in the Condensed Consolidated Balance Sheets. For the three months ended January 2, 2015, net income attributable to redeemable noncontrolling interest was \$0.1 million and distributions to redeemable noncontrolling interest were \$0.2 million. For the three months ended December 27, 2013, net income attributable to redeemable noncontrolling interest was \$0.2 million and distributions to redeemable noncontrolling interest were \$0.3 million.

New Accounting Standard Updates

In June 2014, the FASB issued an accounting standard update ("ASU") on stock compensation which requires that a performance target affecting vesting and that could be achieved after the requisite service period be treated as a performance condition. The guidance is effective for the Company beginning in the first quarter of fiscal 2017. The Company is currently evaluating the impact of the pronouncement relative to its stock incentive awards.

In May 2014, the FASB issued an ASU on revenue from contracts with customers which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The guidance is effective for the Company beginning in the first quarter of fiscal 2018. The Company is currently evaluating the impact of the pronouncement.

In January 2014, the FASB issued an ASU which states that companies should not account for certain service concession arrangements with public-sector entities as leases and should not recognize the related infrastructure as property, plant and equipment. The guidance is effective for the Company beginning in the first quarter of fiscal 2016. The Company is currently evaluating the impact of the pronouncement.

In July 2013, the FASB issued an ASU which requires unrecognized tax benefits to be offset against a deferred tax asset for a net operating loss carryforward, similar tax loss or tax credit carryforward in certain situations. The guidance will likely change the balance sheet presentation of certain unrecognized tax benefits. The Company adopted the guidance in the first quarter of fiscal 2015 which did not have a material impact on the condensed consolidated

financial statements.

**Comprehensive Income**

Comprehensive income includes all changes to stockholders' equity during a period, except those resulting from investments by and distributions to stockholders. Components of comprehensive income include net income (loss), changes in foreign currency translation adjustments (net of tax), pension plan adjustments (net of tax), changes in the fair value of cash flow hedges (net of tax) and changes to the share of any equity investees' comprehensive income (net of tax).

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The summary of the components of comprehensive income is as follows (in thousands):

	Three Months Ended						
	January 2, 2015			December 27, 2013			
	Pre-Tax Amount	Tax Effect	After-Tax Amount	Pre-Tax Amount	Tax Effect	After-Tax Amount	
Net income			\$85,620			\$44,916	
Pension plan adjustments	—	—	—	(239	) 84	(155	)
Foreign currency translation adjustments	(29,040	) 4,829	(24,211	) (1,227	) 2,597	1,370	
Cash flow hedges adjustments	(22,310	) 13,532	(8,778	) 7,333	(2,997	) 4,336	
Other comprehensive income (loss)	(51,350	) 18,361	(32,989	) 5,867	(316	) 5,551	
Comprehensive income			52,631			50,467	
Less: Net income attributable to noncontrolling interest			123			154	
Comprehensive income attributable to Aramark stockholders			\$52,508			\$50,313	

Accumulated other comprehensive loss consists of the following (in thousands):

	January 2, 2015	October 3, 2014
Pension plan adjustments	\$(44,119	) \$(44,119
Foreign currency translation adjustments	(52,205	) (27,994
Cash flow hedges	(34,968	) (26,190
Share of equity investee's accumulated other comprehensive loss	(7,995	) (7,995
	\$(139,287	) \$(106,298

**Other Assets**

Other assets consist primarily of investments in 50% or less owned entities, client contract investments, deferred financing costs, computer software costs and long-term receivables. Client contract investments generally represent a cash payment provided by the Company to help finance improvement or renovation at the facility from which the Company operates. These amounts are amortized over the contract period. If a contract is terminated prior to its maturity date, the Company is generally reimbursed for the unamortized client contract investment amount. Client contract investments, net of accumulated amortization, were \$723.8 million and \$670.6 million as of January 2, 2015 and October 3, 2014, respectively.

The Company's principal equity method investment is its 50% ownership interest in AIM Services Co., Ltd., a Japanese food and support services company (approximately \$161.0 million and \$180.3 million at January 2, 2015 and October 3, 2014, respectively, which is included in "Other Assets" in the Condensed Consolidated Balance Sheets).

Summarized financial information for AIM Services Co., Ltd. follows (in thousands):

	Three Months Ended	
	January 2, 2015	December 27, 2013
Sales	\$361,820	\$399,101
Gross profit	40,338	46,021
Net income	6,584	7,743

The period to period comparisons of the summarized financial information for AIM Services Co., Ltd., presented in U.S. dollars above, are significantly impacted by currency translation. The Company's equity in undistributed earnings of AIM Services Co., Ltd., net of amortization related to purchase accounting for the 2007 Transaction, was \$2.9 million and \$3.2 million for the three months ended January 2, 2015 and December 27, 2013, respectively, and is recorded as a reduction of "Cost of services provided" in the Condensed Consolidated Statements of Income.

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE 2. DIVESTITURES:

Fiscal 2014

## McKinley Chalet Hotel Divestiture

On October 7, 2013, the Company completed the sale of its McKinley Chalet Hotel (the "Chalet") located adjacent to Denali National Park for approximately \$24.0 million in cash. The transaction resulted in a pretax loss of approximately \$6.7 million (net of tax loss of approximately \$9.1 million), which is included in "Cost of services provided" in the Condensed Consolidated Statements of Income for the three months ended December 27, 2013. The pretax loss included a write-off of an allocation of goodwill of approximately \$12.8 million. The fiscal 2014 results of operations and cash flows associated with the Chalet divestiture were not material to the Company's Condensed Consolidated Statements of Income and Cash Flows.

## NOTE 3. SEVERANCE:

The Company previously initiated a series of actions and developed plans to drive efficiencies through the consolidation and centralization of select functions. As of January 2, 2015 and October 3, 2014, the Company had an accrual of approximately \$31.5 million and \$40.7 million, respectively, related to the unpaid obligations for these costs, the majority of which are expected to be paid during fiscal 2015.

## NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill represents the excess of the fair value of consideration paid for an acquired entity over the fair value of assets acquired and liabilities assumed in a business combination. Goodwill is not amortized and is subject to an impairment test that the Company conducts annually or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists, using discounted cash flows.

Changes in total goodwill during the three months ended January 2, 2015 follow (in thousands):

Segment	October 3, 2014	Translation	January 2, 2015
FSS North America	\$3,583,656	\$(113)	) \$3,583,543
FSS International	431,245	(15,130)	) 416,115
Uniform	574,779	—	) 574,779
	\$4,589,680	\$(15,243)	) \$4,574,437

Other intangible assets consist of (in thousands):

	January 2, 2015			October 3, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer relationship assets	\$1,875,857	\$(1,412,674)	) \$463,183	\$1,885,222	\$(1,386,248)	) \$498,974
Trade names	752,494	(1,633)	) 750,861	755,400	(1,633)	) 753,767
	\$2,628,351	\$(1,414,307)	) \$1,214,044	\$2,640,622	\$(1,387,881)	) \$1,252,741

Acquisition-related intangible assets consist of customer relationship assets, the Aramark trade name and other trade names. Customer relationship assets are being amortized principally on a straight-line basis over the expected period of benefit, 3 to 24 years, with a weighted average life of approximately 12 years. The Aramark trade name is an indefinite lived intangible asset and is not amortizable but is evaluated for impairment at least annually.

Amortization of intangible assets for the three months ended January 2, 2015 and December 27, 2013 was approximately \$35.0 million and \$47.6 million, respectively.

## NOTE 5. DERIVATIVE INSTRUMENTS:

The Company enters into contractual derivative arrangements to manage changes in market conditions related to interest on debt obligations, foreign currency exposures and exposure to fluctuating gasoline and diesel fuel prices. Derivative instruments utilized during the period include interest rate swap agreements, foreign currency forward exchange contracts, and gasoline and diesel fuel agreements. All derivative instruments are recognized as either assets or liabilities on the balance sheet at fair value at the end of each quarter. The counterparties to the Company's contractual derivative agreements are all major international



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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

financial institutions. The Company is exposed to credit loss in the event of nonperformance by these counterparties. The Company continually monitors its positions and the credit ratings of its counterparties, and does not anticipate nonperformance by the counterparties. For designated hedging relationships, the Company formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items.

**Cash Flow Hedges**

The Company has \$2.9 billion notional amount of outstanding interest rate swap agreements, fixing the rate on a like amount of variable rate borrowings. Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income (loss) and reclassified into earnings as the underlying hedged item affects earnings. As of January 2, 2015 and October 3, 2014, approximately (\$28.2) million and (\$19.7) million of unrealized net of tax losses related to the interest rate swaps were included in "Accumulated other comprehensive loss," respectively. The hedge ineffectiveness for these cash flow hedging instruments during the three months ended January 2, 2015 and December 27, 2013 was not material.

The Company has \$74.7 million of outstanding amortizing cross currency swaps to mitigate the risk of variability in principal and interest payments on the Canadian subsidiary's variable rate debt denominated in U.S. dollars. As of January 2, 2015 and October 3, 2014, unrealized net of tax losses of approximately (\$6.8) million and (\$6.5) million related to the cross currency swap were included in "Accumulated other comprehensive loss," respectively. There was no hedge ineffectiveness for this cash flow hedging instrument during the first quarter of both fiscal 2015 and fiscal 2014.

The following table summarizes the net of tax effect of our derivatives designated as cash flow hedging instruments on Comprehensive Income (in thousands):

	Three Months Ended	
	January 2, 2015	December 27, 2013
Interest rate swap agreements	\$(7,246	) \$5,783
Cross currency swap agreements	3,742	(1,447
	\$(3,504	) \$4,336

**Derivatives not Designated in Hedging Relationships**

The Company entered into a series of pay fixed/receive floating gasoline and diesel fuel agreements based on the Department of Energy weekly retail on-highway index in order to limit its exposure to price fluctuations for gasoline and diesel fuel. During the first quarter of fiscal 2015, the Company entered into contracts for approximately 1.4 million gallons. As of January 2, 2015, the Company has contracts for approximately 5.9 million gallons outstanding for fiscal 2015 and fiscal 2016. The Company does not record its gasoline and diesel fuel agreements as hedges for accounting purposes. The impact on earnings related to the change in fair value of these contracts for the three months ended January 2, 2015 was a loss of approximately \$3.6 million.

As of January 2, 2015, the Company had foreign currency forward exchange contracts outstanding with notional amounts of €10.4 million, £2.7 million and CAD47.8 million to mitigate the risk of changes in foreign currency exchange rates on short-term intercompany loans to certain international subsidiaries. Gains and losses on these foreign currency exchange contracts are recognized in income as the contracts were not designated as hedging instruments, substantially offsetting currency transaction gains and losses on the short-term intercompany loans.

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the location and fair value, using Level 2 inputs, of the Company's derivatives designated and not designated as hedging instruments in the Condensed Consolidated Balance Sheets (in thousands):

	Balance Sheet Location	January 2, 2015	October 3, 2014
<b>ASSETS</b>			
Not designated as hedging instruments:			
Foreign currency forward exchange contracts	Prepayments	\$297	\$379
		\$297	\$379
<b>LIABILITIES</b>			
Designated as hedging instruments:			
Interest rate swap agreements	Other Noncurrent Liabilities	\$38,992	\$27,015
Cross currency swap agreements	Other Noncurrent Liabilities	3,757	7,467
		42,749	34,482
Not designated as hedging instruments:			
Gasoline and diesel fuel agreements	Accounts Payable	5,378	1,783
		\$48,127	\$36,265

The following table summarizes the location of (gain) loss reclassified from "Accumulated other comprehensive loss" into earnings for derivatives designated as hedging instruments and the location of (gain) loss for our derivatives not designated as hedging instruments in the Condensed Consolidated Statements of Income (in thousands):

	Account	Three Months Ended	
		January 2, 2015	December 27, 2013
Designated as hedging instruments:			
Interest rate swap agreements	Interest Expense	\$7,658	\$9,194
Cross currency swap agreements	Interest Expense	(3,423	) (2,615
		\$4,235	\$6,579
Not designated as hedging instruments:			
Cross currency swap agreements	Interest Expense	\$—	\$(1,646
Gasoline and diesel fuel agreements	Cost of services provided	4,313	(356
Foreign currency forward exchange contracts	Interest Expense	(1,581	) 3,137
		2,732	1,135
		\$6,967	\$7,714

At January 2, 2015, the net of tax loss expected to be reclassified from "Accumulated other comprehensive loss" into earnings over the next twelve months based on current market rates is approximately \$19.0 million.

**NOTE 6. CAPITAL STOCK:**

On December 17, 2013, the Company completed an IPO of 28.0 million shares of its common stock at a price of \$20.00 per share raising approximately \$524.1 million, net of costs directly related to the IPO. GS Capital Partners and J.P. Morgan Partners each received approximately \$6.5 million of underwriters' discounts relating to the shares sold by the Company which were included in the costs directly related to the IPO. The Company used the net proceeds to repay borrowings on the senior secured revolving credit facility of approximately \$154.1 million and principal on the senior secured term loan facility of \$370.0 million. In addition, the Company paid cash bonuses and certain other expenses of approximately \$5.0 million related to the IPO which were included in the Condensed Consolidated Statements of Income for the three months ended December 27, 2013.

During the fiscal quarter ended January 2, 2015, the Company paid dividends of approximately \$20.2 million to its stockholders. On February 3, 2015, the Company's Board declared a \$0.08625 dividend per share of common stock, payable on March 9, 2015, to shareholders of record on the close of business on February 17, 2015.





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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 7. SHARE-BASED COMPENSATION:

Share-based compensation expense charged to expense for three months ended January 2, 2015 and December 27, 2013 was approximately \$15.8 million, before taxes of approximately \$6.2 million and approximately \$45.4 million, before taxes of approximately \$17.7 million, respectively. The compensation expense recognized is classified as "Selling and general corporate expenses" in the Condensed Consolidated Statements of Income. No compensation expense was capitalized.

Stock Options

Time-Based Options

The Company granted 2.7 million time-based options with a weighted-average grant-date fair value of \$8.29 during the three months ended January 2, 2015. The compensation cost charged to expense during the three months ended January 2, 2015 for time-based options was approximately \$3.9 million. The compensation cost charged to expense during the three months ended December 27, 2013 for time-based options was approximately \$3.2 million.

Performance-Based Options

On November 11, 2013, the Compensation Committee approved an amendment to all outstanding 2007 Management Stock Incentive Plan ("MSIP") Option Agreements (the "Performance Option Amendment") modifying the vesting provisions relating to outstanding performance-based options granted under the 2007 MSIP. The Performance Option Amendment provided that in the event of an initial public offering of Aramark, subject to continued employment on such date, 50% of any then-unvested performance-based options that did not meet applicable performance thresholds in prior years (the "Missed Year Options") would become vested if the initial public offering price for the common stock of Aramark equaled or exceeded \$20.00 per share. In addition, during the 18 month period following the initial public offering, if the closing trading price for common stock of Aramark equaled or exceeded \$25.00 per share over any consecutive twenty day trading period, 100% of the Missed Year Options would become vested. There were a total of approximately 5.0 million Missed Year Options which fully vested by the second quarter of fiscal 2014 as all performance targets were met.

During the first quarter of fiscal 2015, approximately \$2.5 million was charged to expense for performance-based options. During the first quarter of fiscal 2014, approximately \$39.1 million was charged to expense for performance-based options, which included approximately \$36.9 million related to the Missed Year Options that were modified.

Installment Stock Purchase Opportunities ("ISPO")

The Company recorded approximately \$0.4 million and \$0.7 million of compensation expense related to ISPOs and the exchanged restricted stock and non-qualified stock options during the three months ended January 2, 2015 and December 27, 2013, respectively.

Time-Based Restricted Stock Units ("RSUs")

The company granted 0.4 million RSUs during the three months ended January 2, 2015 at a weighted-average grant-date fair value of \$28.66. The compensation cost charged to expense during the three months ended January 2, 2015 and December 27, 2013 for RSUs was approximately \$4.6 million and \$2.3 million, respectively.

Performance Stock Units ("PSUs")

The Company granted 0.8 million PSUs during the three months ended January 2, 2015 at a weighted-average grant-date fair value of \$28.66 with performance conditions based upon the achievement of a level of adjusted earnings per share. The compensation cost charged to expense during the three months ended January 2, 2015 and December 27, 2013 for PSUs was approximately \$4.4 million and less than \$0.1 million, respectively.

NOTE 8. EARNINGS PER SHARE:

Basic earnings per share is computed using the weighted average number of common shares outstanding during the periods presented. Diluted earnings per share is computed using the weighted average number of common shares outstanding adjusted to include the potentially dilutive effect of stock awards.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table sets forth the computation of basic and diluted earnings per share attributable to the Company's stockholders (in thousands, except per share data):

	Three Months Ended	
	January 2, 2015	December 27, 2013
Earnings:		
Net income attributable to Aramark stockholders	\$85,497	\$44,762
Shares:		
Basic weighted-average shares outstanding	234,621	206,462
Effect of dilutive securities	10,103	8,832
Diluted weighted-average shares outstanding	244,724	215,294
Basic Earnings Per Share:		
Net income attributable to Aramark stockholders	\$0.36	\$0.22

## Diluted Earnings Per Share:

Net income attributable to Aramark stockholders	\$0.35	\$0.21
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Share-based awards to purchase 1.5 million and 7.3 million shares were outstanding at January 2, 2015 and December 27, 2013, respectively, but were not included in the computation of diluted earnings per common share, as their effect would have been antidilutive. In addition, performance-based options and performance stock units related to 1.5 million shares and 5.6 million shares were outstanding at January 2, 2015 and December 27, 2013, respectively, but were not included in the computation of diluted earnings per common share, as the performance targets were not yet met.

## NOTE 9. ACCOUNTS RECEIVABLE SECURITIZATION:

The Company has an agreement (the "Receivables Facility") with two financial institutions whereby it sells on a continuous basis an undivided interest in all eligible trade accounts receivable, as defined in the Receivables Facility. The maximum amount available under the Receivables Facility is \$350.0 million, which expires May 2017. In addition, the Receivables Facility includes a seasonal tranche which increases the capacity of the Receivables Facility by \$25.0 million from November to March. During the first quarter of fiscal 2015, the Company utilized the seasonal tranche of the Receivables Facility. At January 2, 2015 and October 3, 2014, the amount of outstanding borrowings under the Receivables Facility was \$375.0 million and \$350.0 million, respectively, and is included in "Long-Term Borrowings."

## NOTE 10. COMMITMENTS AND CONTINGENCIES

Certain of the Company's lease arrangements, primarily vehicle leases, with terms of one to eight years, contain provisions related to residual value guarantees. The maximum potential liability to the Company under such arrangements was approximately \$121.1 million at January 2, 2015 if the terminal fair value of vehicles coming off lease was zero. Consistent with past experience, management does not expect any significant payments will be required pursuant to these arrangements. No amounts have been accrued for guarantee arrangements at January 2, 2015.

From time to time, the Company and its subsidiaries are a party to various legal actions, proceedings and investigations involving claims incidental to the conduct of their business, including actions by clients, consumers, employees, government entities and third parties, including under federal, state, international, national, provincial and local employment laws, wage and hour laws, discrimination laws, immigration laws, human health and safety laws, import and export controls and customs laws, environmental laws, false claims or whistleblower statutes, minority, women and disadvantaged business enterprise statutes, tax codes, antitrust and competition laws, consumer protection statutes, procurement regulations, intellectual property laws, food safety and sanitation laws, cost and accounting principles, the Foreign Corrupt Practices Act, the U.K. Bribery Act, other anti-corruption laws, lobbying laws, motor carrier safety laws, data privacy laws and alcohol licensing and service laws, or alleging negligence and/or breaches of

contractual and other obligations. Based on information currently available, advice of counsel, available insurance coverage, established reserves and other resources, the Company does not believe that any such actions are likely to be, individually or in the aggregate, material to its business, financial condition, results of operations or cash flows. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

similar matters, if unfavorable, may be materially adverse to the Company's business, financial condition, results of operations or cash flows.

## NOTE 11. BUSINESS SEGMENTS:

The Company reports its operating results in three reportable segments: FSS North America, FSS International and Uniform and Career Apparel ("Uniform"). Corporate includes general expenses not specifically allocated to an individual segment and share-based compensation expense (see Note 7). Financial information by segment follows (in millions):

	Sales	
	Three Months Ended	
	January 2, 2015	December 27, 2013
FSS North America	\$2,564.4	\$2,601.9
FSS International	758.7	794.1
Uniform	379.3	367.1
	\$3,702.4	\$3,763.1
	Operating Income	
	Three Months Ended	
	January 2, 2015	December 27, 2013
FSS North America	\$162.4	\$162.7
FSS International	30.7	27.5
Uniform	54.5	40.3
	247.6	230.5
Corporate	(45.7)	(73.3)
Operating Income	201.9	157.2
Interest and Other Financing Costs, net	(71.9)	(83.3)
Income Before Income Taxes	\$130.0	\$73.9

## NOTE 12. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are classified based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchical levels related to the subjectivity of the valuation inputs are defined as follows:

Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument

Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement

## Recurring Fair Value Measurements

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, borrowings and derivatives. Management believes that the carrying value of cash and cash equivalents, accounts receivable and accounts payable are representative of their respective fair values. In conjunction with the fair value measurement of the derivative instruments, the Company made an accounting policy election to measure the credit risk of its derivative instruments that are subject to master netting agreements on a net basis by counterparty portfolio. The fair value of the Company's debt at January 2, 2015 and October 3, 2014 was \$5,818.6 million and \$5,441.5 million, respectively. The carrying value of the Company's debt at January 2, 2015 and October 3, 2014 was \$5,807.9 million and \$5,445.6 million, respectively. The fair values were computed using market quotes, if available, or based on discounted cash flows using market interest rates as of the end of the respective periods. The inputs utilized in estimating the fair value of the Company's debt has been classified as level 2 in the fair value hierarchy

levels.

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ARAMARK AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS OF ARAMARK AND SUBSIDIARIES:

The following condensed consolidating financial statements of the Company have been prepared pursuant to Rule 3-10 of Regulation S-X.

These condensed consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the condensed consolidated financial statements. Interest expense and certain other costs are partially allocated to all of the subsidiaries of the Company. Goodwill and other intangible assets have been allocated to the subsidiaries based on management's estimates. The 5.75% Senior Notes are an obligation of the Company's wholly-owned subsidiary, Aramark Services, Inc., and are jointly and severally guaranteed on a senior unsecured basis by the Company and substantially all of the Company's existing and future domestic subsidiaries (excluding the Receivables Facility subsidiary) ("Guarantors"). Each of the Guarantors is wholly-owned, directly or indirectly, by the Company. All other subsidiaries of the Company, either direct or indirect, do not guarantee the Senior Notes ("Non-Guarantors"). The Guarantors also guarantee certain other debt.



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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## CONDENSED CONSOLIDATING BALANCE SHEETS

January 2, 2015

(in millions)

	Aramark (Parent)	Aramark Services, Inc. (Issuer)	Guarantors	Non Guarantors	Eliminations	Consolidated
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$—	\$17.5	\$47.7	\$55.6	\$—	\$120.8
Receivables	—	1.8	296.8	1,251.2	—	1,549.8
Inventories, at lower of cost or market	—	15.0	447.7	78.7	—	541.4
Prepayments and other current assets	—	43.0	61.1	93.7	—	197.8
Total current assets	—	77.3	853.3	1,479.2	—	2,409.8
Property and Equipment, net	—	25.9	766.3	165.7	—	957.9
Goodwill	—	173.1	3,982.7	418.6	—	4,574.4
Investment in and Advances to Subsidiaries	1,756.5	6,002.1	452.5	55.3	(8,266.4 )	—
Other Intangible Assets	—	29.6	1,071.9	112.6	—	1,214.1
Other Assets	—	73.8	834.0	237.7	(2.0 )	1,143.5
	\$1,756.5	\$6,381.8	\$7,960.7	\$2,469.1	\$(8,268.4 )	\$10,299.7
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current Liabilities:						
Current maturities of long-term borrowings	\$—	\$21.9	\$12.6	\$58.9	\$—	\$93.4
Accounts payable	0.8	154.4	369.0	201.5	—	725.7
Accrued expenses and other liabilities	0.7	140.6	581.3	288.0	0.1	1,010.7
Total current liabilities	1.5	316.9	962.9	548.4	0.1	1,829.8
Long-term Borrowings	—	4,824.6	38.2	851.6	—	5,714.4
Deferred Income Taxes and Other Noncurrent Liabilities	—	388.3	527.8	74.6	—	990.7
Intercompany Payable	—	—	5,383.9	1,202.9	(6,586.8 )	—
Redeemable Noncontrolling Interest	—	—	9.8	—	—	9.8
Total Stockholders' Equity	1,755.0	852.0	1,038.1	(208.4 )	(1,681.7 )	1,755.0
	\$1,756.5	\$6,381.8	\$7,960.7	\$2,469.1	\$(8,268.4 )	\$10,299.7

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## CONDENSED CONSOLIDATING BALANCE SHEETS

October 3, 2014

(in millions)

	Aramark (Parent)	Aramark Services, Inc. (Issuer)	Guarantors	Non Guarantors	Eliminations	Consolidated
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$—	\$26.3	\$41.6	\$43.8	\$—	\$111.7
Receivables	—	0.2	265.4	1,316.9	—	1,582.5
Inventories, at lower of cost or market	—	15.4	458.7	79.7	—	553.8
Prepayments and other current assets	—	73.5	67.4	76.1	—	217.0
Total current assets	—	115.4	833.1	1,516.5	—	2,465.0
Property and Equipment, net	—	24.9	796.5	175.9	—	997.3
Goodwill	—	173.1	3,982.8	433.8	—	4,589.7
Investment in and Advances to Subsidiaries	1,718.8	5,677.4	433.0	65.7	(7,894.9 )	—
Other Intangible Assets	—	29.7	1,101.3	121.7	—	1,252.7
Other Assets	—	70.1	821.4	261.5	(2.0 )	1,151.0
	\$1,718.8	\$6,090.6	\$7,968.1	\$2,575.1	\$(7,896.9 )	\$10,455.7
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current Liabilities:						
Current maturities of long-term borrowings	\$—	\$22.0	\$13.0	\$54.8	\$—	\$89.8
Accounts payable	—	189.8	577.4	219.0	—	986.2
Accrued expenses and other liabilities	0.8	140.8	861.1	300.1	0.1	1,302.9
Total current liabilities	0.8	352.6	1,451.5	573.9	0.1	2,378.9
Long-term Borrowings	—	4,503.7	41.3	810.8	—	5,355.8
Deferred Income Taxes and Other Noncurrent Liabilities	—	372.3	535.5	85.3	—	993.1
Intercompany Payable	—	—	4,968.2	1,291.5	(6,259.7 )	—
Redeemable Noncontrolling Interest	—	—	9.9	—	—	9.9
Total Stockholders' Equity	1,718.0	862.0	961.7	(186.4 )	(1,637.3 )	1,718.0
	\$1,718.8	\$6,090.6	\$7,968.1	\$2,575.1	\$(7,896.9 )	\$10,455.7

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the three months ended January 2, 2015

(in millions)

	Aramark (Parent)	Aramark Services, Inc. (Issuer)	Guarantors	Non Guarantors	Eliminations	Consolidated
Sales	\$—	\$248.4	\$2,426.9	\$1,027.1	\$—	\$ 3,702.4
Costs and Expenses:						
Cost of services provided	—	208.9	2,131.7	946.7	—	3,287.3
Depreciation and amortization	—	2.6	101.5	21.2	—	125.3
Selling and general corporate expenses	1.1	48.1	34.5	4.2	—	87.9
Interest and other financing costs, net	—	63.9	(0.5 )	8.5	—	71.9
Expense allocations	(1.1 )	(83.0 )	72.1	12.0	—	—
	—	240.5	2,339.3	992.6	—	3,572.4
Income before Income Taxes	—	7.9	87.6	34.5	—	130.0
Provision for Income Taxes	—	2.8	29.2	12.4	—	44.4
Equity in Net Income of Subsidiaries	85.5	—	—	—	(85.5 )	—
Net income	85.5	5.1	58.4	22.1	(85.5 )	85.6
Less: Net income attributable to noncontrolling interest	—	—	0.1	—	—	0.1
Net income attributable to Aramark stockholders	85.5	5.1	58.3	22.1	(85.5 )	85.5
Other comprehensive income (loss), net of tax	(33.0 )	0.3	(2.0 )	(43.8 )	45.5	(33.0 )
Comprehensive income (loss) attributable to Aramark stockholders	\$52.5	\$5.4	\$56.3	\$(21.7 )	\$(40.0 )	\$ 52.5

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the three months ended December 27, 2013

(in millions)

	Aramark (Parent)	Aramark Services, Inc. (Issuer)	Guarantors	Non Guarantors	Eliminations	Consolidated
Sales	\$—	\$264.0	\$2,390.0	\$1,109.1	\$—	\$ 3,763.1
Costs and Expenses:						
Cost of services provided	—	233.7	2,102.1	1,019.0	—	3,354.8
Depreciation and amortization	—	5.0	106.4	25.4	—	136.8
Selling and general corporate expenses	5.2	70.8	33.5	4.7	—	114.2
Interest and other financing costs	—	75.3	(0.1 )	8.1	—	83.3
Expense allocations	—	(123.1 )	114.8	8.3	—	—
	5.2	261.7	2,356.7	1,065.5	—	3,689.1
Income (Loss) before Income Taxes	(5.2 )	2.3	33.3	43.6	—	74.0
Provision (Benefit) for Income Taxes	(1.8 )	0.7	15.0	15.1	—	29.0
Equity in Net Income of Subsidiaries	48.2	—	—	—	(48.2 )	—
Net income	44.8	1.6	18.3	28.5	(48.2 )	45.0
Less: Net income attributable to noncontrolling interest	—	—	0.2	—	—	0.2
Net income attributable to Aramark stockholders	44.8	1.6	18.1	28.5	(48.2 )	44.8
Other comprehensive income (loss), net of tax	5.5	11.7	1.0	(9.2 )	(3.5 )	5.5
Comprehensive income attributable to Aramark stockholders	\$50.3	\$13.3	\$19.1	\$19.3	\$(51.7 )	\$ 50.3

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## ARAMARK AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the three months ended January 2, 2015

(in millions)

	Aramark (Parent)	Aramark Services, Inc. (Issuer)	Guarantors	Non Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$0.8	\$(2.0 )	\$(301.4 )	\$59.1	\$(0.3 )	\$(243.8 )
Cash flows from investing activities:						
Purchases of property and equipment, client contract investments and other	—	(11.2 )	(103.3 )	(13.2 )	—	(127.7 )
Disposals of property and equipment	—	0.2	0.9	0.7	—	1.8
Proceeds from divestiture	—	—	—	—	—	—
Acquisitions of businesses, net of cash acquired	—	—	(0.9 )	—	—	(0.9 )
Other investing activities	—	0.2	2.2	(0.2 )	—	2.2
Net cash used in investing activities	—	(10.8 )	(101.1 )			