UNIFIRST CORP
Form 10-Q
April 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **February 28, 2009**

OR

o 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)	**04-2103460** (I.R.S. Employer Identification No.)
68 Jonspin Road, Wilmington, MA (Address of Principal Executive Offices)	**01887** (Zip Code)

(978) 658-8888

(Registrant s Telephone Number, Including Area Code)

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

Yes x No o

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 o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

Yes oNo x

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at April 3, 2009 were 14,404,129 and 4,935,369, respectively.

UniFirst Corporation

Quarterly Report on Form 10-Q

For the Quarter ended February 28, 2009

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UniFirst Corporation and Subsidiaries

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)	**Thirteen weeks ended February 28, 2009**	**Fourteen weeks ended March 1, 2008**	**Twenty-six weeks ended February 28, 2009**	**Twenty-seven weeks ended March 1, 2008**
Revenues	$257,285	$ 270,288	$519,839	$517,548
Costs and expenses:				
Operating costs (1)	158,972	172,481	316,035	323,628
Selling and administrative expenses (1)	50,113	56,024	107,600	110,043
Depreciation and amortization	14,339	14,115	28,042	26,902
	223,424	242,620	451,677	460,573
Income from operations	33,861	27,668	68,162	56,975
Other expense (income):				
Interest expense	2,324	3,359	4,915	6,863
Interest income	(547)	(580)	(1,051)	(1,093)
Exchange rate loss (gain)	195	42	1,129	(429)
	1,972	2,821	4,993	5,341
Income before income taxes	31,889	24,847	63,169	51,634
Provision for income taxes	13,609	9,566	26,027	19,879
Net income	$18,280	$ 15,281	$37,142	$31,755
Income per share Basic:				
Common Stock	$1.00	$ 0.83	$2.03	$1.73
Class B Common Stock	$0.80	$ 0.67	$1.62	$1.39
Income per share Diluted:				
Common Stock	$0.94	$ 0.79	$1.92	$1.64
Weighted average number of shares outstanding Basic:				
Common Stock	14,389	14,359	14,387	14,356
Class B Common Stock	4,935	4,937	4,935	4,937
	19,324	19,296	19,322	19,293
Weighted average number of shares outstanding Diluted:				
Common Stock	19,354	19,366	19,368	19,365
Dividends per share:				
Common Stock	$0.0375	$ 0.0375	$0.0750	$0.0750
Class B Common Stock	$0.0300	$ 0.0300	$0.0600	$0.0600

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

The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

(In thousands, except share data)	**February 28, 2009**	**August 30, 2008 (a)**
Assets		
Cash and cash equivalents	$24,065	$25,655
Receivables, less reserves of $7,216 and $4,164, respectively	103,063	102,830
Inventories	51,454	46,154
Rental merchandise in service	80,437	92,315
Prepaid and deferred income taxes	16,349	15,431
Prepaid expenses	3,907	1,720
Total current assets	279,275	284,105
Property and equipment:		
Land, buildings and leasehold improvements	314,784	314,370
Machinery and equipment	338,225	327,705
Motor vehicles	111,158	102,805
	764,167	744,880
Less -- accumulated depreciation	387,103	376,319
	377,064	368,561
Goodwill	259,880	258,836
Customer contracts, net	59,558	62,573
Other intangible assets, net	4,121	4,877
Other assets	2,340	2,715
	$982,238	$981,667
Liabilities and shareholders' equity		
Current liabilities:		
Current maturities of long-term obligations	$5,059	$4,222
Accounts payable	40,955	54,822
Accrued liabilities	97,455	91,837
Accrued income taxes	5,375	
Total current liabilities	148,844	150,881
Long-term obligations, net of current maturities	213,675	231,317
Deferred income taxes	41,954	42,699
Commitments and contingencies (Note 7)		
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; 14,403,629 and 14,388,679 issued and outstanding, respectively	1,440	1,438
Class B Common Stock, $0.10 par value; 20,000,000 shares authorized; 4,935,369 issued and outstanding	494	494
Capital surplus	18,772	18,240
Retained earnings	567,930	532,164
Accumulated other comprehensive (loss) income	(10,871)	4,434
Total shareholders' equity	577,765	556,770
	$982,238	$981,667

(a) Balances as of fiscal 2008 year-end, derived from fiscal 2008 audited financial statements

The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	**Twenty-six weeks ended February 28, 2009**	**Twenty-seven weeks ended March 1, 2008**
Cash flows from operating activities:		
Net income	$37,142	$31,755
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	23,546	23,062
Amortization of intangible assets	4,496	3,840
Amortization of deferred financing costs	133	133
Deferred income taxes	(163)	(154)
Stock-based compensation	496	756
Accretion on asset retirement obligations	253	247
Changes in assets and liabilities, net of acquisitions:		
Receivables	(2,882)	(10,540)
Inventories	(5,923)	(1,909)
Rental merchandise in service	10,843	(1,505)
Prepaid expenses	(2,231)	(2,110)
Accounts payable	(13,000)	5,655
Accrued liabilities	1,876	3,274
Accrued income taxes	5,746	7,218
Net cash provided by operating activities	60,332	59,722
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(3,248)	(37,019)
Capital expenditures	(39,235)	(35,307)
Other	318	78
Net cash used in investing activities	(42,165)	(72,248)
Cash flows from financing activities:		
Proceeds from long-term obligations	102,659	80,493
Payments on long-term obligations	(118,374)	(56,656)
Proceeds from exercise of Common Stock options	31	118
Payment of cash dividends	(1,376)	(1,373)
Net cash (used in) provided by financing activities	(17,060)	22,582
Effect of exchange rate changes	(2,697)	355
Net (decrease) increase in cash and cash equivalents	(1,590)	10,411
Cash and cash equivalents at beginning of period	25,655	12,698
Cash and cash equivalents at end of period	$24,065	$23,109

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 11 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 accounting principles generally accepted in the United States (US GAAP) have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the information furnished reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim period. It is suggested that these Consolidated Financial Statements be read in conjunction with the financial statements and the notes, thereto, included in the Company s Annual Report on Form 10-K for the fiscal year ended August 30, 2008. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 2009 will consist of 52 weeks, whereas fiscal 2008 consisted of 53 weeks. The additional week was included in the second quarter of fiscal 2008. As a result, the quarterly and six-month periods ended February 28, 2009 consisted of 13 weeks and 26 weeks, respectively, as compared to the quarterly and six-month periods ended March 1, 2008 which consisted of 14 weeks and 27 weeks, respectively.

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 services are performed or when the product is shipped. Management judgments and estimates are used in determining the collectability of accounts receivable and evaluating the adequacy of the allowance for doubtful accounts. The Company considers specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances as part of its evaluation. Changes in estimates are reflected in the period they become known. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Material changes in its estimates may result in significant differences in the amount and timing of bad debt expense recognition for any given period.

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

Property 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. 144, *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 long-lived assets in the twenty-six weeks ended February 28, 2009 or the year ended August 30, 2008.

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.

During the thirteen weeks ended February 28, 2009, there was a decline in the market value of the Company s stock as well as significant deterioration in general economic conditions. The decline in the Company s market capitalization prompted the Company's management to conduct a goodwill analysis, in accordance with the provisions of SFAS No. 142, to determine if an impairment of goodwill existed. Based on the outcome of the Company s analysis, it concluded that no impairment existed as of February 28, 2009.

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

Definite-lived intangible assets are amortized over their useful lives, which are based on 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 twenty-six weeks ended February 28, 2009 or the year ended August 30, 2008.

Definite-lived intangible assets have a weighted average useful life of approximately 14.3 years. Customer contracts are amortized over their estimated useful lives and have a weighted average useful life of approximately 14.7 years. Other intangible assets, net, primarily include restrictive covenants, deferred financing costs and trademarks have weighted average useful lives of approximately 6.4 years.

Environmental and Other Contingencies

The Company is subject to legal proceedings and claims arising from the conduct of its business operations, including environmental matters, personal injury, customer contract matters and employment claims. Accounting principles generally accepted in the United States require that a liability for contingencies be recorded when it is probable that a liability has occurred and the amount of the liability can be reasonably estimated. Significant judgment is required to determine the existence of a liability, as well as the amount to be recorded. The Company regularly consults with attorneys and outside consultants 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 3% to 4% over periods ranging from ten to thirty years. The estimated current costs, net of legal settlements with insurance carriers, have been adjusted for the estimated impact of inflation at 3% per year. Changes in enacted laws, regulatory orders or decrees, management s estimates of costs, risk-free interest rates, insurance proceeds, participation by other parties, the timing of payments 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 7 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-two 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 5.7% to 7.0%. Revisions to the liability could occur due to changes in the Company s estimated useful lives of the underlying assets, estimated dates of decommissioning, changes in decommissioning costs, changes in federal or state regulatory guidance on the decommissioning of such facilities, or other changes in estimates. Changes due to revised estimates will be recognized by adjusting the carrying amount of the liability and the related long-lived asset if the assets are still in service, or charged to expense in the period if the assets are no longer in service.

Derivative Financial Instruments

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and related authoritative guidance. All derivative instruments are recorded as other assets or other liabilities at fair value, in accordance with SFAS No. 157, *Fair Value Measurements.* All subsequent changes in a derivative s fair value are recognized in income, unless specific hedge accounting criteria are met. Cash flows associated with derivatives are classified in the same category as the cash flows hedged in the Consolidated Statements of Cash Flows.

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

The Company s hedging activities are transacted only with highly rated institutions, which reduces the exposure to credit risk in the event of nonperformance. Refer to Note 4 of the Consolidated Financial Statements for additional discussion and analysis.

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*, Employers Accounting for Pensions,* 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.

The Company is periodically reviewed by U.S. domestic and foreign tax authorities regarding the amount of taxes due. These reviews typically include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, the Company records estimated reserves for probable exposures, in accordance with FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*.

Net Income Per Share

The Company computes net income per share under the provisions of SFAS No. 128, *Earnings per Share*, and Emerging Issues Task Force (EITF) Issue No. 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 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 of the Company s Class B Common Stock into Common Stock, full vesting of outstanding restricted 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):

	Thirteen weeks ended February 28, 2009	Fourteen weeks ended March 1, 2008	Twenty-six weeks ended February 28, 2009	Twenty-seven weeks ended March 1, 2008
Net income available to shareholders	$ 18,280	$ 15,281	$ 37,142	$ 31,755
Allocation of net income for Basic:				
Common Stock	$ 14,344	$ 11,984	$ 29,144	$ 24,903
Class B Common Stock	3,936	3,297	7,998	6,852
	$ 18,280	$ 15,281	$ 37,142	$ 31,755

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 shares of Common Stock and Class B Common Stock shares outstanding during the thirteen and twenty-six weeks ended February 28, 2009 and the fourteen and twenty-seven weeks ended March 1, 2008 and is utilized in the calculation of earnings per share (in thousands):

	Thirteen weeks ended February 28, 2009	Fourteen weeks ended March 1, 2008	Twenty-six weeks ended February 28, 2009	Twenty-seven weeks ended March 1, 2008
Weighted average number of Common shares Basic	14,389	14,359	14,387	14,356
Add: effect of dilutive potential common shares Common Stock options and restricted stock	30	70	46	72
Add: assumed conversion of Class B Common shares into Common Stock	4,935	4,937	4,935	4,937
Weighted average number of Common shares Diluted	19,354	19,366	19,368	19,365
Weighted average number of Class B Common shares Basic	4,935	4,937	4,935	4,937

Stock options to purchase 278,100 shares of Common Stock were excluded from the calculation of diluted earnings per share for both the thirteen and twenty-six weeks ended February 28, 2009, respectively, because they were anti-dilutive. Stock options to purchase 16,500 shares of Common Stock were excluded from the calculation of diluted earnings per share for both the fourteen and twenty-seven weeks ended March 1, 2008 because they were anti-dilutive.

Share-Based Compensation

The Company adopted a stock incentive 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 under the Plan are recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. All awards issued to the Company s non-employee members of the Board of Directors under the Plan are recommended to the Board of Directors by the Compensation Committee and approved by the Board of Directors. Stock options granted to non-employee directors 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. Prior to fiscal 2008, non-employee director grants expired ten years from the grant date. Beginning in fiscal 2008, non-employee director grants expire eight years after the grant date.

The Company accounts for its share-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 the thirteen weeks ended February 28, 2009 and the fourteen weeks ended March 1, 2008, respectively, 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. Accordingly, compensation expense related to these option grants in fiscal 2009 and 2008 were recognized on the date of grant. In January 2009, 12,000 shares of restricted stock were granted to the Company s non-employee directors subject to vesting in full one year from the date of grant. In January 2008, 6,000 shares of restricted stock were granted to the Company's non-employee directors which became fully vested in January 2009. Share-based compensation, which includes stock option grants and restricted stock grants, has been recorded in the Consolidated Statements of Income in selling and administrative expenses.

For the twenty-six weeks ended February 28, 2009, there were 2,950 shares of Common Stock issued as a result of the exercise of Common Stock options. For the thirteen weeks ended February 28, 2009, there were no shares of Common Stock issued as a result of the exercise of Common Stock options. For the fourteen and twenty-seven weeks ended March 1, 2008, there were 6,000 and 6,500 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 other expense (income), in the accompanying Consolidated Statements of Income. Assets and liabilities of operations outside the United States are translated into U.S. dollars using period-end exchange rates. Revenues and expenses are translated at the average exchange rates in effect during each month of the fiscal year. The effects of foreign currency translation adjustments are included in shareholders equity as a component of accumulated other comprehensive (loss) income in the accompanying Consolidated Balance

Sheets.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications did not impact current or historical net income or shareholders equity.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under US GAAP and expands disclosure requirements about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company partially adopted SFAS No. 157 on August 31, 2008, as required. The adoption of SFAS No. 157 for the Company s financial assets and liabilities did not have a material impact on its results of operations or financial condition. See Note 3, Fair Value Measurements , for further discussion on the Company s adoption of SFAS No. 157.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 amends SFAS No. 133 requiring enhanced disclosures about an entity s derivative and hedging activities thereby improving the transparency of financial reporting. SFAS No. 161 s disclosures provide additional information on how and why derivative instruments are being used. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not anticipate that the adoption of this pronouncement will have a material effect on its Consolidated Financial Statements. Adoption of SFAS No. 161 will result in enhanced disclosure regarding the Company s derivatives should it then have any outstanding.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, (SFAS No. 141R). SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the impact, if any, SFAS No. 141R will have on its Consolidated Financial Statements.

In June 2008, the FASB issued a Staff Position on Emerging Issues Task Force (EITF) Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. EITF Issue No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore, need to be included in the earnings allocation in computing earnings per share. This consensus is effective for the Company s fiscal year beginning August 30, 2009. The Company is currently evaluating the impact, if any, EITF Issue No. 03-6-1 will have on its Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets. FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, and other U.S. GAAP. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and may not be adopted early. The Company is currently evaluating the impact, if any, that FSP No. 142-3 may have on its Consolidated Financial Statements.

2. Acquisitions

During the twenty-six weeks ended February 28, 2009, the Company completed seven acquisitions with an aggregate purchase price of approximately $3.2 million. The results of operations of these acquisitions have been included in the Company s consolidated financial results since their respective acquisition dates. None of these acquisitions was significant in relation to the Company s consolidated financial results and, therefore, pro forma financial information has not been presented.

3. Fair Value Measurements

The Company adopted SFAS No. 157, *Fair Value Measurements*, on August 31, 2008. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

	As of February 28, 2009			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Cash Equivalents	$13,395			$13,395
Total	$13,395			$13,395
Liabilities:				
Derivative Instruments	$	3,422		$3,422
Total	$	3,422		$3,422

4. Derivative Instruments and Hedging Activities

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In January 2008, the Company entered into an interest rate swap agreement to manage its exposure to interest rate movements and the related effect on its variable rate debt. The Company concluded that the interest rate swap met the criteria to qualify as a cash flow hedge under SFAS No. 133. Accordingly, the Company has reflected all changes in the fair value of the swap agreement in accumulated other comprehensive (loss) income, a component of shareholders equity. The swap agreement, with a notional amount of $100.0 million, matures on March 14, 2011. The Company pays a fixed rate of 3.51% and receives a variable rate tied to the three month LIBOR rate. As of February 28, 2009 and August 30, 2008, the Company had recorded in accumulated other comprehensive (loss) income a loss of $2.1 million and $0.2 million, respectively, related to the fair value of the interest rate swap, net of the recorded income tax benefit.

5. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee s contribution and can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended February 28, 2009 and fourteen weeks ended March 1, 2008, were $2.9 million and $2.8 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended November 28, 2009 and the twenty-seven weeks ended March 1, 2008 were $5.6 million and $5.4 million, respectively.

Supplemental Executive Retirement Plan and Other Pension Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. For both the thirteen weeks ended February 28, 2009 and the fourteen weeks ended March 1, 2008, the amounts charged to expense related to these plans was $0.4 million. For the twenty-six weeks ended February 28, 2009 and the twenty-seven weeks ended March 1, 2008, the amounts charged to expense related to these plans was $0.9 million and $0.7 million, respectively.

6. 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-two years.

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

Beginning balance as of August 30, 2008	$7,844

Accretion expense	253
Asset retirement costs incurred	(93)
Ending balance as of February 28, 2009	$8,004

As of February 28, 2009, the $8.0 million asset retirement obligation is included in accrued liabilities in the accompanying Consolidated Balance Sheet.

7. Commitments and Contingencies

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

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 3% to 4%.

For environmental liabilities that have been discounted, the Company includes interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the Company s environmental liabilities for the twenty-six weeks ended February 28, 2009 were as follows (in thousands):

Beginning balance as of August 30, 2008	$15,097
Costs incurred for which reserves have been provided	(1,429)
Insurance proceeds received	74
Interest accretion	334
Revisions in cost estimates	2,041
Balance as of February 28, 2009	$16,117

For the twenty-six weeks ended February 28, 2009 the Company increased its environmental accrual by approximately $2.0 million primarily due to decreases during the period in risk-free interest rates and the related effect on the Company s estimate of response and remediation expenses as well as other adjustments to increase the Company's environmental reserves related to an ongoing investigation at one of its environmental exposure sites. Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of February 28, 2009, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Estimated costs current dollars	$3,351	1,622	1,144	1,003	829	12,829	20,778
Estimated insurance proceeds	(106)	(180)	(188)	(180)	(180)	(2,433)	(3,267)
Net anticipated costs	$3,245	1,442	956	823	649	10,396	$17,511
Effect of Inflation							7,061
Effect of Discounting							(8,455)
Balance as of February 28, 2009							$16,117

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately $0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of February 28, 2009, 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 $2.5 million. Also included in estimated insurance proceeds are amounts the Company is entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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

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

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

8. Income Taxes

The Company s effective income tax rate was 42.7% and 41.2% for the thirteen and twenty-six weeks ended February 28, 2009, respectively, as compared to 38.5% for the fourteen and twenty-seven weeks ended March 1, 2008. The increase was primarily due to changes in the Company s reserves for income tax exposures.

The Company has a significant portion of its operations in the United States and Canada. It is required to file federal income tax returns as well as state income tax returns in a majority of the U.S. states and also in the Canadian provinces of Alberta, British Columbia, Ontario, Saskatchewan and Quebec. At times, the Company is subject to audits in these jurisdictions, which typically are inherently 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, the Company is 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.

As of February 28, 2009, there was $2.8 million in unrecognized tax benefits, which if recognized, would reduce 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 February 28, 2009, the Company had accrued a total of $1.4 million in interest and penalties in its current accrued liabilities.

9. 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 February 28, 2009, 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 borrowings and ranged from 0.94% to 3.25%. As of February 28, 2009 the Company had outstanding borrowings of approximately $38.0 million, outstanding letters of credit amounting to $36.1 million and $150.9 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) and bearing interest at 5.27%. The Company also issued $90.0 million of floating rate notes which were repaid in September 2005 and September 2006.

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

As of February 28, 2009, the Company was in compliance with all covenants under the 2004 Note Agreement, 2006 Note Agreement and the Credit Agreement.

9. Shareholders Equity

The Company has two classes of common stock: Common Stock and Class B Common Stock. Each share of Common Stock is entitled to one vote, is freely transferable, and is entitled to a cash dividend equal to 125% of any cash dividend paid on each share of Class B Common Stock. Each share of Class B Common Stock is entitled to ten votes and can be converted to Common Stock on a share-for-share basis. However, until converted to Common Stock shares of Class B Common Stock are not freely transferable.

For both the twenty-six weeks ended February 28, 2009 and the twenty-seven weeks ended March 1, 2008, there were no shares of Class B Common Stock converted to Common Stock.

10. Comprehensive Income

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

	Thirteen weeks ended February 28, 2009	Fourteen weeks ended March 1, 2008	Twenty-six weeks ended February 28, 2009	Twenty-seven weeks ended March 1, 2008
Net income	$ 18,280	$		