UNIFIRST CORP
Form 10-Q
July 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 27, 2017

OR

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

For the transition period from ________________ to ________________
Commission file number: 001-08504
UNIFIRST CORPORATION
(Exact name of Registrant as Specified in Its Charter)

Massachusetts	04-2103460
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
68 Jonspin Road, Wilmington, MA	01887
(Address of Principal Executive Offices)	(Zip Code)

(978) 658-8888
(Registrant's Telephone Number, Including Area Code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Smaller Reporting Company Non-accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). Emerging growth company.

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 June 30, 2017 were 15,421,381 and 4,845,519, respectively.

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For the Quarter ended May 27, 2017
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Ex-32.2 Section 906 Certification of Principal Financial Officer

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

(In thousands, except per share data)	Thirteen weeks ended		Thirty-nine weeks ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Revenues	$409,834	$367,799	$1,187,369	$1,104,280
Operating expenses:				
Cost of revenues (1)	255,824	224,932	743,869	677,207
Selling and administrative expenses (1)	93,077	74,541	257,384	222,713
Depreciation and amortization	22,162	20,409	65,442	59,956
Total operating expenses	371,063	319,882	1,066,695	959,876
Income from operations	38,771	47,917	120,674	144,404
Other (income) expense:				
Interest expense	194	211	548	650
Interest income	(1,003)	(902)	(3,278)	(2,558)
Foreign exchange loss (gain)	218	(91)	604	256
Total other (income) expense	(591)	(782)	(2,126)	(1,652)
Income before income taxes	39,362	48,699	122,800	146,056
Provision for income taxes	15,000	18,555	47,708	56,524
Net income	$24,362	$30,144	$75,092	$89,532
Income per share – Basic:				
Common Stock	$1.26	$1.57	$3.89	$4.67
Class B Common Stock	$1.01	$1.26	$3.11	$3.74
Income per share – Diluted:				
Common Stock	$1.19	$1.49	$3.68	$4.43
Income allocated to – Basic:				
Common Stock	$19,307	$23,939	$59,486	$71,172
Class B Common Stock	$4,883	$6,061	$15,068	$17,956
Income allocated to – Diluted:				
Common Stock	$24,199	$30,007	$74,581	$89,149
Weighted average number of shares outstanding – Basic:				
Common Stock	15,326	15,253	15,305	15,238
Class B Common Stock	4,846	4,827	4,846	4,805

Weighted average number of shares outstanding – Diluted:				
Common Stock	20,279	20,183	20,254	20,141
Dividends per share:				
Common Stock	$0.0375	$0.0375	$0.1125	$0.1125
Class B Common Stock	$0.0300	$0.0300	$0.0900	$0.0900

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

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

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Consolidated Statements of Comprehensive Income
UniFirst Corporation and Subsidiaries
(Unaudited)

(In thousands)	Thirteen weeks ended May 27, 2017	Thirteen weeks ended May 28, 2016	Thirty-nine weeks ended May 27, 2017	Thirty-nine weeks ended May 28, 2016
Net income	$24,362	$30,144	$75,092	$89,532
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,550)	3,806	(3,347)	223
Pension benefit liabilities, net of income taxes	—	—	—	(218)
Change in fair value of derivatives, net of income taxes	211	(344)	333	(392)
Derivative financial instruments reclassified to earnings	(105)	(36)	(208)	(201)
Other comprehensive (loss) income	(1,444)	3,426	(3,222)	(588)
Comprehensive income	$22,918	$33,570	$71,870	$88,944

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

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Consolidated Balance Sheets
UniFirst Corporation and Subsidiaries
(Unaudited)

(In thousands, except share and par value data)	May 27, 2017	August 27, 2016
Assets		
Current assets:		
Cash and cash equivalents	$312,684	$363,795
Receivables, less reserves of $11,652 and $7,675	184,783	156,578
Inventories	72,112	78,887
Rental merchandise in service	147,300	138,105
Prepaid taxes	4,965	10,418
Prepaid expenses and other current assets	22,670	29,831
Total current assets	744,514	777,614
Property, plant and equipment, net of accumulated depreciation of $689,859 and $661,295	568,235	539,818
Goodwill	373,296	320,641
Customer contracts, net	71,319	35,854
Other intangible assets, net	4,522	2,810
Deferred income taxes	347	97
Other assets	29,242	25,173
Total assets	$1,791,475	$1,702,007
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$53,070	$50,884
Accrued liabilities	106,469	100,782
Accrued taxes	—	969
Total current liabilities	159,539	152,635
Accrued liabilities	106,112	104,921
Accrued and deferred income taxes	78,500	79,670
Total liabilities	344,151	337,226
Commitments and contingencies (Note 11)		
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; 15,420,975 and 15,415,125 shares issued and outstanding as of May 27, 2017 and August 27, 2016, respectively	1,542	1,542
Class B Common Stock, $0.10 par value; 20,000,000 shares authorized; 4,845,519 and 4,849,519 shares issued and outstanding as of May 27, 2017 and August 27, 2016, respectively	485	485
Capital surplus	85,408	72,561
Retained earnings	1,392,060	1,319,142
Accumulated other comprehensive loss	(32,171)	(28,949)

Total shareholders’ equity	1,447,324	1,364,781
Total liabilities and shareholders’ equity	$ 1,791,475	$ 1,702,007

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

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

Thirty-nine weeks ended (In thousands)	May 27, 2017	May 28, 2016
Cash flows from operating activities:		
Net income	$75,092	$89,532
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	55,968	53,556
Amortization of intangible assets	9,474	6,400
Amortization of deferred financing costs	84	156
Gain on sale of assets	(567)	—
Share-based compensation	11,681	3,625
Accretion on environmental contingencies	450	502
Accretion on asset retirement obligations	636	599
Deferred income taxes	(1,845)	6,034
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(21,118)	(5,698)
Inventories	8,727	4,063
Rental merchandise in service	(2,561)	1,571
Prepaid expenses and other current assets and Other assets	11,325	(1,356)
Accounts payable	2,344	(1,627)
Accrued liabilities	1,593	6,358
Prepaid and accrued income taxes	4,534	(2,635)
Net cash provided by operating activities	155,817	161,080
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(124,486)	(10,861)
Capital expenditures	(80,462)	(72,065)
Proceeds from sale of assets	876	—
Other	(461)	(64)
Net cash used in investing activities	(204,533)	(82,990)
Cash flows from financing activities:		
Payments on loans payable and long-term debt	—	(1,326)
Payment of deferred financing costs	—	(813)
Proceeds from exercise of share-based awards, including excess tax benefits	2,989	1,394
Taxes withheld and paid related to net share settlement of equity awards	(2,168)	(4,425)
Payment of cash dividends	(2,173)	(2,155)
Net cash used in financing activities	(1,352)	(7,325)
Effect of exchange rate changes	(1,043)	265
Net (decrease) increase in cash and cash equivalents	(51,111)	71,030
Cash and cash equivalents at beginning of period	363,795	276,553
Cash and cash equivalents at end of period	$312,684	$347,583

The accompanying notes are an integral part of these

Consolidated Financial Statements.

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Presentation

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

It is suggested that these Consolidated Financial Statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 27, 2016. There have been no material changes in the accounting policies followed by the Company during the current fiscal year. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

2. Recent Accounting Pronouncements

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

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

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

In July 2015, the FASB issued updated guidance which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail inventory method. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, and is to be applied prospectively, with early adoption permitted. Accordingly, the standard will be effective for the Company on August

27, 2017. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

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

In January 2016, the FASB issued updated guidance for the recognition, measurement, presentation, and disclosure of certain financial assets and liabilities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company expects that adoption of this guidance will not have a material impact on its financial statements.

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

In February 2016, the FASB issued updated guidance that improves transparency and comparability among companies by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Accordingly, the standard will be effective for the Company on September 1, 2019. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

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

In August 2016, the FASB issued updated guidance that reduces diversity in how certain cash receipts and cash payments are presented and classified in the Consolidated Statements of Cash Flows. This guidance will be effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2017 and will be required to be applied retrospectively, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

In October 2016, the FASB issued updated guidance to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This guidance will be effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2017 and will be required to be applied on a modified retrospective basis, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 26, 2018. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

3. Business Acquisitions

During the thirty-nine weeks ended May 27, 2017, the Company completed four business acquisitions (including Arrow discussed below) with an aggregate purchase price of approximately $122.7 million. The results of operations of these acquisitions have been included in the Company’s consolidated financial results since their respective acquisition dates. These acquisitions were not significant in relation to the Company’s consolidated financial results and, therefore, pro forma financial information has not been presented.

On September 19, 2016, the Company completed an acquisition of Arrow Uniform (“Arrow”) for approximately $118.3 million and contingent consideration subject to certain holdback provisions of $1.5 million. The all-cash transaction was structured as an asset acquisition, with the Company acquiring substantially all of Arrow’s assets and a limited amount of liabilities. Arrow, headquartered in Taylor, Michigan, provided uniform and facility service rental programs as well as direct sales uniform programs to a wide range of large and small customers. Arrow operated from 12 locations with nearly 700 employees in five Midwestern states.

The Arrow acquisition was accounted for using the purchase method of accounting. The initial allocation of the purchase price is incomplete with respect to certain assets acquired from Arrow. The Company is still in the process of measuring the fair value of intangible assets acquired and liabilities assumed. The Company has engaged specialists to assist in the valuation of intangible assets for which certain assumptions have not yet been finalized. The table below summarizes the preliminary purchase price allocation to the estimated fair value of assets acquired and liabilities assumed at the acquisition date. Goodwill is calculated as the excess of the purchase price over the net assets recognized and represents the estimated future economic benefits arising from expected synergies and growth opportunities for the Company. All of the goodwill and intangible assets were allocated to the US and Canadian Rental and Cleaning segment and are deductible for tax purposes. The cash paid upon closing for the acquisition was approximately $119.9 million. The difference between the cash paid and the total purchase price represents amounts owed from the seller as a result of final closing adjustments. As such, a receivable due from the seller of $1.6 million is included in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheet as of May 27, 2017.

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

The components of the consideration transferred in conjunction with the Arrow acquisition and the preliminary allocation of that consideration is as follows (in thousands):

Receivables	$7,365
Inventories	1,824
Rental merchandise in service	7,175
Prepaid expense and other current assets	1,722
Property, plant and equipment	2,619
Goodwill	51,767
Customer contracts	41,199
Other intangible assets	2,580
Other assets	4,790
Accrued liabilities	(2,705)
Total Purchase Price	$118,336

Goodwill, customer contracts and other intangible assets are estimated utilizing Level 3 valuation inputs to the fair value hierarchy, which are unobservable and consist of discounted future cash flow estimates, while the remaining assets acquired and liabilities assumed were measured using Level 2 inputs which principally include estimated market values of comparable assets.

4. Fair Value Measurements

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

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

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

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

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

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

As of May 27, 2017
Level 1

		Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	$179,028	$—	$ —	$179,028
Pension plan assets	—	4,703	—	4,703
Foreign currency forward contracts	—	393	—	393
Total assets at fair value	$179,028	$5,096	$ —	$184,124

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

	As of August 27, 2016			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	$172,760	$—	$ —	$172,760
Pension plan assets	—	4,753	—	4,753
Foreign currency forward contracts	—	188	—	188
Total assets at fair value	$172,760	$4,941	$ —	$177,701

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

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

The Company's foreign currency forward contracts represent contracts the Company has entered into to exchange Canadian dollars for U.S. dollars at fixed exchange rates in order to manage its exposure related to certain forecasted Canadian dollar denominated sales of one of its subsidiaries. These contracts were included in other assets as of May 27, 2017. The fair value of the forward contracts is based on similar exchange traded derivatives and are, therefore, included within Level 2 of the fair value hierarchy.

5. Derivative Instruments and Hedging Activities

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

Derivative instruments that qualify for hedge accounting are classified as a hedge of the variability of cash flows to be received or paid related to a recognized asset, liability or forecasted transaction. Changes in the fair value of a derivative that is highly effective and designated as a cash flow hedge are recognized in accumulated other comprehensive (loss) income until the hedged item or forecasted transaction is recognized in earnings. 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 changes in the fair value resulting from hedge ineffectiveness are immediately recognized as income or expense.

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

As of May 27, 2017, the Company had forward contracts with a notional value of approximately 11.1 million CAD outstanding and recorded the fair value of the contracts of $0.1 million in other long-term assets and $0.2 million in prepaid expenses and other current assets with a corresponding gain in accumulated other comprehensive (loss) income of $0.2 million, which was recorded net of tax. During the thirty-nine weeks ended May 27, 2017, the Company reclassified $0.2 million from accumulated other comprehensive (loss) income to revenue, related to the derivative financial instruments. The gain in accumulated other comprehensive (loss) income as of May 27, 2017 is expected to be reclassified to revenues prior to its maturity on February 22, 2019.

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

6. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible U.S and Canadian employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and may make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended May 27, 2017 and May 28, 2016 were $3.7 million and $3.6 million, respectively. Contributions charged to expense under the plan for the thirty-nine weeks ended May 27, 2017 and May 28, 2016 were $11.0 million and $10.8 million respectively.

Pension Plans and Supplemental Executive Retirement Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amounts charged to expense related to these plans for both the thirteen weeks ended May 27, 2017 and May 28, 2016 were $0.9 million. The amounts charged to expense related to these plans for both the thirty-nine weeks ended May 27, 2017 and May 28, 2016 were $2.6 million.

7. Net Income Per Share

The Company calculates net income per share in accordance with US GAAP, which requires the Company to allocate income to its unvested participating securities as part of its earnings per share ("EPS") calculations. The following table sets forth the computation of basic earnings per share using the two-class method for amounts attributable to the Company's shares of Common Stock and Class B Common Stock (in thousands, except per share data):

	Thirteen weeks ended		Thirty-nine weeks ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Net income available to shareholders	$24,362	$30,144	$75,092	$89,532
Allocation of net income for Basic:				
Common Stock	$19,307	$23,939	$59,486	$71,172
Class B Common Stock	4,883	6,061	15,068	17,956
Unvested participating shares	172	144	538	404
	$24,362	$30,144	$75,092	$89,532
Weighted average number of shares for Basic:				
Common Stock	15,326	15,253	15,305	15,238
Class B Common Stock	4,846	4,827	4,846	4,805
Unvested participating shares	136	97	139	96
	20,308	20,177	20,290	20,139

Earnings per share for Basic:				
Common Stock	$1.26	$1.57	$3.89	$4.67
Class B Common Stock	$1.01	$1.26	$3.11	$3.74

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

The Company is required to calculate diluted EPS for Common Stock using the more dilutive of the following two methods:

- The treasury stock method; or
- The two-class method assuming a participating security is not exercised or converted.

For the thirteen and thirty-nine weeks ended May 27, 2017, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and thirty-nine weeks ended May 27, 2017 (in thousands, except per share data):

	Thirteen weeks ended May 27, 2017			Thirty-nine weeks ended May 27, 2017		
	Earnings to Common shareholders	Common Shares	EPS	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	$19,307	15,326	$1.26	$59,486	15,305	$3.89
Add: effect of dilutive potential common shares						
Share-Based Awards	—	107		—	103	
Class B Common Stock	4,883	4,846		15,068	4,846	
Add: Undistributed earnings allocated to unvested participating shares	166	—		523	—	
Less: Undistributed earnings reallocated to unvested participating shares	(157)	—		(496)	—	
Diluted EPS – Common Stock	$24,199	20,279	$1.19	$74,581	20,254	$3.68

Share-based awards that would result in the issuance of 12,293 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended May 27, 2017 because they were anti-dilutive. There were 6 share-based awards that were excluded from the calculation of diluted earnings per share for the thirty-nine weeks ended May 27, 2017 because they were anti-dilutive.

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

For the thirteen and thirty-nine weeks ended May 28, 2016, the Company's diluted EPS assumes the conversion of all vested Class B Common Stock into Common Stock and uses the two-class method for its unvested participating shares as it was the more dilutive of the two methods. The following table sets forth the computation of diluted earnings per share of Common Stock for the thirteen and thirty-nine weeks ended May 28, 2016 (in thousands, except per share data):

	Thirteen weeks ended May 28, 2016			Thirty-nine weeks ended May 28, 2016		
	Earnings to Common shareholders	Common Shares	EPS	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	$23,939	15,253	$1.57	$71,172	15,238	$4.67
Add: effect of dilutive potential common shares						
Share-based awards	—	103		—	98	
Class B Common Stock	6,061	4,827		17,956	4,805	
Add: Undistributed earnings allocated to unvested participating shares	141	—		395	—	
Less: Undistributed earnings reallocated to unvested participating shares	(134)	—		(374)	—	
Diluted EPS – Common Stock	$30,007	20,183	$1.49	$89,149	20,141	$4.43

Share-based awards that would result in the issuance of 14,959 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen weeks ended May 28, 2016 because they were anti-dilutive. Share-based awards that would result in the issuance of 6,716 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirty-nine weeks ended May 28, 2016 because they were anti-dilutive.

8. Inventories

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

The components of inventory as of May 27, 2017 and August 27, 2016 were as follows (in thousands):

	May 27, 2017	August 27,

		2016
Raw materials	$16,109	$16,826
Work in process	3,398	2,275
Finished goods	52,605	59,786
Total inventories	$72,112	$78,887

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9. Goodwill and Other Intangible Assets

As discussed in Note 3, "Acquisitions", when the Company acquires a business, the amount assigned to the tangible assets and liabilities and intangible assets acquired is based on their respective fair values determined as of the acquisition date. The excess of the purchase price over the tangible assets and liabilities and intangible assets is recorded as goodwill.

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

Balance as of August 27, 2016	$320,641
Goodwill recorded during the period	52,767
Other	(112)
Balance as of May 27, 2017	$373,296

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
May 27, 2017			
Customer contracts	$209,359	$ 138,040	$71,319
Other intangible assets	33,977	29,455	4,522
	$243,336	$ 167,495	$75,841
August 27, 2016			
Customer contracts	$165,405	$ 129,551	$35,854
Other intangible assets	31,382	28,572	2,810
	$196,787	$ 158,123	$38,664

10. Asset Retirement Obligations

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

A reconciliation of the Company's asset retirement liability for the thirty-nine weeks ended May 27, 2017 was as follows (in thousands):

	May 27, 2017
Beginning balance as of August 27, 2016	$13,032
Accretion expense	636
Effect of exchange rate changes	(10)

Change in estimate	(537)
Ending balance as of May 27, 2017	$13,121

Asset retirement obligations are included in current and long-term accrued liabilities in the accompanying Consolidated Balance Sheets.

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Notes to Consolidated Financial Statements (Continued)

11. Commitments and Contingencies

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

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

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

The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company has potential exposure related to a parcel of land (the "Central Area") related to the Woburn, Massachusetts site mentioned above. Currently, the consent decree for the Woburn site does not define or require any remediation work in the Central Area. The United States Environmental Protection Agency (the "EPA") has provided the Company and other signatories to the consent decree with comments on the design and implementation of groundwater and soil remedies at the Woburn site and investigation of environmental conditions in the Central Area. The Company, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA’s comments remain to be resolved. The Company has accrued costs to perform certain work responsive to EPA's comments. The Company has implemented mitigation measures and continues to monitor environmental conditions at the Somerville, Massachusetts site. In addition, the Company has received demands from the local transit authority for reimbursement of certain costs associated with its construction of a new municipal transit station in the area of the Company’s Somerville site. This station is part of a planned extension of the transit system. Due to cost projections of the extension which now substantially exceed original estimates, the local transit authority had placed the extension on hold pending its redesign and receipt of related state and federal approvals and funding increases, and it is now proceeding with the bidding process. The Company has reserved for costs in connection with this matter; however, in light of the uncertainties associated with this matter, these costs and the related reserve may change. The Company has also received notice that the Massachusetts Department of Environmental Protection is conducting an audit of the Company's investigation and remediation work with respect to the Somerville site.

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

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UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

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

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

There is usually a range of reasonable estimates of the costs associated with each site. In accordance with US GAAP, the Company's accruals reflect the amount within the range that it believes is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using current risk-free interest rates. As of May 27, 2017, the risk-free interest rates utilized by the Company ranged from 2.3% to 2.9%.

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 thirty-nine weeks ended May 27, 2017 were as follows (in thousands):

	May 27, 2017
Beginning balance as of August 27, 2016	$26,748
Costs incurred for which reserves had been provided	(1,379)
Insurance proceeds	91
Interest accretion	450
Change in discount rates	(1,370)
Balance as of May 27, 2017	$24,540

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of May 27, 2017, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Estimated costs – current dollars	$8,295	$1,859	$1,492	$1,284	$1,172	$12,390	$26,492
Estimated insurance proceeds	(81)	(159)	(173)	(159)	(173)	(1,130)	(1,875)
Net anticipated costs	$8,214	$1,700	$1,319	$1,125	$999	$11,260	$24,617
Effect of inflation							7,706
Effect of discounting							(7,783)

Balance as of May 27, 2017	$24,540

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.

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As of May 27, 2017, the balance in this escrow account, which is held in a trust and is not recorded in the Company's accompanying Consolidated Balance Sheet, was approximately $3.7 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. The Company also has nuclear garment decontamination facilities in the United Kingdom and the Netherlands. These facilities are licensed and regulated by the respective country's applicable federal agency. There can be no assurance that such regulation will not lead to material disruptions in the Company's garment decontamination business.

From time to time, the Company is also subject to legal proceedings and claims arising from the conduct of its business operations, including personal injury claims, customer contract matters, employment claims and environmental matters as described above.

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

12. Income Taxes

The Company's effective income tax rate was 38.1% and 38.9% for the thirteen and thirty-nine weeks ended May 27, 2017 respectively, as compared to 38.1% and 38.7% for the thirteen and thirty-nine weeks ended May 28, 2016 respectively. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense which is consistent with the recognition of these items in prior reporting periods. During the thirty-nine weeks ended May 27, 2017, there were no material changes in the amount of unrecognized tax benefits or the amount accrued for interest and penalties.

U.S. and Canadian federal income tax statutes have lapsed for filings up to and including fiscal years 2013 and 2009, respectively, and the Company has concluded an audit of U.S. federal income taxes for 2010 and 2011. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2012. 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.

13. Long-Term Debt

On April 11, 2016, the Company entered into an amended and restated $250 million unsecured revolving credit agreement (the "Credit Agreement") with a syndicate of banks, which matures on April 11, 2021. The Credit Agreement amended and restated the Company's prior $250.0 million revolving credit agreement, which was scheduled to mature on May 4, 2016. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on, at the Company's election, the Eurodollar rate or a base rate, plus in each case a spread based on the Company's consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. At May 27, 2017, the interest rates applicable to the Company’s borrowings under the Credit Agreement would be calculated as LIBOR plus 75 basis points at the time of the respective borrowing. As of May 27, 2017, the Company had no outstanding borrowings and had outstanding letters of credit amounting to $66.2 million, leaving $183.8 million available for borrowing under the Credit Agreement.

As of May 27, 2017, the Company was in compliance with all covenants under the Credit Agreement.

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Notes to Consolidated Financial Statements (Continued)

14. Accumulated Other Comprehensive (Loss) Income

The changes in each component of accumulated other comprehensive (loss) income, net of tax, for the thirteen and thirty-nine weeks ended May 27, 2017 and May 28, 2016 were as follows (in thousands):

	Thirteen weeks ended May 27, 2017			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive (Loss) Income
Balance as of February 25, 2017	$(22,611)	$(8,251)	$ 135	$ (30,727)
Other comprehensive (loss) income before reclassification	(1,550)	—	211	(1,339)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(105)	(105)
Net current period other comprehensive (loss) income	(1,550)	—	106	(1,444)
Balance as of May 27, 2017	$(24,161)	$(8,251)	$ 241	$ (32,171)

	Thirty-nine weeks ended May 27, 2017			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive (Loss) Income
Balance as of August 27, 2016	$(20,814)	$(8,251)	$ 116	$ (28,949)
Other comprehensive (loss) income before reclassification	(3,347)	—	333	(3,014)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(208)	(208)
Net current period other comprehensive (loss) income	(3,347)	—	125	(3,222)
Balance as of May 27, 2017	$(24,161)	$(8,251)	$ 241	$ (32,171)

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	Thirteen weeks ended May 28, 2016			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive (Loss) Income
Balance as of February 27, 2016	$(24,006)	$(4,937)	$ 516	$ (28,427)
Other comprehensive (loss) income before reclassification	3,806	—	(344)	3,462
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(36)	(36)
Net current period other comprehensive (loss) income	3,806	—	(380)	3,426
Balance as of May 28, 2016	$(20,200)	$(4,937)	$ 136	$ (25,001)

	Thirty-nine weeks ended May 28, 2016			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive (Loss) Income
Balance as of August 29, 2015	$(20,423)	$(4,719)	$ 729	$ (24,413)
Other comprehensive (loss) income before reclassification	223	(261)	(392)	(430)
Amounts reclassified from accumulated other comprehensive (loss) income	—	43	(201)	(158)
Net current period other comprehensive (loss) income	223	(218)	(593)	(588)
Balance as of May 28, 2016	$(20,200)	$(4,937)	$ 136	$ (25,001)

(1)Amounts are shown net of tax

Amounts reclassified from accumulated other comprehensive (loss) income, net of tax, for the thirteen and thirty-nine weeks ended May 27, 2017 and May 28, 2016 were as follows (in thousands):

	Thirteen weeks ended		Thirty-nine weeks ended		
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016	
Pension benefit liabilities, net:					
Actuarial losses	$—	$ —	$ —	$ 43	(a)
Total, net of tax	—	—	—	43	
Derivative financial instruments, net:					

Forward contracts (b)	(105)	(36)	(208)	(201)
Total, net of tax	(105)	(36)	(208)	(201)
Total amounts reclassified, net of tax	$ (105)	$		