UNIFIRST CORP
Form 10-Q
April 04, 2019
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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 February 23, 2019

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	**(I.R.S. Employer**
Incorporation or Organization)	**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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company
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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at March 29, 2019 were 15,352,793 and 3,710,009, respectively.

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UniFirst Corporation

Quarterly Report on Form 10-Q

For the Quarter ended February 23, 2019

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Ex-32.2 Section 906 Certification of CFO

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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 February 23, 2019**	**Thirteen weeks ended February 24, 2018**	**Twenty-six weeks ended February 23, 2019**	**Twenty-six weeks ended February 24, 2018**
Revenues	$ 437,485	$ 419,264	$ 876,035	$ 835,042
Operating expenses:				
Cost of revenues (1)	281,672	265,400	558,721	519,050
Selling and administrative expenses (1)	68,321	88,648	154,280	176,158
Depreciation and amortization	25,046	23,264	50,162	45,971
Total operating expenses	375,039	377,312	763,163	741,179
Operating income	62,446	41,952	112,872	93,863
Other (income) expense:				
Interest income, net	(2,009)	(1,430)	(3,714)	(2,706)
Other expense (income), net	1,060	(186)	1,232	(32)
Total other income, net	(949)	(1,616)	(2,482)	(2,738)
Income before income taxes	63,395	43,568	115,354	96,601
Provision (benefit) for income taxes	15,789	(14,810)	29,428	4,017
Net income	$ 47,606	$ 58,378	$ 85,926	$ 92,584
Income per share Basic:				
Common Stock	$ 2.59	$ 3.02	$ 4.67	$ 4.79
Class B Common Stock	$ 2.07	$ 2.42	$ 3.74	$ 3.83
Income per share Diluted:				
Common Stock	$ 2.48	$ 2.85	$ 4.46	$ 4.53
Income allocated to Basic:				
Common Stock	$ 39,923	$ 46,744	$ 72,061	$ 74,126
Class B Common Stock	$ 7,683	$ 11,634	$ 13,865	$ 18,458
Income allocated to Diluted:				
Common Stock	$ 47,606	$ 58,378	$ 85,926	$ 92,584

Weighted average number of shares outstanding Basic:				
Common Stock	15,428	15,481	15,430	15,471
Class B Common Stock	3,710	4,816	3,710	4,816
Weighted average number of shares outstanding Diluted:				
Common Stock	19,232	20,463	19,258	20,434

(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 February 23, 2019	Thirteen weeks ended February 24, 2018	Twenty-six weeks ended February 23, 2019	Twenty-six weeks ended February 24, 2018
Net income	$ 47,606	$ 58,378	$ 85,926	$ 92,584
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,418	1,250	(864)	(763)
Pension benefit liabilities		(1,192)		(1,192)
Change in fair value of derivatives, net of income taxes	(39)	(23)	93	59
Derivative financial instruments reclassified to earnings	(32)	10	(76)	14
Other comprehensive income (loss)	1,347	45	(847)	(1,882)
Comprehensive income	$ 48,953	$ 58,423	$ 85,079	$ 90,702

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)	February 23, 2019	August 25, 2018
Assets		
Current assets:		
Cash, cash equivalents and short-term investments	$ 335,322	$ 270,512
Receivables, less reserves of $12,328 and $9,237	203,163	200,797
Inventories	95,706	90,176
Rental merchandise in service	179,134	174,392
Prepaid taxes	576	27,024
Prepaid expenses and other current assets	35,195	21,899
Total current assets	849,096	784,800
Property, plant and equipment, net of accumulated depreciation of $751,928 and $721,527	554,187	547,996
Goodwill	397,336	397,422
Customer contracts, net	61,510	67,318
Other intangible assets, net	16,097	15,166
Deferred income taxes	433	425
Other assets	75,447	30,259
Total assets	$ 1,954,106	$ 1,843,386
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 69,596	$ 73,500
Accrued liabilities	108,574	124,225
Accrued taxes	2,012	736
Total current liabilities	180,182	198,461
Accrued liabilities	105,446	105,888
Accrued and deferred income taxes	87,688	74,070
Total liabilities	373,316	378,419
Commitments and contingencies (Note 12)		
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; 15,399,871 and 15,431,209 shares issued and outstanding as of February 23, 2019 and August 25,	1,540	1,543

2018, respectively		
Class B Common Stock, $0.10 par value; 20,000,000 shares authorized; 3,710,009 shares issued and outstanding as of February 23, 2019 and August 25, 2018	371	371
Capital surplus	84,454	82,973
Retained earnings	1,520,431	1,405,239
Accumulated other comprehensive loss	(26,006)	(25,159)
Total shareholders equity	1,580,790	1,464,967
Total liabilities and shareholders equity	$ 1,954,106	$ 1,843,386

The accompanying notes are an integral part of these

Consolidated Financial Statements

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Consolidated Statements of Shareholders Equity

UniFirst Corporation and Subsidiaries

(In thousands)	Common Shares	Class B Common Shares	Common Stock	Class B Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance, August 25, 2018	15,431	3,710	$ 1,543	$ 371	$ 82,973	$ 1,405,239	$ (25,159)	$ 1,464,967
Net income						38,320		38,320
Change in fair value of derivatives							88	88
Foreign currency translation							(2,282)	(2,282)
Dividends declared Common Stock ($0.1125 per share)						(1,736)		(1,736)
Dividends declared Class B Common Stock ($0.0900 per share)						(334)		(334)
Share-based compensation, net (2)					1,042			1,042
Share-based awards exercised, net (1)	2							
Cumulative effect of change in accounting principle, net (3)						39,433		39,433
Balance, November 24, 2018	15,433	3,710	$ 1,543	$ 371	$ 84,015	$ 1,480,922	$ (27,353)	$ 1,539,498
Net income			$	$	$	$ 47,606	$	$ 47,606
Change in fair value of derivatives							(71)	(71)
Foreign currency translation							1,418	1,418
Dividends declared Common Stock ($0.1125 per share)						(1,732)		(1,732)
Dividends declared Class B Common Stock ($0.0900 per share)						(334)		(334)
					659			659

Share-based compensation, net (2)								
Share-based awards exercised, net (1)	12		1		25			26
Repurchase of Common Stock	(45)		(4)		(245)	(6,031)		(6,280)
Balance, February 23, 2019	15,400	3,710	$ 1,540	$ 371	$ 84,454	$ 1,520,431	$ (26,006)	$ 1,580,790

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Consolidated Statements of Shareholders Equity (Continued)

UniFirst Corporation and Subsidiaries

(In thousands)	Common Shares	Class B Common Shares	Common Stock	Class B Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance, August 26, 2017	15,453	4,815	$ 1,545	$ 482	$ 86,245	$ 1,386,438	$ (21,518)	$ 1,453,192
Net income						34,206		34,206
Change in fair value of derivatives							86	86
Foreign currency translation							(2,013)	(2,013)
Dividends declared Common Stock ($0.0375 per share)						(582)		(582)
Dividends declared Class B Common Stock ($0.0300 per share)						(144)		(144)
Share-based compensation, net (2)					1,334	(738)		596
Share-based awards exercised, net (1)	16		2		265			267
Balance, November 25, 2017	15,469	4,815	$ 1,547	$ 482	$ 87,844	$ 1,419,180	$ (23,445)	$ 1,485,608
Net income			$	$	$	$ 58,378	$	$ 58,378
Pension benefit liabilities, net (4)						1,192	(1,192)	
Change in fair value of derivatives							(13)	(13)
Foreign currency translation							1,250	1,250
Dividends declared Common Stock ($0.0375 per share)						(580)		(580)
Dividends declared Class B Common Stock ($0.0300 per share)						(140)		(140)
Share-based compensation, net (2)					(265)			(265)

Share-based awards exercised, net (1)	23		2		161			163
Balance, February 24, 2018	15,492	4,815	$ 1,549	$ 482	$ 87,740	$ 1,478,030	$ (23,400)	$ 1,544,401

(1) These amounts are shown net of the effect of income taxes.
(2) These amounts are shown net of any shares withheld by the Company to satisfy certain tax withholdings obligations in connection with the vesting of certain shares of restricted stock or restricted stock units.
(3) These amounts consist of the cumulative impact of the adoption of the new revenue recognition accounting guidance. See Note 2, Recent Accounting Pronouncements in the Company s Consolidated Financial Statements.
(4) These amounts include the impact of the adoption of ASU 2018-02 in the second quarter of fiscal 2018. See Note 15, Accumulated Other Comprehensive Loss in our Consolidated Financial Statements for further details.

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)

Twenty-six weeks ended **(In thousands)**	**February 23, 2019**	**February 24, 2018**
Cash flows from operating activities:		
Net income	$ 85,926	$ 92,584
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	50,162	45,971
Amortization of deferred financing costs	56	56
Forgiveness of a liability	(7,346)	
Share-based compensation	2,796	2,417
Accretion on environmental contingencies	377	346
Accretion on asset retirement obligations	441	470
Deferred income taxes	364	(20,613)
Other	(810)	(135)
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(2,502)	(6,931)
Inventories	(5,589)	(5,296)
Rental merchandise in service	(4,862)	(69)
Prepaid expenses and other current assets and Other assets	(3,616)	(7,067)
Accounts payable	(5,268)	(5,395)
Accrued liabilities	(7,711)	39
Prepaid and accrued income taxes	26,243	22,535
Net cash provided by operating activities	128,661	118,912
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(67)	(21,729)
Capital expenditures, including capitalization of software costs	(52,152)	(56,653)
Proceeds from sale of assets	178	1,164
Other	15	(200)
Net cash used in investing activities	(52,026)	(77,418)
Cash flows from financing activities:		
Proceeds from exercise of share-based awards	27	430
Taxes withheld and paid related to net share settlement of equity awards	(1,095)	(2,094)
Repurchase of Common Stock	(6,281)	
Payment of cash dividends	(4,140)	(1,447)
Net cash used in financing activities	(11,489)	(3,111)

Effect of exchange rate changes		(336)		(444)
Net increase in cash, cash equivalents and short-term investments		64,810		37,939
Cash, cash equivalents and short-term investments at beginning of period		270,512		349,752
Cash, cash equivalents and short-term investments at end of period	$	335,322	$	387,691
Supplemental disclosure of cash flow information:				
Non-cash capital expenditures	$	10,141	$	10,087

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 (U.S. 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 25, 2018. There have been no material changes in the accounting policies followed by the Company during the current fiscal year other than the adoption of recent accounting pronouncements discussed in Note 2. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

Certain prior year amounts have been reclassified to conform to current year presentation. The Company has reclassified $11.6 million of software from property, plant, and equipment, net to intangible assets as of August 25, 2018. This reclassification did not impact current or historical net income or shareholder s equity.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued updated accounting guidance for revenue recognition, which it has 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. The standard includes cost guidance, whereby all direct and incremental costs to obtain or fulfill a contract will be capitalized and amortized over the corresponding period of benefit, determined on a contract by contract basis. This guidance is also intended to improve disclosure requirements and enhance the comparability of revenue recognition practices. Improved disclosures under the amended guidance relate to the nature, amount, timing and uncertainty of revenue that is recognized from contracts with customers. The Company adopted the standard on August 26, 2018 using the modified retrospective adoption method. Upon adoption of this guidance, the Company recorded an adjustment to the opening balance of retained earnings as of August 26, 2018. The adoption of the standard did not have any material impact to the timing or measurement of revenues. The adjustment to retained earnings relates to the capitalization of certain direct and incremental contract costs required by the new guidance, net of the related income tax effect. Capitalized costs are amortized ratably over the anticipated period of benefit. The Company applied the new guidance to all contracts as of August 26, 2018. Results for reporting periods beginning after August 25, 2018 are presented under the new guidance, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.

Capitalization of Contract Costs. The Company has elected to apply the guidance, as a practical expedient, to a portfolio of contracts (or performance obligations) with similar characteristics because the Company reasonably expects that the effects on the Consolidated Financial Statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts within the portfolio. The Company also continues to expense certain costs to obtain a contract if those costs do not meet the criteria of the new standard or the amortization period of the asset would have been one year or less.

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UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The cumulative effect of applying the new guidance was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the adjustments set forth in the table below were made to accounts on the consolidated balance sheet as of August 26, 2018:

Consolidated Balance Sheet **(In thousands)**	**August 25, 2018**	**Capitalization of Contract Costs**	**August 26, 2018**
Assets			
Prepaid expenses and other current assets	$ 21,899	$ 10,789	$ 32,688
Total current assets	784,800	10,789	795,589
Other assets	30,259	42,405	72,664
Total assets	$ 1,843,386	$ 53,194	$ 1,896,580
Liabilities and shareholders equity			
Accrued and deferred income taxes	$ 74,070	$ 13,761	$ 87,831
Total liabilities	378,419	13,761	392,180
Retained earnings	1,405,239	39,433	1,444,672
Total shareholders equity	1,464,967	39,433	1,504,400
Total liabilities and shareholders equity	$ 1,843,386	$ 53,194	$ 1,896,580

The impacts of adopting this standard on the thirteen and twenty-six weeks ended February 23, 2019 Consolidated Financial Statements are presented in the following tables:

	Thirteen weeks ended February 23, 2019		
Consolidated Statement of Income **(In thousands, except per share data)**	**As Reported**	**Under Historical Guidance**	**Impact of Adopting New Revenue Standard**
Operating expenses:			
Selling and administrative expenses	$ 68,321	$ 69,630	$ (1,309)
Total operating expenses	375,039	376,348	(1,309)
Operating income	62,446	61,137	1,309
Income before income taxes	63,395	62,086	1,309
Provision for income taxes	15,789	15,463	326
Net income	$ 47,606	$ 46,623	$ 983
Income per share Diluted:	$ 2.48	$ 2.43	$ 0.05

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UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Consolidated Statement of Income **(In thousands, except per share data)**	**Twenty-six weeks ended February 23, 2019** **As Reported**	**Under Historical Guidance**	**Impact of Adopting New Revenue Standard**
Operating expenses:			
Selling and administrative expenses	$ 154,280	$ 156,505	$ (2,225)
Total operating expenses	763,163	765,388	(2,225)
Operating income	112,872	110,647	2,225
Income before income taxes	115,354	113,129	2,225
Provision for income taxes	29,428	28,861	567
Net income	$ 85,926	$ 84,268	$ 1,658
Income per share Diluted:	$ 4.46	$ 4.37	$ 0.09

Consolidated Balance Sheet **(In thousands)**	**Balance at February 23, 2019** **As Reported**	**Under Historical Guidance**	**Impact of Adopting New Revenue Standard**
Assets			
Prepaid expenses and other current assets	$ 35,195	$ 24,406	$ 10,789
Total current assets	849,096	838,307	10,789
Other assets	75,447	30,817	44,630
Total assets	$ 1,954,106	$ 1,898,687	$ 55,419
Liabilities and shareholders equity			
Accrued and deferred income taxes	$ 87,688	$ 73,360	$ 14,328
Total liabilities	373,316	358,988	14,328
Retained earnings	1,520,431	1,479,340	41,091
Total shareholders equity	1,580,790	1,539,699	41,091
Total liabilities and shareholders equity	$ 1,954,106	$ 1,898,687	$ 55,419

The adoption of this standard had no impact on the Company s twenty-six weeks ended February 23, 2019 operating cash flow, and the only impact of the adoption on its fiscal 2019 consolidated statement of comprehensive income was the impact to net income as presented in the tables above.

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 Company adopted this standard on August 26, 2018. The adoption of this guidance did not have a material impact on the Company s financial statements.

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UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

In February 2016, the FASB issued updated guidance which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. This new guidance is effective for reporting periods beginning after December 15, 2018, however, early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in their financial statements. The Company will adopt the new guidance on September 1, 2019. At August 25, 2018, the Company was contractually obligated to make future payments of $47.1 million under its operating lease obligations in existence as of that date, primarily related to long-term leases. The Company is evaluating the impact that this guidance will have on its financial statements. While the Company is in the early stages of its implementation process of this guidance, and has not yet determined its impact on its consolidated balance sheet or consolidated statement of income, these leases would be required to be presented on the consolidated balance sheet in accordance with the requirements of this guidance.

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 is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2017 and is required to be applied retrospectively, with early adoption permitted. Accordingly, the Company adopted this standard on August 26, 2018. The adoption of this guidance did not have a material impact on its financial statements.

In June 2016, the FASB issued updated guidance that introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments including trade receivables. The estimate of expected credit losses will require entities to incorporate historical information, current information and reasonable and supportable forecasts. This guidance also expands the disclosure requirements to enable users of financial statements to understand the entity s assumptions, models and methods for estimating expected credit losses. This guidance is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2019 with early adoption permitted. Accordingly, the guidance will be effective for the Company on August 30, 2020. 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 is effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2017 and is required to be applied on a modified retrospective basis, with early adoption permitted. Accordingly, the Company adopted this standard on August 26, 2018. The adoption of this guidance did not have a material impact on its financial statements.

In March 2017, the FASB issued updated guidance that requires a change in the presentation of net periodic benefit cost on the consolidated statements of operations. Specifically, entities must present the service cost component of net periodic benefit cost in the same financial statement line items as other compensation costs arising from services rendered by the related employees during the period, whereas the non-service components of net periodic benefit cost must be presented separately from the financial statement line items that include service cost and outside of operating income. The Company s adoption of this guidance on August 26, 2018 did not have a material impact on its financial statements.

In August 2017, the FASB issued guidance that expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. The accounting update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted, and is to be applied on a modified retrospective basis. The Company elected to early adopt this guidance in the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on its financial statements.

In August 2018, the FASB issued updated guidance to modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance will be effective for annual reporting periods, and any interim periods within those annual periods, ending after December 15, 2020 and will be required to be applied on a retrospective basis, with early adoption permitted. Accordingly, the standard will be effective for the Company on August 29, 2021. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

In August 2018, the FASB issued guidance that addresses customer s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This guidance is effective for annual reporting periods, and any interim periods within those annual periods,

UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

that begin after December 15, 2019 with early adoption permitted. The amendments in this update can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Accordingly, the guidance will be effective for the Company on August 30, 2020. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

3. Revenue Recognition

The following table presents the Company s revenues for the thirteen and twenty-six weeks ended February 23, 2019 and February 24, 2018, respectively, disaggregated by service type:

	Thirteen weeks ended				Twenty-six weeks ended			
	February 23, 2019		February 24, 2018		February 23, 2019		February 24, 2018	
(In thousands, except percentages)	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues
Core Laundry Operations	$ 394,408	90.2%	$ 378,955	90.4%	$ 784,885	89.6%	$ 752,751	90.2%
Specialty Garments	29,745	6.8%	27,009	6.4%	64,193	7.3%	55,436	6.6%
First Aid	13,332	3.0%	13,300	3.2%	26,957	3.1%	26,855	3.2%
Total Revenues	$ 437,485	100.0%	$ 419,264	100.0%	$ 876,035	100.0%	$ 835,042	100.0%

For the thirteen weeks ended February 23, 2019, the percentage of revenues recognized over time as the services are performed was 95.3% of Core Laundry Operations revenues and 82.2% of Specialty Garments revenues. For the twenty-six weeks ended February 23, 2019, the percentage of revenues recognized over time as the services are performed was 95.3% of Core Laundry Operations revenues and 83.1% of Specialty Garments revenues. See Note 16 Segment Reporting for additional details of segment definitions. During the thirteen weeks ended February 23, 2019, 4.7% of Core Laundry Operations revenues, 17.8% of Specialty Garments revenues and 100% of First Aid revenues were recognized at a point in time, which generally occurs when the goods are transferred to the customer. During the twenty-six weeks ended February 23, 2019, 4.7% of Core Laundry Operations revenues, 16.9% of Specialty Garments revenues and 100% of First Aid revenues were recognized at a point in time, which generally occurs when the goods are transferred to the customer.

Revenue Recognition Policy

Approximately 91.0% of the Company s revenues are derived from fees for route servicing of Core Laundry Operations, Specialty Garments, and First Aid performed by the Company s employees at the customer s location of business. Revenues from the Company s route servicing customer contracts represent a single-performance obligation. The Company recognizes these revenues over time as services are performed based on the nature of services provided and contractual rates (input method). Certain of the Company s customer contracts, primarily within the Company s

Core Laundry Operations, include pricing terms and conditions that include components of variable consideration. The variable consideration is typically in the form of consideration due to a customer based on performance metrics specified within the contract. Specifically, some contracts contain discounts or rebates that the customer can earn through the achievement of specified volume levels. Each component of variable consideration is earned based on the Company s actual performance during the measurement period specified within the contract. To determine the transaction price, the Company estimates the variable consideration using the most likely amount method, based on the specific contract provisions and known performance results during the relevant measurement period. When determining if variable consideration should be constrained, the Company considers whether factors outside its control could result in a significant reversal of revenue. In making these assessments, the Company considers the likelihood and magnitude of a potential reversal. The Company s performance period generally corresponds with the monthly invoice period. No significant constraints on the Company s revenue recognition were applied during the thirteen and twenty-six weeks ended February 23, 2019. The Company reassesses these estimates during each reporting period. The Company maintains a liability for these discounts and rebates within accrued liabilities on the consolidated balance sheets. Variable consideration also includes consideration paid to a customer at the beginning of a contract. The Company capitalizes this consideration and amortizes it over the life of the contract as a reduction to revenue in accordance with the updated accounting guidance for revenue recognition. These assets are included in other assets on the consolidated balance sheets.

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Costs to Obtain a Contract

The Company defers commission expenses paid to its employee-partners when the commissions are deemed to be incremental for obtaining the route servicing customer contract. The deferred commissions are amortized on a straight-line basis over the expected period of benefit. The Company reviews the deferred commission balances for impairment on an ongoing basis. Deferred commissions are classified as current or noncurrent based on the timing of when the Company expects to recognize the expense. The current portion is included in prepaid expenses and other current assets and the non-current portion is included in other assets on the Company s consolidated balance sheets. As of February 23, 2019, the current and non-current assets related to deferred commissions totaled $10.8 million and $44.6 million, respectively. During the thirteen and twenty-six weeks ended February 23, 2019, the Company recorded $2.9 million and $5.7 million, respectively, of amortization expense related to deferred commissions. This expense is classified in selling and administrative expenses on the consolidated statements of income.

4. Business Acquisitions

During the twenty-six weeks ended February 23, 2019, the Company completed one business acquisition with an aggregate purchase price of approximately $0.1 million. The initial allocation of the purchase price is incomplete with respect to certain assets acquired. The results of operations of this acquisition have been included in the Company s consolidated financial results since its acquisition date. This acquisition was not significant in relation to the Company s consolidated financial results and, therefore, pro-forma financial information has not been presented.

5. Fair Value Measurements

The assets or liabilities measured at fair value on a recurring basis are summarized in the tables below (in thousands):

	As of February 23, 2019			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Cash equivalents	$ 123,900	$	$	$ 123,900
Pension plan assets		5,907		5,907
Foreign currency forward contracts		148		148
Total assets at fair value	$ 123,900	$ 6,055	$	$ 129,955

	As of August 25, 2018			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Cash equivalents	$ 103,190	$	$	$ 103,190

Pension plan assets		6,325		6,325
Foreign currency forward contracts		127		127
Total assets at fair value	$ 103,190	$ 6,452	$	$ 109,642

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.

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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 are included in prepaid expenses and other current assets and other long-term assets as of February 23, 2019 and August 25, 2018. 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.

6. Derivative Instruments and Hedging Activities

As of February 23, 2019, the Company had forward contracts with a notional value of approximately 12.1 million CAD outstanding and recorded the fair value of the contracts of $0.1 million in other long-term assets and $0.1 million in prepaid expenses and other current assets with a corresponding decrease in accumulated other comprehensive loss of $0.1 million, which was recorded net of tax. During the twenty-six weeks ended February 23, 2019, the Company reclassified $0.1 million from accumulated other comprehensive loss to revenue, related to the derivative financial instruments. The gain on these forward contracts that resulted in a decrease to accumulated other comprehensive loss as of February 23, 2019 is expected to be reclassified to revenues prior to its maturity on February 25, 2022.

7. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible U.S. and Canadian employees not under collective bargaining agreements. The Company matches a portion of the employee s contribution and may make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended February 23, 2019 and February 24, 2018 were $4.3 million and $3.9 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended February 23, 2019 and February 24, 2018 were $8.8 million and $8.0 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 and two frozen non-contributory defined benefit pension plans. The amounts charged to expense related to these plans for the thirteen weeks ended February 23, 2019 and February 24, 2018 were $0.5 million and $0.6 million, respectively. The amounts charged to expense related to these plans for the twenty-six weeks ended February 23, 2019 and February 24, 2018 were $1.1 million and $1.3 million, respectively.

8. Income Per Share

The Company calculates income per share by allocating income to its unvested participating securities as part of its income per share calculations. The following table sets forth the computation of basic income 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):

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Notes to Consolidated Financial Statements (Continued)

	Thirteen weeks ended		Twenty-six weeks ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net income available to shareholders	$ 47,606	$ 58,378	$ 85,926	$ 92,584
Allocation of net income for Basic:				
Common Stock	$ 39,923	$ 46,744	$ 72,061	$ 74,126
Class B Common Stock	7,683	11,634	13,865	18,458
	$ 47,606	$ 58,378	$ 85,926	$ 92,584
Weighted average number of shares for Basic:				
Common Stock	15,428	15,481	15,430	15,471
Class B Common Stock	3,710	4,816	3,710	4,816
	19,138	20,297	19,140	20,287
Income per share for Basic:				
Common Stock	$ 2.59	$ 3.02	$ 4.67	$ 4.79
Class B Common Stock	$ 2.07	$ 2.42	$ 3.74	$ 3.83

The Company is required to calculate diluted income per share 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 twenty-six weeks ended February 23, 2019, the Company s diluted income per share 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 income per share of Common Stock for the thirteen and twenty-six weeks ended February 23, 2019 (in thousands, except per share data):

	Thirteen weeks ended February 23, 2019			Twenty-six weeks ended February 23, 2019		
	Earnings to Common Shareholders	Common Shares	Income Per Share	Earnings to Common Shareholders	Common Shares	Income Per Share
As reported - Basic	$ 39,923	15,428	$ 2.59	$ 72,061	15,430	$ 4.67

Add: effect of dilutive potential common shares						
Share-Based Awards		94			118	
Class B Common Stock	7,683	3,710		13,865	3,710	
As reported Diluted	$ 47,606	19,232	$ 2.48	$ 85,926	19,258	$ 4.46

Share-based awards that would result in the issuance of 195 shares of Common Stock were excluded from the calculation of diluted income per share for the thirteen weeks ended February 23, 2019 because they were anti-dilutive. Share-based awards that would result in the issuance of 754 shares of Common Stock were excluded from the calculation of diluted income per share for the twenty-six weeks ended February 23, 2019 because they were anti-dilutive.

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UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the thirteen and twenty-six weeks ended February 24, 2018, the Company s diluted income per share 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 income per share of Common Stock for the thirteen and twenty-six weeks ended February 24, 2018 (in thousands, except per share data):

	Thirteen weeks ended February 24, 2018			Twenty-six weeks ended February 24, 2018		
	Earnings to Common Shareholders	Common Shares	Income Per Share	Earnings to Common Shareholders	Common Shares	Income Per Share
As reported - Basic	$ 46,744	15,481	$ 3.02	$ 74,126	15,471	$ 4.79
Add: effect of dilutive potential common shares						
Share-Based Awards		166			147	
Class B Common Stock	11,634	4,816		18,458	4,816	
As reported Diluted	$ 58,378	20,463	$ 2.85	$ 92,584	20,434	$ 4.53

Share-based awards that would result in the issuance of 4,368 shares of Common Stock were excluded from the calculation of diluted income per share for the thirteen weeks ended February 24, 2018 because they were anti-dilutive. Share-based awards that would result in the issuance of 1,001 shares of Common Stock were excluded from the calculation of diluted income per share for the twenty-six weeks ended February 24, 2018 because they were anti-dilutive.

9. Inventories

Inventories are stated at the lower of cost or net realizable value, net of any reserve for excess and obsolete inventory. Work-in-process and finished goods inventories consist of materials, labor and manufacturing overhead. 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 February 23, 2019 and August 25, 2018 were as follows (in thousands):

	February 23, 2019	August 25, 2018

Raw materials	$	17,006	$	18,508
Work in process		3,669		3,271
Finished goods		75,031		68,397
Total inventories	$	95,706	$	90,176

10. Goodwill and Other Intangible Assets

As discussed in Note 4, Business 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.

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Notes to Consolidated Financial Statements (Continued)

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

Balance as of August 25, 2018	$ 397,422
Other	(86)
Balance as of February 23, 2019	$ 397,336

During fiscal 2019, the Company reclassified $11.6 million of software from property, plant and equipment, net to intangible assets. Intangible assets information as of August 25, 2018 has been recast in the table that follows, to reflect this change.

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
February 23, 2019			
Customer contracts	$ 220,351	$ 158,841	$ 61,510
Software	45,921	32,628	13,293
Other intangible assets	35,027	32,223	2,804
	$ 301,299	$ 223,692	$ 77,607
August 25, 2018			
Customer contracts	$ 220,303	$ 152,985	$ 67,318
Software	$ 41,885	$ 30,305	$ 11,580
Other intangible assets	35,030	31,444	3,586
	$ 297,218	$ 214,734	$ 82,484

11. 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-six years.

A reconciliation of the Company s asset retirement liability for the twenty-six weeks ended February 23, 2019 was as follows (in thousands):