UNIFIRST CORP
Form 10-Q/A
April 07, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended February 26, 2011

OR

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

For the transition period from ________________ to ________________

Commission file number: 001-08504

UNIFIRST CORPORATION
(Exact name of Registrant as Specified in Its Charter)

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

(978) 658-8888
(Registrant’s Telephone Number, Including Area Code)

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

Yes ü 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 ü 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 ü 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 ü

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

The number of outstanding shares of UniFirst Corporation Common Stock and Class B Common Stock at April 1, 2011 were 14,962,479 and 4,902,569, respectively.

Explanatory Note

UniFirst Corporation is filing this Amendment No. 1 to its quarterly report on Form 10-Q for the quarter ended February 26, 2011, which was originally filed with the Securities and Exchange Commission on April 7, 2011, solely for the purpose of filing Exhibit 101 (XBRL Interactive Data), which was inadvertently omitted from the original filing. No other amendments are being made to the original filing. The full text of the Form 10-Q is being repeated in its entirety for the convenience of the reader.

UniFirst Corporation
Quarterly Report on Form 10-Q
For the Quarter ended February 26, 2011

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

UniFirst Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	Thirteen weeks ended February 26, 2011	Thirteen weeks ended February 27, 2010	Twenty-six weeks ended February 26, 2011	Twenty-six weeks ended February 27, 2010
Revenues	$ 278,595	$ 253,562	$ 551,685	$ 509,741
Operating expenses:				
Cost of revenues (1)	176,233	157,025	339,468	306,249
Selling and administrative expenses (1)	58,614	52,423	113,797	103,895
Depreciation and amortization	16,075	15,033	31,577	30,089
Total operating expenses	250,922	224,481	484,842	440,233
Income from operations	27,673	29,081	66,843	69,508
Other expense (income):				
Interest expense	2,202	2,185	4,405	4,369
Interest income	(654)	(545)	(1,236)	(1,069)
Exchange rate (gain) loss	(219)	783	(391)	582
Total other expense (income)	1,329	2,423	2,778	3,882
Income before income taxes	26,344	26,658	64,065	65,626
Provision for income taxes	10,067	10,432	24,024	25,824
Net income	$ 16,277	$ 16,226	$ 40,041	$ 39,802
Income per share – Basic:				
Common Stock	$ 0.86	$ 0.88	$ 2.12	$ 2.16
Class B Common Stock	$ 0.69	$ 0.71	$ 1.70	$ 1.73
Income per share – Diluted:				
Common Stock	$ 0.82	$ 0.83	$ 2.02	$ 2.05
Income allocated to – Basic:				
Common Stock	$ 12,750	$ 12,750	$ 31,356	$ 31,267
Class B Common Stock	$ 3,218	$ 3,476	$ 7,921	$ 8,535
Income allocated to – Diluted:				
Common Stock	$ 15,983	$ 16,226	$ 39,314	$ 39,802
Weighted average number of shares outstanding – Basic:				
Common Stock	14,778	14,467	14,766	14,454

Class B Common Stock	4,661	4,931	4,662	4,932
Weighted average number of shares outstanding – Diluted:				
Common Stock	19,528	19,477	19,503	19,455
Dividends declared per share:				
Common Stock	$ 0.0375	$ 0.0375	$ 0.0750	$ 0.0750
Class B Common Stock	$ 0.0300	$ 0.0300	$ 0.0600	$ 0.0600

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

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

UniFirst Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share data)	February 26, 2011	August 28, 2010(a)
Assets		
Current assets:		
Cash and cash equivalents	$ 107,487	$ 121,258
Receivables, less reserves of $5,062 and $4,102, respectively	124,237	105,247
Inventories	58,475	47,630
Rental merchandise in service	98,510	86,633
Prepaid and deferred income taxes	24,343	14,252
Prepaid expenses	4,316	3,004
Total current assets	417,368	378,024
Property, plant and equipment:		
Land, buildings and leasehold improvements	343,417	334,037
Machinery and equipment	386,243	370,088
Motor vehicles	127,371	121,135
Total property, plant and equipment	857,031	825,260
Less -- accumulated depreciation	467,808	444,061
Total property, plant and equipment, net	389,223	381,199
Goodwill	280,599	271,857
Customer contracts, net	57,296	56,528
Other intangible assets, net	2,274	2,509
Other assets	2,197	2,178
	$ 1,148,957	$ 1,092,295
Liabilities and shareholders' equity		
Current liabilities:		
Current maturities of long-term obligations	$ 80,371	$ 81,160
Accounts payable	44,081	45,931
Accrued liabilities	86,169	83,804
Total current liabilities	210,621	210,895
Long-term liabilities:		
Long-term debt, net of current maturities	100,197	100,304
Accrued liabilities	31,123	30,290
Accrued and deferred income taxes	48,123	42,756
Total long-term liabilities	179,443	173,350
Commitments and contingencies (Note 9)		

Shareholders' equity:				
Preferred stock, $1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding		—		—
Common Stock, $0.10 par value; 30,000,000 shares authorized; 14,961,179 and 14,913,379 issued and outstanding, respectively		1,496		1,491
Class B Common Stock, $0.10 par value; 20,000,000 shares authorized; 4,903,369 and 4,913,369 issued and outstanding, respectively		490		491
Capital surplus		29,827		25,329
Retained earnings		717,502		678,876
Accumulated other comprehensive income		9,578		1,863
Total shareholders' equity		758,893		708,050
	$	1,148,957	$	1,092,295

(a) Derived from audited financial statements

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

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

Twenty-six weeks ended (In thousands)	February 26, 2011	February 27, 2010
Cash flows from operating activities:		
Net income	$ 40,041	$ 39,802
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	26,574	25,619
Amortization of intangible assets	5,003	4,470
Amortization of deferred financing costs	133	133
Share-based compensation	3,492	848
Accretion on environmental contingencies	341	397
Accretion on asset retirement obligations	295	284
Deferred income taxes	5,620	(340)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(17,538)	(6,890)
Inventories	(10,602)	3,042
Rental merchandise in service	(10,165)	(846)
Prepaid expenses	(1,292)	(448)
Accounts payable	(2,138)	(1,760)
Accrued liabilities	3,798	3,876
Prepaid and accrued income taxes	(10,941)	(3,050)
Net cash provided by operating activities	32,621	65,137
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(16,326)	(13,156)
Capital expenditures	(31,191)	(27,840)
Other	35	(1,106)
Net cash used in investing activities	(47,482)	(42,102)
Cash flows from financing activities:		
Proceeds from long-term obligations	—	8,850
Payments on long-term obligations	(1,102)	(9,006)
Proceeds from exercise of Common Stock options	1,009	996
Payment of cash dividends	(1,414)	(1,381)
Net cash used in financing activities	(1,507)	(541)
Effect of exchange rate changes	2,597	1,604
Net (decrease) increase in cash and cash equivalents	(13,771)	24,098
Cash and cash equivalents at beginning of period	121,258	60,151
Cash and cash equivalents at end of period	$ 107,487	$ 84,249

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

UniFirst Corporation and Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Presentation

These Consolidated Financial Statements of UniFirst Corporation (the "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 financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 28, 2010. 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 January 2010, the FASB issued revised guidance which requires additional disclosures about items transferring into and out of Levels 1 and 2 measurements in the fair value hierarchy. The revised guidance also requires additional separate disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, and clarifies, among other things, the existing fair value disclosures about the level of disaggregation. This pronouncement was effective for interim and annual financial periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, which are effective for interim and annual financial periods beginning after December 15, 2010. The Company partially adopted this revised guidance on February 28, 2010, as required, and the adoption did not have a material impact on the Company's Consolidated Financial Statements. The Company also does not expect the adoption of the delayed portion of the revised guidance to have a material impact on its Consolidated Financial Statements.

3. Acquisitions

During the twenty-six weeks ended February 26, 2011, the Company completed six acquisitions with an aggregate purchase price of approximately $16.3 million. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. None of these acquisitions was significant in relation to the Company's consolidated financial results and, therefore, pro forma financial information has not been presented.

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 table below (in thousands):

	As of February 26, 2011			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents	$ 30,872	$ —	$ —	$ 30,872
Total	$ 30,872	$ —	$ —	$ 30,872
Liabilities:				
Interest rate swap	$ —	$ 125	$ —	$ 125
Total	$ —	$ 125	$ —	$ 125

5. Derivative Instruments and Hedging Activities

All derivative financial instruments are recognized at fair value and are recorded in accrued liabilities in the Company’s Consolidated Balance Sheets. In January 2008, the Company entered into an interest rate swap agreement to manage its exposure to interest rate movements and the related effect on its variable rate debt. The Company concluded that the interest rate swap met the criteria to qualify as a cash flow hedge under US GAAP. Accordingly, the Company has reflected all changes in the fair value of the swap agreement in accumulated other comprehensive income, a component of shareholders’ equity. The swap agreement, with a notional amount of $100.0 million, matured on March 14, 2011. The Company paid a fixed rate of 3.51% and received a variable rate tied to the three month LIBOR rate.

As of February 26, 2011, the Company had recorded the fair value of the interest rate swap of $0.1 million in current accrued liabilities and a corresponding loss of $0.1 million in accumulated other comprehensive income, which was net of the associated tax benefit. As of August 28, 2010, the amounts recorded in accrued liabilities and other comprehensive income were $1.6 million and $1.0 million, respectively. The $0.1 million loss deferred in accumulated other comprehensive income as of February 26, 2011 was expected to be reclassified to interest expense prior to the swap agreement maturity on March 14, 2011.

The Company has recorded any realized gains or losses from its interest rate swap as an adjustment to interest expense in its Consolidated Statements of Income. For both the thirteen weeks ended February 26, 2011 and February 27, 2010, the Company reclassified a loss from accumulated other comprehensive income into interest expense totaling $0.8 million. For both the twenty-six weeks ended February 26, 2011 and February 27, 2010, the Company reclassified a loss from accumulated other comprehensive income into interest expense totaling $1.6 million.

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 employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended February 26, 2011 and February 27, 2010 were $2.6 million and $2.7 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended February 26, 2011 and February 27, 2010 were $5.2 million and $5.3 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 February 26, 2011 and February 27, 2010 was $0.5 million. The amounts charged to expense related to these plans for the twenty-six weeks ended February 26, 2011 and February 27, 2010 were $1.0 million and $0.9 million, respectively.

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		Twenty-six weeks ended	
	February 26, 2011	February 27, 2010	February 26, 2011	February 27, 2010
Net income	$ 16,277	$ 16,226	$ 40,041	$ 39,802
Allocation of net income for Basic:				
Common Stock	$ 12,750	$ 12,750	$ 31,356	$ 31,267
Class B Common Stock	3,218	3,476	7,921	8,535
Unvested participating shares	309	—	764	—
	$ 16,277	$ 16,226	$ 40,041	$ 39,802
Weighted average number of shares for Basic:				
Common Stock	14,778	14,467	14,766	14,454
Class B Common Stock	4,661	4,931	4,662	4,932
Unvested participating shares	408	—	410	—
	19,847	19,398	19,838	19,386
Earnings per share for Basic:				
Common Stock	$ 0.86	$ 0.88	$ 2.12	$ 2.16
Class B Common Stock	0.69	0.71	1.70	1.73

For diluted EPS, 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 twenty-six weeks ended February 26, 2011, 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 follows (in thousands, except per share data):

	Thirteen weeks ended February 26, 2011			Twenty-six weeks ended February 26, 2011		
	Earnings to Common shareholders	Common Shares	EPS	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	$ 12,750	14,778	$ 0.86	$ 31,356	14,766	$ 2.12
Add: effect of dilutive potential common shares						
Share-based awards	—	89		—	75	
Class B Common Stock	3,218	4,661		7,921	4,662	
Add: Undistributed earnings allocated to unvested participating shares	295	—		737	—	
Less: Undistributed earnings reallocated to unvested participating shares	(280)	—		(700)	—	
Diluted EPS – Common Stock	$ 15,983	19,528	$ 0.82	$ 39,314	19,503	$ 2.02

Share-based awards that would result in the issuance of 19,197 and 127,780 shares of Common Stock were excluded from the calculation of diluted earnings per share for the thirteen and twenty-six weeks ended February 26, 2011, respectively, because they were anti-dilutive.

For the thirteen and twenty-six weeks ended February 27, 2010, the Company's diluted EPS was calculated using the treasury stock method as follows (in thousands, except per share data):

	Thirteen weeks ended February 27, 2010	Twenty-six weeks ended February 27, 2010

	Earnings to Common shareholders	Common Shares	EPS	Earnings to Common shareholders	Common Shares	EPS
As reported - Basic	$ 12,750	14,467	$ 0.88	$ 31,267	14,454	$ 2.16
Add: effect of dilutive potential common shares						
Share-based awards	—	79		—	69	
Class B Common Stock	3,476	4,931		8,535	4,932	
Diluted EPS – Common Stock	$ 16,226	19,477	$ 0.83	$ 39,802	19,455	$ 2.05

Share-based awards that would result in the issuance of 110,300 shares of Common Stock were excluded from the calculation of diluted earnings per share for both the thirteen and twenty-six weeks ended February 27, 2010 because they were anti-dilutive.

For the thirteen and twenty-six weeks ended February 27, 2010, the diluted earnings per share calculations assumed the conversion of all of the Company's Class B Common Stock into Common Stock; therefore, no allocation of earnings to Class B Common Stock was required.

8. 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 thirty-three years.

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

	February 26, 2011
Beginning balance as of August 28, 2010	$ 8,899
Accretion expense	295
Ending balance as of February 26, 2011	$ 9,194

As of February 26, 2011, the $9.2 million asset retirement obligation is included in current accrued liabilities in the accompanying Consolidated Balance Sheet.

9. Commitments and Contingencies

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

improper disposal. In the past, the Company has settled, or contributed to the settlement of, actions or claims brought against the Company relating to the disposal of hazardous materials and there can be no assurance that the Company will not have to expend material amounts to remediate the consequences of any such disposal in the future.

US GAAP requires that a liability for contingencies be recorded when it is probable that a liability has occurred and the amount of the liability can be reasonably estimated. Significant judgment is required to determine the existence of a liability, as well as the amount to be recorded. The Company regularly consults with attorneys and outside consultants 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, insurance proceeds, participation by other parties, the timing of payments and the input of outside consultants and attorneys based on changing legal or factual circumstances could have a material impact on the amounts recorded for environmental and other contingent liabilities.

Under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on, or in, or emanating from, such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of, or was responsible for the presence of such hazardous or toxic substances. There can be no assurances that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon the Company under such laws or expose the Company to third-party actions such as tort suits. The Company continues to address environmental conditions under terms of consent orders negotiated with the applicable environmental authorities or otherwise with respect to sites located in or related to Woburn, Massachusetts, Somerville, Massachusetts, Springfield, Massachusetts, Uvalde, Texas, Stockton, California, three sites related to former operations in Williamstown, Vermont, as well as a number of additional locations that it acquired as part of its acquisition of Textilease Corporation in September 2003. In addition, the Company is investigating potential contamination at its Landover, Maryland facility in response to a notice it received in 2010 from the Maryland Department of Environment.

The Company has accrued certain costs related to the sites described above as it has been determined that the costs are probable and can be reasonably estimated. The Company continues to implement mitigation measures and to monitor environmental conditions at the Somerville, Massachusetts site. The Company also has potential exposure related to an additional parcel of land (the "Central Area") related to the Woburn, Massachusetts site discussed above. Currently, the consent 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 has accrued costs to perform certain work responsive to EPA's comments.

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

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

- The typical allocation of costs among PRPs.

There is usually a range of reasonable estimates of the costs associated with each site. The Company's accruals reflect the amount within the range that constitutes its best estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using current risk-free interest rates. As of February 26, 2011, the risk-free interest rates utilized by the Company ranged from 3.4% to 4.5%.

For environmental liabilities that have been discounted, the Company includes interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the Company's environmental liabilities for the twenty-six weeks ended February 26, 2011 are as follows (in thousands):

	February 26, 2011
Beginning balance as of August 28, 2010	$ 18,986
Costs incurred for which reserves have been provided	(1,161)
Insurance proceeds received	139
Interest accretion	341
Change in discount rates	(1,310)
Balance as of February 26, 2011	$ 16,995

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of February 26, 2011, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below (in thousands).

Fiscal year ended August	2011	2012	2013	2014	2015	Thereafter	Total
Estimated costs – current dollars	$ 2,884	$ 3,061	$ 1,806	$ 934	$ 804	$ 13,002	$ 22,491
Estimated insurance proceeds	(18)	(180)	(150)	(180)	(150)	(2,048)	(2,726)
Net anticipated costs	$ 2,866	$ 2,881	$ 1,656	$ 754	$ 654	$ 10,954	$ 19,765
Effect of Inflation							7,644
Effect of Discounting							(10,414)
Balance as of February 26, 2011							$ 16,995

Estimated insurance proceeds are primarily received from an annuity received as part of a legal settlement with an insurance company. Annual proceeds of approximately $0.3 million are deposited into an escrow account which funds remediation and monitoring costs for three sites related to former operations in Williamstown, Vermont. Annual proceeds received but not expended in the current year accumulate in this account and may be used in future years for costs related to this site through the year 2027. As of February 26, 2011, the balance in this escrow account, which is held in a trust and is not recorded in the Company's Consolidated Balance Sheet, was approximately $2.8 million. Also

included in estimated insurance proceeds are amounts the Company is entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

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

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

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

10. Income Taxes

The Company's effective income tax rate was 38.2% and 37.5% for the thirteen and twenty-six weeks ended February 26, 2011, respectively, as compared to 39.1% and 39.4% for the thirteen and twenty-six weeks ended February 27, 2010, respectively. The decrease in the effective income tax rate was due to the reversal of tax contingency reserves related to the resolution of certain state tax audits as well as decreases in the Canadian federal and provincial tax rates. 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 twenty-six weeks ended February 26, 2011, there were no material changes in the amount of unrecognized tax benefits or the amount accrued for interest and penalties.

All U.S. and Canadian federal income tax examinations have substantially concluded through fiscal years 2006 and 2003, respectively. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2005. 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.

11. Long-Term Obligations

The Company has a $225.0 million unsecured revolving credit agreement ("Credit Agreement") with a syndicate of banks, which matures on September 13, 2011. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on the Eurodollar rate or the bank's prime rate, as selected by the Company. Availability of credit requires compliance with certain financial and other covenants, including a maximum funded debt ratio and minimum interest coverage as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. At February 26, 2011, the interest rates applicable to the Company's borrowings under the Credit Agreement would be calculated as LIBOR plus 50 basis points at the time of the respective borrowing. As of February 26, 2011, the Company had no outstanding borrowings, letters of credit amounting to $39.2 million, and $185.8 million available for borrowing under the Credit Agreement.

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

September 2006.

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

As of February 26, 2011, the Company was in compliance with all covenants under the Credit Agreement, the Note Agreement and the 2006 Note Agreement.

The Company's Credit Agreement expires and their fixed rate notes mature in 2011. The Company is currently in the process of evaluating refinancing alternatives for its Credit Agreement. The Company believes that it will be able to enter into a new revolving credit facility agreement on terms satisfactory to the Company and that the repayment or refinancing of the Fixed Rate Notes will not adversely affect its financial condition. If the Company chooses not to refinance, it would utilize its current cash reserves to satisfy this debt obligation. The Company believes that utilizing its cash in this manner would not negatively impact its liquidity or operations.

12. Other Comprehensive Income

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

	Thirteen weeks ended		Twenty-six weeks ended	
	February 26, 2011	February 27, 2010	February 26, 2011	February 27, 2010
Net income	$ 16,277	$ 16,226	$ 40,041	$ 39,802
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	3,907			