

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 quarter ended
May 26, 2001

Commission File
Number 1-8504

UNIFIRST CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts
(State of Incorporation)

04-2103460
(IRS Employer ID Number)

68 Jonspin Road
Wilmington, Massachusetts 01887
(Address of principal executive offices)

Registrant's telephone number: (978) 658-8888

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 ☐

The number of outstanding shares of the registrant's Common Stock and Class B Common Stock as of July 2, 2001 were 8,976,634 and 10,243,744 respectively.

PART 1 - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
FORM 10-Q

UNIFIRST CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

(In thousands, except per share data)	May 26, 2001	August 26, 2000*	May 27, 2000
Assets			
Current assets:			
Cash	\$ 8,302	\$ 7,137	\$ 1,850
Receivables	58,210	54,015	55,958
Inventories	22,880	27,598	24,551
Rental merchandise in service	61,885	59,256	58,359
Prepaid expenses	296	299	218
Total current assets	151,573	148,305	140,936
Property and equipment:			
Land, buildings and leasehold improvements	199,567	194,619	193,228
Machinery and equipment	217,355	205,883	202,644
Motor vehicles	57,630	53,535	53,606
Less - accumulated depreciation	474,552	454,037	449,478
	208,949	191,704	188,930

	265,603	262,333	260,548
Other assets	84,888	89,512	91,104
	\$ 502,064	\$ 500,150	\$ 492,588
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Liabilities and Shareholders' Equity			
Current liabilities:			
Current maturities of long-term obligations	\$ 1,900	\$ 1,903	\$ 1,544
Notes payable	1,315	1,118	2,374
Accounts payable	13,070	19,718	16,692
Accrued liabilities	57,913	47,170	50,867
Accrued and deferred income taxes	12,966	12,294	12,411
Total current liabilities	87,164	82,203	83,888
Long-term obligations, net of current maturities	111,000	124,735	121,093
Deferred income taxes	22,760	22,040	21,025
Shareholders' equity:			
Preferred stock, \$1.00 par value; 2,000,000 shares authorized; none issued	--	--	--
Common stock, \$.10 par value; 30,000,000 shares authorized; issued 10,499,634 shares	1,051	1,050	1,050
Class B Common stock, \$.10 par value; 20,000,000 shares authorized; issued and outstanding 10,243,744 shares	1,025	1,026	1,026
Treasury stock, 1,535,000 shares, at cost	(24,755)	(20,049)	(20,049)
Capital surplus	12,438	12,438	12,438
Retained earnings	294,205	278,676	274,372
Accumulated other comprehensive income	(2,824)	(1,969)	(2,255)
Total shareholders' equity	281,140	271,172	266,582
	\$ 502,064	\$ 500,150	\$ 492,588
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* Condensed from audited financial statements

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

FORM 10-Q

UNIFIRST CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Thirty-nine weeks ended May 26, 2001	Thirty-nine weeks ended May 27, 2000	Thirteen weeks ended May 26, 2001	Thirteen weeks ended May 27, 2000
(In thousands, except per share data)				
Revenues	\$ 418,196	\$ 396,570	\$ 140,625	\$ 134,497
Costs and expenses:				
Operating costs	259,375	248,265	87,268	83,742
Selling and administrative expenses	94,638	93,492	31,749	31,481
Depreciation and amortization	27,734	25,652	9,277	8,576
	381,747	367,409	128,294	123,799
Income from operations	36,449	29,161	12,331	10,698
Other expense (income):				
Interest expense	7,440	5,356	2,336	1,898

Interest income	(871)	(234)	(289)	(69)
Interest rate swap expense	1,678	--	33	--
	8,247	5,122	2,080	1,829
Income before income taxes	28,202	24,039	10,251	8,869
Provision for income taxes	10,717	9,135	3,895	3,370
Net income	\$ 17,485	\$ 14,904	\$ 6,356	\$ 5,499
Weighted average number of shares outstanding -- basic	19,413	19,672	19,256	19,664
Weighted average number of shares outstanding -- diluted	19,421	19,672	19,274	19,664
Net income per share - basic & diluted	\$ 0.90	\$ 0.76	\$ 0.33	\$ 0.28

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

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UNIFIRST CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In thousands)	Thirty-Nine weeks ended May 26, 2001	Thirty-Nine weeks ended May 27, 2000
Cash flows from operating activities:		
Net Income	\$ 17,485	\$ 14,904
Adjustments:		
Depreciation	22,453	20,715
Amortization of other assets	5,281	4,937
Interest rate swap expense	1,678	--
Changes in assets and liabilities, net of acquisitions:		
Receivables	(4,340)	(4,203)
Inventories	4,497	3,530
Rental merchandise in service	(2,783)	(2,630)
Prepaid expenses	2	(19)
Accounts payable	(6,486)	(1,036)
Accrued liabilities	9,093	4,215
Accrued and deferred income taxes	717	4,669
Deferred income taxes	750	346
Net cash provided by operating activities	48,347	45,428
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	--	(5,358)
Capital expenditures	(26,140)	(39,158)
Increase in other assets	(855)	(5,008)
Net cash used in investing activities	(26,995)	(49,524)
Cash flows from financing activities:		
Increase in debt	831	11,074
Reduction of debt	(14,356)	(2,592)
Repurchase of common stock	(4,706)	(3,466)
Cash dividends	(1,956)	(1,982)

Net cash provided by (used in) financing activities	(20,187)	3,034
Net increase (decrease) in cash	1,165	(1,062)
Cash at beginning of period	7,137	2,912
Cash at end of period	\$ 8,302	\$ 1,850
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,888	\$ 5,077
Income taxes paid	9,325	4,139

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

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UNIFIRST CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTY-NINE WEEKS ENDED MAY 26, 2001

- These condensed consolidated financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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 to a fair statement of results for the interim period. It is suggested that these condensed consolidated financial statements should be read in conjunction with the financial statements and the notes, thereto, included in the Company's latest annual report on Form 10-K. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.
- From time to time, the Company is subject to legal proceedings and claims arising from the conduct of its business operations, including legal proceedings and claims relating to personal injury, customer contract, employment and environmental matters. In the opinion of management, such proceedings and claims are not likely to result in losses which would have a material adverse effect upon the financial position or results of operations of the Company.
- The components of comprehensive income for the thirty-nine and thirteen week periods ended May 26, 2001 and May 27, 2000 were as follows:

(in thousands)	Thirty-nine weeks ended May 26, 2001	Thirty-nine weeks ended May 27, 2000	Thirteen weeks ended May 26, 2001	Thirteen weeks ended May 27, 2000
Net income	\$17,485	\$14,904	\$6,356	\$5,499
Other comprehensive income:				
Foreign currency translation adjustments	(855)	(307)	74	(844)
Comprehensive income	\$16,630	\$14,597	\$6,430	\$4,655

- Net income per share is calculated using the weighted average number of common and dilutive potential common shares outstanding during the year. A total of 107,800 dilutive shares have been included in the weighted average

number of common and dilutive potential common shares outstanding for the thirty-nine and thirteen weeks ended May 26, 2001.

5. Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended ("SFAS 133"), establishes standards for accounting and reporting derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. Effective August 27, 2000, the Company adopted SFAS 133. The Company has entered into interest rate swap agreements to manage its exposure to movements in interest rates on its variable rate debt. The swap agreements are cash flow hedges and are used to manage exposure to interest rate movement by effectively changing the variable rate to a fixed rate. Such instruments are matched with underlying borrowings. SFAS 133 eliminates special hedge accounting if a swap agreement does not meet certain criteria, thus requiring the Company to reflect all changes in the fair value of the swap agreement in earnings in the period of change. Since the Company's current swap agreement does not meet the required criteria necessary to use special hedge accounting, the Company recorded a \$33 thousand charge, for the quarter ended May 26, 2001, through other expense, as a result of the change in the fair value of the swap agreement.

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6. The Company has restated the results of its operations for the first two quarters of fiscal 2001 due to the adoption of SFAS No. 133. As previously disclosed, the Company has an interest rate swap agreement with a bank with a notional amount of \$40 million and a fixed pay rate of 6.38%. This agreement matures on October 13, 2004, but allows the bank to terminate the agreement on October 15, 2002. SFAS No. 133 requires that any changes in the agreement's fair market value be reflected in earnings in the period of the change. The adoption of this accounting standard has resulted in a fiscal 2001 year-to-date charge of \$1.7 million, which is reflected on the Condensed Consolidated Statements of Income in the Other expense (income) section. This reduced earnings per share by \$.01 and \$.04 in the first and second quarters, respectively.

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FORM 10-Q
UNIFIRST CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS
OF OPERATIONS AND FINANCIAL CONDITION

FOR THE THIRTY-NINE WEEKS ENDED MAY 26, 2001

RESULTS OF OPERATIONS

THIRTY-NINE WEEKS OF FISCAL 2001 COMPARED WITH THIRTY-NINE WEEKS OF FISCAL 2000

Revenues. Revenues for the first thirty-nine weeks of fiscal 2001 increased \$21.6 million or 5.5% to \$418.2 million as compared with \$396.6 million for the first thirty-nine weeks of fiscal 2000. This increase can be attributed to growth from existing operations (4.2%), price increases (1.0%) and acquisitions (0.3%). Growth from existing operations was primarily from the conventional uniform rental business (3.3%) and from the nuclear garment services business (0.9%). The increase in revenues from acquisitions resulted from one acquisition made in fiscal 2000.

Operating Costs. Operating costs increased to \$259.4 million for the first thirty-nine weeks of fiscal 2001 as compared with \$248.3 million for the same period of fiscal 2000. As a percentage of revenues, operating costs decreased to 62.0% from 62.6% for these periods, primarily due to lower merchandise costs resulting from improved product utilization, offset somewhat by significant increases in energy related costs such as natural gas, electricity and fuel.

Selling and Administrative Expenses. The Company's selling and administrative expenses increased to \$94.6 million, or 22.6% of revenues, for the first thirty-nine weeks of fiscal 2001 as compared with \$93.5 million, or 23.6% of revenues, for the same period in fiscal 2000. These costs were favorably impacted by a \$1.1 million settlement received in the first quarter of fiscal 2001 from a lawsuit related to the Company's nuclear garment services business. Excluding this settlement, these expenses would have been \$95.7 million, or

22.9% of revenues, for the first thirty-nine weeks of fiscal 2001.

Depreciation and Amortization. The Company's depreciation and amortization expense increased to \$27.7 million or 6.6% of revenues for the first thirty-nine weeks of fiscal 2001, comparable to \$25.7 million or 6.5% of revenues for the same period in fiscal 2000.

Other Expense (Income). Net interest expense (interest expense less interest income) was \$6.6 million, or 1.6% of revenues, for the first thirty-nine weeks of fiscal 2001 as compared with \$5.1 million, or 1.3% of revenues, for the same period in fiscal 2000. This increase is primarily attributable to higher interest rates during the first thirty-nine weeks of fiscal 2001, offset somewhat by higher interest income resulting from charges to customers for overdue receivable balances. Interest rate swap expense was \$1.7 million, or 0.4% of revenues, for the first thirty-nine weeks of fiscal 2001 due to the implementation of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. See Note 6 for a further discussion of the impact of this change.

Income Taxes. The Company's effective income tax rate was 38.0% for both the first thirty-nine weeks of fiscal 2001 and the first thirty-nine weeks of fiscal 2000.

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THIRTEEN WEEKS ENDED MAY 26, 2001 COMPARED TO THIRTEEN WEEKS ENDED MAY 27, 2000

Revenues. Fiscal 2001 third quarter revenues increased \$6.1 million or 4.6% to \$140.6 million as compared with \$134.5 million for the fiscal 2000 third quarter. This increase can be attributed to growth from existing operations (3.3%), price increases (1.0%) and acquisitions (.3%). Growth from existing operations was primarily from the conventional uniform rental business (2.7%) and from the nuclear garment services business (0.6%). The increase in revenues from acquisitions resulted from one acquisition made in fiscal 2000.

Operating Costs. Operating costs increased to \$87.3 million for the third quarter of fiscal 2001 as compared with \$83.7 million for the same period of fiscal 2000. As a percentage of revenues, operating costs decreased to 62.1% from 62.3% for these periods primarily due to lower merchandise costs, resulting from improved product utilization, offset somewhat by significant increases in energy related costs such as natural gas, electricity and fuel.

Selling and Administrative Expenses. The Company's selling and administrative expenses increased to \$31.7 million, or 22.6% of revenues, for the third quarter of fiscal 2001, comparable to \$31.5 million, or 23.4% of revenues, for the same period in fiscal 2000.

Depreciation and Amortization. The Company's depreciation and amortization expense increased to \$9.3 million, or 6.6% of revenues, for the third quarter of fiscal 2001, comparable to \$8.6 million, or 6.4% of revenues, for the same period in fiscal 2000.

Other Expense (Income). Net interest expense (interest expense less interest income) was \$2.0 million, or 1.5% of revenues, for the third quarter of fiscal 2001 as compared with \$1.8 million, or 1.4% of revenues, for the same period in fiscal 2000. This increase is primarily attributable to higher interest rates in the fiscal 2001 third quarter, offset somewhat by higher interest income resulting from charges to customers for overdue receivable balances. Interest rate swap expense was \$33.0 thousand for the third quarter of fiscal 2001 due to the implementation of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. See Note 6 for a further discussion of the impact of this change.

Income Taxes. The Company's effective income tax rate was 38.0% for both the third quarter of fiscal 2001 and the third quarter of fiscal 2000.

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LIQUIDITY AND CAPITAL RESOURCES

Shareholders' equity at May 26, 2001 was \$281.1 million, or 71.3% of total capitalization.

During the thirty-nine weeks ended May 26, 2001 net cash provided by operating activities (\$48.3 million) was primarily used for capital expenditures (\$26.1

million), debt repayment (\$14.4 million), repurchase of common stock (\$4.7 million) and dividends (\$2.0 million).

The Company had \$8.3 million in cash and \$51.3 million available on its \$170 million unsecured line of credit with a syndicate of banks as of May 26, 2001. The Company believes its generated cash from operations and its borrowing capacity will adequately cover its foreseeable capital requirements.

SEASONALITY

Historically, the Company's revenues and operating results have varied from quarter to quarter and are expected to continue to fluctuate in the future. These fluctuations have been due to a number of factors, including: general economic conditions in the Company's markets; the timing of acquisitions and of commencing start-up operations and related costs; the effectiveness of integrating acquired businesses and start-up operations; the timing of nuclear plant outages; capital expenditures; seasonal rental and purchasing patterns of the Company's customers; and price changes in response to competitive factors. In addition, the Company's operating results historically have been lower during the second and fourth fiscal quarters than during the other quarters of the fiscal year. The operating results for any historical quarter are not necessarily indicative of the results to be expected for an entire fiscal year or any other interim periods.

EFFECTS OF INFLATION

Inflation has had the effect of increasing the reported amounts of the Company's revenues and costs. The Company uses the last-in, first-out (LIFO) method to value a significant portion of inventories. This method tends to reduce the amount of income due to inflation included in the Company's results of operations. The Company believes that, through increases in its prices and productivity improvements, it has been able to recover increases in costs and expenses attributable to inflation.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS

Forward looking statements contained in this quarterly report are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995 and are highly dependent upon a variety of important factors that could cause actual results to differ materially from those reflected in such forward looking statements. Such factors include uncertainties regarding the transfer of the Company's manufacturing facilities to new facilities in Mexico, the Company's ability to consummate and successfully integrate acquired businesses, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, the Company's ability to compete successfully without any significant degradation in its margin rates, seasonal fluctuations in business levels, uncertainties regarding the price levels of natural gas, electricity and fuel, control of the Company by the Croatti family and general economic conditions. When used in this quarterly report, the words "intend," "anticipate," "believe," "estimate," and "expect" and similar expressions as they relate to the Company are included to identify such forward looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Exchange Risk

Management has determined that all of the Company's foreign subsidiaries operate primarily in local currencies that represent the functional currencies of the subsidiaries. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars using the exchange rate prevailing at the balance sheet date, while income and expense accounts are translated at average exchange rates during the year. As such, the Company's operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries, as a result of the Company's transactions in these foreign markets. The Company does not operate a hedging program to mitigate the effect of a significant rapid change in the value of the Canadian Dollar, Euro or Mexican Peso as compared to the U.S. dollar. If such a change did occur, the Company would have to take into account a currency exchange gain or loss in the amount of the change in the U.S. dollar denominated balance of the amounts outstanding at the time of such change. While the Company does not believe such a gain or loss is likely, and would not likely be material, there can be no assurance that such a loss would not have an adverse material effect on the

Company's results of operations or financial condition.

Interest Rate Risk

The Company is exposed to market risk from changes in interest rates which may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities. In fiscal 2000 the Company entered into an interest rate swap agreement with a bank, notional amount \$40 million, maturing October 13, 2004. The Company pays a fixed rate of 6.38% and receives a variable rate tied to the LIBOR rate. As of May 26, 2001 the variable rate was 4.76%. On October 15, 2002, the bank has the option to terminate the swap agreement without further obligation to make payments to the Company. See Note 6 for a discussion of the fair market value of the Company's interest rate swap agreement.

The Company is exposed to interest rate risk primarily through its borrowings under its \$170 million unsecured line of credit with a syndicate of banks. Under the line of credit, the Company may borrow funds at variable interest rates based on the Eurodollar rate or the bank's money market rate, as selected by the Company. As of May 26, 2001 and May 27, 2000, the fair market value of the Company's outstanding debt approximates its carrying value.

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PART II - OTHER INFORMATION

FORM 10-Q UNIFIRST CORPORATION AND SUBSIDIARIES

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf of the undersigned thereunto duly authorized.

UNIFIRST CORPORATION

/s/ RONALD D. CROATTI

Ronald D. Croatti
President and Chief Executive Officer

Date: July 10, 2001

/s/ JOHN B. BARTLETT

John B. Bartlett
Senior Vice President
and Chief Financial Officer