

**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 25, 2023

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  
(State or Other Jurisdiction of  
Incorporation or Organization)  
**68 Jonspin Road, Wilmington, MA**  
(Address of Principal Executive Offices)

**04-2103460**  
(I.R.S. Employer  
Identification No.)  
**01887**  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.10 par value per share	UNF	New York Stock Exchange

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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 April 3, 2023 were 15,103,752 and 3,590,295, respectively.

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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		Twenty-six weeks ended	
	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Revenues	\$ 542,691	\$ 486,696	\$ 1,084,489	\$ 972,860
Operating expenses:				
Cost of revenues (1)	369,896	324,816	723,868	634,946
Selling and administrative expenses (1)	122,190	112,406	239,553	216,794
Depreciation and amortization	29,895	26,861	56,940	53,717
Total operating expenses	521,981	464,083	1,020,361	905,457
Operating income	20,710	22,613	64,128	67,403
Other (income) expense:				
Interest income, net	(3,031)	(751)	(5,800)	(1,399)
Other expense, net	114	594	905	1,330
Total other income, net	(2,917)	(157)	(4,895)	(69)
Income before income taxes	23,627	22,770	69,023	67,472
Provision for income taxes	5,817	4,319	17,256	15,316
Net income	\$ 17,810	\$ 18,451	\$ 51,767	\$ 52,156
<b>Income per share – Basic:</b>				
Common Stock	\$ 0.99	\$ 1.02	\$ 2.88	\$ 2.88
Class B Common Stock	\$ 0.79	\$ 0.81	\$ 2.31	\$ 2.30
<b>Income per share – Diluted:</b>				
Common Stock	\$ 0.95	\$ 0.97	\$ 2.76	\$ 2.75
<b>Income allocated to – Basic:</b>				
Common Stock	\$ 14,962	\$ 15,492	\$ 43,488	\$ 43,792
Class B Common Stock	\$ 2,848	\$ 2,959	\$ 8,279	\$ 8,364
<b>Income allocated to – Diluted:</b>				
Common Stock	\$ 17,810	\$ 18,451	\$ 51,767	\$ 52,156
<b>Weighted average shares outstanding – Basic:</b>				
Common Stock	15,087	15,210	15,084	15,225
Class B Common Stock	3,590	3,635	3,590	3,635
<b>Weighted average shares outstanding – Diluted:</b>				
Common Stock	18,767	18,967	18,757	18,999

(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.

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

(In thousands)	Thirteen weeks ended		Twenty-six weeks ended	
	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Net income	\$ 17,810	\$ 18,451	\$ 51,767	\$ 52,156
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,473)	1,149	(3,251)	(1,650)
Change in fair value of derivatives, net of income taxes	84	(40)	156	45
Derivative financial instruments reclassified to earnings	(25)	(15)	(45)	(53)
Other comprehensive (loss) income	(1,414)	1,094	(3,140)	(1,658)
Comprehensive income	\$ 16,396	\$ 19,545	\$ 48,627	\$ 50,498

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

**Consolidated Balance Sheets**  
**UniFirst Corporation and Subsidiaries**  
(Unaudited)

(In thousands, except share and par value data)	February 25, 2023	August 27, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 244,098	\$ 376,399
Short-term investments	101,000	—
Receivables, less reserves of \$19,751 and \$15,605	276,560	249,198
Inventories	150,907	151,459
Rental merchandise in service	232,543	219,392
Prepaid taxes	12,601	25,523
Prepaid expenses and other current assets	49,571	41,921
Total current assets	<u>1,067,280</u>	<u>1,063,892</u>
Property, plant and equipment, net	685,182	665,119
Goodwill	461,050	457,259
Customer contracts, net	46,358	49,053
Other intangible assets, net	36,609	35,920
Deferred income taxes	511	498
Operating lease right-of-use assets, net	48,543	50,050
Other assets	108,787	106,181
Total assets	<u>\$ 2,454,320</u>	<u>\$ 2,427,972</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 80,556	\$ 82,131
Accrued liabilities	137,108	146,808
Accrued taxes	—	1,204
Operating lease liabilities, current	14,472	13,602
Total current liabilities	<u>232,136</u>	<u>243,745</u>
Accrued liabilities	123,764	123,979
Accrued and deferred income taxes	107,697	106,307
Operating lease liabilities	35,635	38,070
Total liabilities	<u>499,232</u>	<u>512,101</u>
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; 15,103,416 and 15,075,425 shares issued and outstanding as of February 25, 2023 and August 27, 2022, respectively	1,510	1,508
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 3,590,295 and 3,590,295 shares issued and outstanding as of February 25, 2023 and August 27, 2022, respectively	359	359
Capital surplus	94,861	93,131
Retained earnings	1,885,788	1,845,163
Accumulated other comprehensive loss	(27,430)	(24,290)
Total shareholders' equity	<u>1,955,088</u>	<u>1,915,871</u>
Total liabilities and shareholders' equity	<u>\$ 2,454,320</u>	<u>\$ 2,427,972</u>

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

**Consolidated Statements of Shareholders' Equity**  
**UniFirst Corporation and Subsidiaries**  
*(Unaudited)*

(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 28, 2021	15,236	3,643	\$ 1,524	\$ 364	\$ 89,257	\$ 1,806,643	\$ (24,836)	\$ 1,872,952
Net income	—	—	—	—	—	33,705	—	33,705
Change in fair value of derivatives	—	—	—	—	—	—	47	47
Foreign currency translation	—	—	—	—	—	—	(2,799)	(2,799)
Dividends declared Common Stock (\$0.25 per share)	—	—	—	—	—	(4,566)	—	(4,566)
Dividends declared Class B Common Stock (\$0.20 per share)	—	—	—	—	—	(874)	—	(874)
Repurchase of Common Stock	(23)	—	(2)	—	(124)	(4,645)	—	(4,771)
Share-based compensation, net (1)	—	—	—	—	1,207	—	—	1,207
Share-based awards exercised, net (2)	7	—	—	—	—	—	—	—
Balance, November 27, 2021	15,220	3,643	\$ 1,522	\$ 364	\$ 90,340	\$ 1,830,263	\$ (27,588)	\$ 1,894,901
Net income	—	—	—	—	—	18,451	—	18,451
Change in fair value of derivatives	—	—	—	—	—	—	(55)	(55)
Foreign currency translation	—	—	—	—	—	—	1,149	1,149
Dividends declared Common Stock (\$0.25 per share)	—	—	—	—	—	(4,561)	—	(4,561)
Dividends declared Class B Common Stock (\$0.20 per share)	—	—	—	—	—	(870)	—	(870)
Repurchase of Common Stock	(53)	—	(5)	—	(286)	(9,704)	—	(9,995)
Share-based compensation, net (1)	—	—	—	—	(48)	—	—	(48)
Share-based awards exercised, net (2)	25	—	3	—	—	—	—	3
Shares converted	17	(17)	1	(1)	—	—	—	—
Balance, February 26, 2022	15,209	3,626	\$ 1,521	\$ 363	\$ 90,006	\$ 1,833,579	\$ (26,494)	\$ 1,898,975

(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 27, 2022	15,075	3,590	\$ 1,508	\$ 359	\$ 93,131	\$ 1,845,163	\$ (24,290)	\$ 1,915,871
Net income	—	—	—	—	—	33,957	—	33,957
Change in fair value of derivatives	—	—	—	—	—	—	52	52
Foreign currency translation	—	—	—	—	—	—	(1,778)	(1,778)
Dividends declared Common Stock (\$0.31 per share)	—	—	—	—	—	(4,680)	—	(4,680)
Dividends declared Class B Common Stock (\$0.248 per share)	—	—	—	—	—	(890)	—	(890)
Share-based compensation, net (1)	—	—	—	—	(567)	—	—	(567)
Share-based awards exercised, net (2)	20	—	1	—	—	—	—	1
Balance, November 26, 2022	15,095	3,590	\$ 1,509	\$ 359	\$ 92,564	\$ 1,873,550	\$ (26,016)	\$ 1,941,966
Net income	—	—	—	—	—	17,810	—	17,810
Change in fair value of derivatives	—	—	—	—	—	—	59	59
Foreign currency translation	—	—	—	—	—	—	(1,473)	(1,473)
Dividends declared Common Stock (\$0.31 per share)	—	—	—	—	—	(4,682)	—	(4,682)
Dividends declared Class B Common Stock (\$0.248 per share)	—	—	—	—	—	(890)	—	(890)
Share-based compensation, net (1)	—	—	—	—	2,297	—	—	2,297
Share-based awards exercised, net (2)	8	—	1	—	—	—	—	1
Balance, February 25, 2023	15,103	3,590	\$ 1,510	\$ 359	\$ 94,861	\$ 1,885,788	\$ (27,430)	\$ 1,955,088

(1) These amounts are shown net of any shares withheld by the Company to satisfy certain tax withholding obligations in connection with the vesting of certain restricted stock units.

(2) These amounts are shown net of the effect of income taxes.

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

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

Twenty-six weeks ended (In thousands)	February 25, 2023	February 26, 2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 51,767	\$ 52,156
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	56,940	53,717
Share-based compensation	4,533	4,961
Accretion on environmental contingencies	518	298
Accretion on asset retirement obligations	458	491
Deferred income taxes	1,080	1,733
Other	119	76
Changes in assets and liabilities, net of acquisitions:		
Receivables, less reserves	(27,636)	(27,855)
Inventories	683	(17,189)
Rental merchandise in service	(13,592)	(13,317)
Prepaid expenses and other current assets and Other assets	(4,459)	(3,926)
Accounts payable	(900)	5,357
Accrued liabilities	(17,072)	(16,928)
Prepaid and accrued income taxes	11,730	5,319
Net cash provided by operating activities	<u>64,169</u>	<u>44,893</u>
<b>Cash flows from investing activities:</b>		
Acquisition of businesses, net of cash acquired	(7,059)	(42,325)
Capital expenditures, including capitalization of software costs	(74,847)	(60,178)
Purchases of investments	(107,000)	—
Maturities of investments	6,000	—
Proceeds from sale of assets	345	27
Net cash used in investing activities	<u>(182,561)</u>	<u>(102,476)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of share-based awards	3	3
Taxes withheld and paid related to net share settlement of equity awards	(2,802)	(3,803)
Repurchase of Common Stock	—	(14,766)
Payment of cash dividends	(10,954)	(9,976)
Net cash used in financing activities	<u>(13,753)</u>	<u>(28,542)</u>
Effect of exchange rate changes	(156)	(856)
Net decrease in cash and cash equivalents	(132,301)	(86,981)
Cash and cash equivalents at beginning of period	376,399	512,868
Cash and cash equivalents at end of period	<u>\$ 244,098</u>	<u>\$ 425,887</u>
<b>Supplemental disclosure of cash flow information:</b>		
Non-cash capital expenditures	\$ 8,250	\$ 4,581

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 ("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 27, 2022. 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, "Recent Accounting Pronouncements". Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

**2. Recent Accounting Pronouncements**

In October 2021, the Financial Accounting Standards Board ("FASB") issued updated guidance to improve the accounting for acquired revenue contracts with customers in a business combination. This guidance will be effective for annual reporting periods, and any interim periods within those annual periods, that begin after December 15, 2023 and will be required to be applied on a prospective basis with early adoption permitted. Accordingly, the standard will be effective for the Company on September 1, 2024. The Company is currently evaluating the impact that this guidance will have on its financial statements and related disclosures.

In November 2021, the FASB issued updated guidance to increase the transparency of government assistance, including the disclosure of the types of assistance, an entity's accounting for the assistance and the effect of the assistance on an entity's financial statements. This guidance is effective for annual reporting periods that begin after December 15, 2021 and is required to be applied on a prospective basis with early adoption permitted. Accordingly, the standard became effective for the Company on August 28, 2022. The Company's adoption of this standard has not had, and the Company does not expect this standard to have, a material impact on its financial statements.

In December 2022, the FASB issued updated guidance to align with the deferral of the cessation date for LIBOR by the United Kingdom's Financial Conduct Authority ("FCA"). The FASB is changing the sunset date for use of LIBOR by all entities from December 31, 2022 to December 31, 2024 to allow for time for modifications to occur after the FCA's cessation date of June 30, 2023 for using LIBOR for overnight through twelve-month tenors. The Company's Credit Agreement (defined below) includes a provision for the phasing out of LIBOR and the Company has elected to transition out of using LIBOR to Secured Overnight Financing Rate ("SOFR") based on the amendment to the Credit Agreement as described in this report in Note 14, "Long-Term Debt." The Company does not expect this standard to have a material impact on its financial statements.

**3. Revenue Recognition**

The following table presents the Company's revenues for the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022, respectively, disaggregated by service type:

(In thousands, except percentages)	Thirteen weeks ended				Twenty-six weeks ended			
	February 25, 2023		February 26, 2022		February 25, 2023		February 26, 2022	
	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues	Revenues	% of Revenues
Core Laundry Operations	\$ 477,050	87.9%	\$ 433,056	89.0%	\$ 954,448	88.0%	\$ 861,902	88.6%
Specialty Garments	42,127	7.8%	35,538	7.3%	86,206	8.0%	75,022	7.7%
First Aid	23,514	4.3%	18,102	3.7%	43,835	4.0%	35,936	3.7%
Total Revenues	<u>\$ 542,691</u>	<u>100.0%</u>	<u>\$ 486,696</u>	<u>100.0%</u>	<u>\$ 1,084,489</u>	<u>100.0%</u>	<u>\$ 972,860</u>	<u>100.0%</u>

See Note 16, "Segment Reporting" for additional details of segment definitions.

*Revenue Recognition Policy*

During the thirteen weeks ended February 25, 2023 and February 26, 2022, approximately 88.4% and 91.5%, respectively, of the Company's revenues were derived from fees for route servicing of Core Laundry Operations, Specialty Garments, and First Aid segments performed by the Company's employees at the customer's location of business. During the twenty-six weeks ended February 25, 2023 and February 26, 2022, approximately 88.3% and 91.4%, respectively, of the Company's revenues were derived from fees for route servicing of Core Laundry Operations, Specialty Garments, and First Aid segments 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 customer-based 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 25, 2023 and February 26, 2022. 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.

#### *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 non-current 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 25, 2023, the current and non-current assets related to deferred commissions totaled \$15.9 million and \$68.0 million, respectively. As of August 27, 2022, the current and non-current assets related to deferred commissions totaled \$15.2 million and \$65.1 million, respectively. During the thirteen weeks ended February 25, 2023 and February 26, 2022, the Company recorded \$4.1 million and \$3.8 million, respectively, of amortization expense related to deferred commissions. During the twenty-six weeks ended February 25, 2023 and February 26, 2022, the Company recorded \$8.1 million and \$7.6 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. Acquisitions**

During the twenty-six weeks ended February 25, 2023, the Company completed four business acquisitions with an aggregate purchase price of approximately \$7.1 million, which was primarily assigned to goodwill and intangible assets. The initial allocations of the purchase prices are incomplete with respect to certain assets acquired. The amounts assigned to intangible assets acquired were based on their respective fair values determined as of the acquisition date. The excess of the purchase price over the tangible and intangible assets was recorded as goodwill. The goodwill recorded was primarily allocated to the U.S. and Canadian Rental and Cleaning segment and is deductible for tax purposes. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. These acquisitions were not significant in relation to the Company's consolidated financial results and, therefore, pro-forma financial information has not been presented.

Subsequent to the end of the second quarter 2023, the Company completed the acquisition of the business and certain real estate assets of Clean Uniform ("Clean") from Clean Holdco, Inc. and certain of its affiliates for an aggregate purchase price of approximately \$300 million. Clean is a uniform, workwear and facility service program provider with 11 locations covering Missouri, Illinois, Arkansas, Kansas and Oklahoma. Prior to the closing of the acquisition, neither the Company nor any of its affiliates, or any director or officer of the Company or any of its affiliates, or any associate of any such director or officer, had any material relationship with any of the sellers. The results of operations from Clean will be included in the Company's results under the Core Laundry Operations segment subsequent to the acquisition date of March 13, 2023. The Company paid for the acquisition of Clean with cash on hand and borrowings under the Credit Agreement (defined below).

## 5. Fair Value Measurements

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

	As of February 25, 2023			Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Cash equivalents	\$ 34,923	\$ —	\$ —	\$ 34,923
Short-term investments	—	101,000	—	101,000
Pension plan assets	—	3,106	—	3,106
Non-qualified deferred compensation plan assets	—	1,823	—	1,823
Foreign currency forward contracts	—	232	—	232
Total assets at fair value	\$ 34,923	\$ 106,161	\$ —	\$ 141,084

  

	As of August 27, 2022			Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Cash equivalents	\$ 197,121	\$ —	\$ —	\$ 197,121
Pension plan assets	—	3,291	—	3,291
Non-qualified deferred compensation plan assets	—	1,263	—	1,263
Foreign currency forward contracts	—	83	—	83
Total assets at fair value	\$ 197,121	\$ 4,637	\$ —	\$ 201,758

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 short-term investments listed above represent certificates of deposit, which maturities range up to six months at purchase. Such securities are classified as held-to-maturity and are carried at amortized cost, which approximates market value. As such, the Company's short-term investments are included within Level 2 of the fair value hierarchy.

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

The Company's foreign currency forward contracts represent contracts the Company has entered into to exchange Canadian dollars for U.S. dollars at fixed exchange rates in order to manage its exposure related to the 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 25, 2023 and August 27, 2022. 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 25, 2023, the Company had forward contracts with a notional value of approximately 6.8 million CAD outstanding and recorded the fair value of the contracts, in the amount of \$0.2 million, in prepaid expenses and other current assets and other long-term assets with a corresponding \$0.1 million gain in accumulated other comprehensive loss, which was recorded net of tax. During the thirteen and twenty-six weeks ended February 25, 2023, the Company reclassified a nominal amount 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 25, 2023 is expected to be reclassified to revenues prior to their maturity on August 29, 2026.

## 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 25,

2023 and February 26, 2022 were \$4.1 million and \$3.9 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended February 25, 2023 and February 26, 2022 were \$9.9 million and \$9.5 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 one frozen non-contributory defined benefit pension plan. The amounts charged to expense related to these plans for the thirteen weeks ended February 25, 2023 and February 26, 2022 were \$0.4 million and \$0.6 million, respectively. The amounts charged to expense related to these plans for the twenty-six weeks ended February 25, 2023 and February 26, 2022 were \$0.9 million and \$1.3 million, respectively.

*Nonqualified Deferred Compensation Plan*

The Company adopted the UniFirst Corporation Deferred Compensation Plan (the "NQDC Plan") effective on February 1, 2022. The NQDC Plan is an unfunded, nonqualified deferred compensation plan that allows eligible participants to voluntarily defer receipt of their salary and annual cash bonuses up to approved limits. In its discretion, the Company may credit one or more additional contributions to participant accounts. NQDC Plan participants who are not accruing benefits under the Supplemental Executive Retirement Plan are eligible to have discretionary annual employer contributions credited to their NQDC Plan accounts. All participants are also eligible to have employer supplemental contributions and employer discretionary contributions credited to their NQDC Plan accounts. The amounts of such contributions may differ from year to year and from participant to participant. The amounts for employee or employer contributions charged to expense related to the NQDC Plan for the thirteen and twenty-six weeks ended February 25, 2023 were \$0.1 million and \$0.2 million, respectively. There were no employee or employer contributions charged to expenses related to this plan for the thirteen and twenty-six weeks ended February 26, 2022. The Company, at its discretion, may also elect to transfer funds to a trust account with the intention to fund the future liability. Total NQDC Plan assets were \$1.8 million and \$0 as of February 25, 2023 and February 26, 2022, respectively, and are included within other long-term assets on the balance sheet.

**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):

	Thirteen weeks ended		Twenty-six weeks ended	
	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Net income available to shareholders	\$ 17,810	\$ 18,451	\$ 51,767	\$ 52,156
<b>Allocation of net income for Basic:</b>				
Common Stock	\$ 14,962	\$ 15,492	\$ 43,488	\$ 43,792
Class B Common Stock	2,848	2,959	8,279	8,364
	\$ 17,810	\$ 18,451	\$ 51,767	\$ 52,156
<b>Weighted average number of shares for Basic:</b>				
Common Stock	15,087	15,210	15,084	15,225
Class B Common Stock	3,590	3,635	3,590	3,635
	18,677	18,845	18,674	18,860
<b>Income per share for Basic:</b>				
Common Stock	\$ 0.99	\$ 1.02	\$ 2.88	\$ 2.88
Class B Common Stock	\$ 0.79	\$ 0.81	\$ 2.31	\$ 2.30

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.

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

For the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022, 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 tables set forth the computation of diluted income per share of Common Stock for the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022 (in thousands, except per share data):

	Thirteen weeks ended February 25, 2023			Twenty-six weeks ended February 25, 2023		
	Earnings to Common Shareholders	Common Shares	Income Per Share	Earnings to Common Shareholders	Common Shares	Income Per Share
As reported - Basic	\$ 14,962	15,087	\$ 0.99	\$ 43,488	15,084	\$ 2.88
Add: effect of dilutive potential common shares						
Share-Based Awards	—	90		—	83	
Class B Common Stock	2,848	3,590		8,279	3,590	
As reported - Diluted	\$ 17,810	18,767	\$ 0.95	\$ 51,767	18,757	\$ 2.76

	Thirteen weeks ended February 26, 2022			Twenty-six weeks ended February 26, 2022		
	Earnings to Common Shareholders	Common Shares	Income Per Share	Earnings to Common Shareholders	Common Shares	Income Per Share
As reported - Basic	\$ 15,492	15,210	\$ 1.02	\$ 43,792	15,225	\$ 2.88
Add: effect of dilutive potential common shares						
Share-Based Awards	—	122		—	139	
Class B Common Stock	2,959	3,635		8,364	3,635	
As reported - Diluted	\$ 18,451	18,967	\$ 0.97	\$ 52,156	18,999	\$ 2.75

Share-based awards that would result in the issuance of 23,494 and 56,188 shares, respectively, of Common Stock were excluded from the calculation of diluted income per share for the thirteen and twenty-six weeks ended February 25, 2023 because they were anti-dilutive. Share-based awards that would result in the issuance of 41,364 and 25,722 shares, respectively, of Common Stock were excluded from the calculation of diluted income per share for the thirteen and twenty-six weeks ended February 26, 2022 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 25, 2023 and August 27, 2022 were as follows (in thousands):

	February 25, 2023	August 27, 2022
Raw materials	\$ 26,234	\$ 25,932
Work in process	3,698	2,876
Finished goods	120,975	122,651
Total inventories	\$ 150,907	\$ 151,459

**10. Goodwill and Other Intangible Assets**

When the Company acquires a business, the amount assigned to the tangible assets and liabilities and intangible assets acquired is based on their respective fair values determined as of the acquisition date. The excess of the purchase price over the tangible assets and liabilities and intangible assets is recorded as goodwill.

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

Balance as of August 27, 2022	\$	457,259
Goodwill recorded during the period		3,944
Other		(153)
Balance as of February 25, 2023	\$	461,050

Intangible assets, net in the Company's consolidated balance sheets are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>February 25, 2023</b>			
Customer contracts	\$ 249,749	\$ 203,391	\$ 46,358
Software	78,339	43,510	34,829
Other intangible assets	37,428	35,648	1,780
	<u>\$ 365,516</u>	<u>\$ 282,549</u>	<u>\$ 82,967</u>
<b>August 27, 2022</b>			
Customer contracts	\$ 247,721	\$ 198,668	\$ 49,053
Software	75,528	41,637	33,891
Other intangible assets	37,520	35,491	2,029
	<u>\$ 360,769</u>	<u>\$ 275,796</u>	<u>\$ 84,973</u>

#### 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 1 to 22 years.

A reconciliation of the Company's asset retirement liability for the twenty-six weeks ended February 25, 2023 was as follows (in thousands):

	<b>February 25, 2023</b>
Beginning balance as of August 27, 2022	\$ 15,274
Accretion expense	458
Effect of exchange rate changes	177
Balance as of February 25, 2023	<u>\$ 15,909</u>

Asset retirement obligations are included in long-term accrued liabilities in the Company's consolidated balance sheets.

#### 12. Commitments and Contingencies

##### Lease Commitments

The Company has operating leases for certain operating facilities, vehicles and equipment, which provide the right to use the underlying asset and require lease payments over the term of the lease. Each new contract is evaluated to determine if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. All identified leases are recorded on the consolidated balance sheet with a corresponding operating lease right-of-use asset, net, representing the right to use the underlying asset for the lease term and the operating lease liabilities representing the obligation to make lease payments arising from the lease. Short-term operating leases, which have an initial term of twelve months or less, are not recorded on the consolidated balance sheet.

Operating lease right-of-use assets, net and operating lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined primarily using the incremental borrowing rate based on the information available as of the lease commencement date. Lease expense for operating leases is recorded on a straight-line basis over

the lease term and variable lease costs are recorded as incurred. Both lease expense and variable lease costs are primarily recorded in cost of revenues on the Company's consolidated statements of income. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The following table presents the operating lease cost and information related to the operating lease right-of-use assets, net and operating lease liabilities for the twenty-six weeks ended February 25, 2023:

(In thousands, except lease term and discount rate)	
<b>Lease cost</b>	
Operating lease costs including short-term lease expense and variable lease costs, which were immaterial in the period	\$ 11,249
<b>Operating cash flow impacts</b>	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 3,317
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	\$ 4,529
Weighted-average remaining lease term - operating leases	4.29
Weighted-average discount rate - operating leases	2.08%

The contractual future minimum lease payments of the Company's operating lease liabilities by fiscal year are as follows as of February 25, 2023:

(In thousands)	
2023 (remaining six months)	\$ 8,063
2024	13,461
2025	10,520
2026	8,843
2027	6,731
Thereafter	5,961
<b>Total payments</b>	<b>53,579</b>
Less interest	(3,472)
<b>Total present value of lease payments</b>	<b>\$ 50,107</b>

#### Environmental and Legal Contingencies

The Company and its operations are subject to various federal, state and local laws and regulations governing, among other things, air emissions, wastewater discharges, and the generation, handling, storage, transportation, treatment and disposal of hazardous wastes and other substances. In particular, industrial laundries currently use and must dispose of detergent wastewater 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. The Company has settled, or contributed to the settlement of, past actions or claims brought against the Company relating to the disposal of hazardous materials at several sites 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.

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

Under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on, or in, or emanating from, such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of, or was responsible for, the presence of such hazardous or toxic substances. There can be no assurances that acquired or leased locations have been operated in compliance with

environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon the Company under such laws or expose the Company to third-party actions such as tort suits. The Company continues to address environmental conditions under terms of consent orders negotiated with the applicable environmental authorities or otherwise with respect to certain sites.

The Company has accrued certain costs related to certain sites, including but not limited to sites in Woburn and Somerville, Massachusetts, as it has been determined that the costs are probable and can be reasonably estimated. The Company, together with multiple other companies, is party to a consent decree related to its property and parcels of land (the "Central Area") at a site in Woburn, Massachusetts. 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 consent decree does not address any remediation work that may be required in the Central Area. The Company, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA's comments remain to be resolved. The Company has accrued costs to perform certain work responsive to the EPA's comments. Additionally, the Company has implemented mitigation measures and continues to monitor environmental conditions at the Somerville, Massachusetts site. The Company has agreed to undertake additional actions responsive to a notice of audit findings from the Massachusetts Department of Environmental Protection concerning a regulatory submittal that the Company made in 2009 for a portion of the site. The Company has received demands from the local transit authority for reimbursement of certain costs associated with its construction of a new municipal transit station in the area of the Somerville site. The Company has reserved for costs in connection with this matter; however, in light of the uncertainties associated with this matter, these costs and the related reserve may change.

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

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

There is usually a range of reasonable estimates of the costs associated with each site. In accordance with U.S. GAAP, the Company's accruals reflect the amount within the range that it believes is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. Where it believes that both the amount of a particular liability and the timing of the payments are reliably determinable, the Company adjusts the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discounts the cost to present value using current risk-free interest rates. As of February 25, 2023, the risk-free interest rates utilized by the Company ranged from 3.93% to 4.52%.

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 Company's consolidated statements of income. The changes to the Company's environmental liabilities for the twenty-six weeks ended February 25, 2023 were as follows (in thousands):

	February 25, 2023
Balance as of August 27, 2022	\$ 32,191
Revisions in estimates	(5)
Costs incurred for which reserves have been provided	(794)
Insurance proceeds	59
Interest accretion	518
Changes in discount rates	(1,655)
Balance as of February 25, 2023	\$ 30,314



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

Anticipated payments and insurance proceeds of currently identified environmental remediation liabilities as of February 25, 2023, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	2023	2024	2025	2026	2027	Thereafter	Total
Estimated costs – current dollars	\$ 11,336	\$ 3,051	\$ 1,741	\$ 1,437	\$ 1,250	\$ 14,945	\$ 33,760
Estimated insurance proceeds	(113)	(159)	(173)	(159)	(173)	(230)	(1,007)
Net anticipated costs	<u>\$ 11,223</u>	<u>\$ 2,892</u>	<u>\$ 1,568</u>	<u>\$ 1,278</u>	<u>\$ 1,077</u>	<u>\$ 14,715</u>	<u>\$ 32,753</u>
Effect of inflation							9,906
Effect of discounting							<u>(12,345)</u>
Balance as of February 25, 2023							<u>\$ 30,314</u>

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 two 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 25, 2023, 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 \$4.8 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 respective state agencies, as delegated authority by the Nuclear Regulatory Commission (the "NRC") pursuant to the NRC's Agreement State program and are subject to applicable federal and state radioactive material regulations. In addition, the Company's international locations (Canada, the United Kingdom and the European Union) are regulated by equivalent respective jurisdictional 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 personal injury claims, customer contract matters, employment claims and environmental matters as described above.

The Company is subject to two claims made by former employees in September 2022 alleging damages under the Fair Labor Standards Act. The claims are expected to be resolved for nominal amounts.

In addition, in the fourth quarter of fiscal 2022, the Mexican federal tax authority issued a tax assessment on the Company's subsidiary in Mexico for fiscal 2016 import taxes, value added taxes and custom processing fees of \$17.0 million, plus surcharges, fines and penalties of \$67.7 million for a total assessment of \$84.7 million. The Company disagrees with such tax assessment and has filed an administrative appeal before the legal division of the Mexican federal tax authority challenging the validity of the tax assessment. While the Company is unable to ascertain the ultimate outcome of this matter, based on the information currently available, the Company believes that a loss with respect to this matter is neither probable nor remote. Given the uncertainty associated with the ultimate resolution of this matter, the Company is unable to reasonably assess an estimate or range of estimates of any potential losses.

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

### **13. Income Taxes**

In accordance with ASC 740, Income Taxes ("ASC 740"), each interim period is considered integral to the annual period and tax expense is measured using an estimated annual effective tax rate. An entity is required to record income tax expense each quarter based on its annual effective tax rate estimated for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, adjusted for discrete taxable events that occur during the interim period.

#### *Effective tax rate*

The Company's effective tax rate for the thirteen weeks ended February 25, 2023 was 24.6% as compared to 19.0% for the corresponding period in the prior year. The Company's effective tax rate for the twenty-six weeks ended February 25, 2023 was 25.0% as compared to 22.7% for the corresponding period in the prior year. The increase in the effective tax rate for the thirteen and twenty-six weeks ended February 25, 2023 as compared to the corresponding periods in the prior year was due primarily to the release of \$1.2 million of certain tax reserves in each of the prior year comparable periods.

#### *Uncertain tax positions*

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 25, 2023, there was a net increase in unrecognized tax position of \$0.1 million related to existing reserves.

All U.S. and Canadian federal income tax statutes have lapsed for filings up to and including fiscal years 2017 and 2015, respectively. With a few exceptions, the Company is no longer subject to state and local income tax examinations for periods prior to fiscal 2018. 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.

### **14. Long-Term Debt**

On March 26, 2021, the Company entered into an amended and restated \$175.0 million unsecured revolving credit agreement (as subsequently amended, the "Credit Agreement") with a syndicate of banks, which matures on March 26, 2026. The Credit Agreement amended and restated the Company's prior credit agreement, which was scheduled to mature on April 11, 2021. Under the Credit Agreement, the Company is able to borrow funds at variable interest rates based on, at the Company's election, the Eurodollar rate or a base rate, plus in each case a spread based on the Company's consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. The Company tests its compliance with these financial covenants on a fiscal quarterly basis. As of February 25, 2023, the interest rates applicable to the Company's borrowings under the Credit Agreement would be calculated as LIBOR plus 1.00% at the time of the respective borrowing. The Credit Agreement includes provisions for the phasing out of LIBOR to the SOFR. As of February 25, 2023, the Company had no outstanding borrowings and had outstanding letters of credit amounting to \$66.5 million, leaving \$108.5 million available for borrowing under the Credit Agreement.

As of February 25, 2023, the Company was in compliance with all covenants under the Credit Agreement.

Subsequent to the end of the second fiscal quarter of 2023, the Company exercised the accordion feature of the Credit Agreement pursuant to an amendment to the Credit Agreement. The exercise of the accordion feature increases the aggregate commitments under the Credit Agreement by \$100.0 million, for a total aggregate commitment of up to \$275.0 million. In addition, the amendment provides for the replacement of LIBOR with SOFR such that borrowings are based on, at the Company's election, the SOFR rate or a base rate, plus in each case a spread based on the Company's consolidated funded debt ratio. Subsequent to the end of the second fiscal quarter of 2023, the Company borrowed \$80.0 million under its Credit Agreement to finance the acquisition of Clean and fund its day-to-day operations. The amendment also refreshed the accordion feature, so that, provided there is no default or event of default under the Credit Agreement and the Company is in compliance with its financial covenants on a pro forma basis, the Company may request an increase in the aggregate commitments under the Credit Agreement (in the form of revolving or term tranches) of up to an additional \$100.0 million, for a total aggregate commitment of up to \$375.0 million.

#### 15. Accumulated Other Comprehensive Loss

The changes in each component of accumulated other comprehensive loss, net of tax, for the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022 were as follows (in thousands):

	Thirteen weeks ended February 25, 2023			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive Loss
Balance as of November 26, 2022	\$ (26,581)	\$ 452	\$ 113	\$ (26,016)
Other comprehensive (loss) income before reclassification	(1,473)	—	84	(1,389)
Amounts reclassified from accumulated other comprehensive loss	—	—	(25)	(25)
Net current period other comprehensive (loss) income	(1,473)	—	59	(1,414)
Balance as of February 25, 2023	\$ (28,054)	\$ 452	\$ 172	\$ (27,430)

	Twenty-six weeks ended February 25, 2023			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive Loss
Balance as of August 27, 2022	\$ (24,803)	\$ 452	\$ 61	\$ (24,290)
Other comprehensive income (loss) before reclassification	(3,251)	—	156	(3,095)
Amounts reclassified from accumulated other comprehensive loss	—	—	(45)	(45)
Net current period other comprehensive (loss) income	(3,251)	—	111	(3,140)
Balance as of February 25, 2023	\$ (28,054)	\$ 452	\$ 172	\$ (27,430)

	Thirteen weeks ended February 26, 2022			
	Foreign Currency Translation	Pension-related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive Loss
Balance as of November 27, 2021	\$ (20,600)	\$ (7,066)	\$ 78	\$ (27,588)
Other comprehensive (loss) income before reclassification	1,149	—	(40)	1,109
Amounts reclassified from accumulated other comprehensive loss	—	—	(15)	(15)
Net current period other comprehensive (loss) income	1,149	—	(55)	1,094
Balance as of February 26, 2022	\$ (19,451)	\$ (7,066)	\$ 23	\$ (26,494)

	Twenty-six weeks ended February 26, 2022			
	Foreign Currency Translation	Pension- related (1)	Derivative Financial Instruments (1)	Total Accumulated Other Comprehensive Loss
Balance as of August 28, 2021	\$ (17,801)	\$ (7,066)	\$ 31	\$ (24,836)
Other comprehensive income (loss) before reclassification	(1,650)	—	45	(1,605)
Amounts reclassified from accumulated other comprehensive loss	—	—	(53)	(53)
Net current period other comprehensive (loss) income	(1,650)	—	(8)	(1,658)
Balance as of February 26, 2022	\$ (19,451)	\$ (7,066)	\$ 23	\$ (26,494)

(1) Amounts are shown net of tax

Amounts reclassified from accumulated other comprehensive loss, net of tax, for the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022 were as follows (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Derivative financial instruments, net:				
Forward contracts (a)	\$ (25)	\$ (15)	\$ (45)	\$ (53)
Total, net of tax	(25)	(15)	(45)	(53)
Total amounts reclassified, net of tax	\$ (25)	\$ (15)	\$ (45)	\$ (53)

(a) Amounts included in revenues in the accompanying consolidated statements of income.

## 16. Segment Reporting

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the Company's chief executive officer. The Company has six operating segments based on the information reviewed by its chief executive officer: U.S. Rental and Cleaning, Canadian Rental and Cleaning, Manufacturing ("MFG"), Corporate, Specialty Garments and First Aid. The U.S. Rental and Cleaning and Canadian Rental and Cleaning operating segments have been combined to form the U.S. and Canadian Rental and Cleaning reporting segment, and as a result, the Company has five reporting segments.

The U.S. and Canadian Rental and Cleaning reporting segment purchases, rents, cleans, delivers and sells uniforms and protective clothing and non-garment items in the U.S. and Canada. The laundry locations of the U.S. and Canadian Rental and Cleaning reporting segment are referred to by the Company as "industrial laundries" or "industrial laundry locations."

The MFG operating segment designs and manufactures uniforms and non-garment items primarily for the purpose of providing these goods to the U.S. and Canadian Rental and Cleaning reporting segment. MFG revenues are primarily generated when goods are shipped from the Company's manufacturing facilities, or its subcontract manufacturers, to other Company locations. These intercompany revenues are recorded at a transfer price which is typically in excess of the actual manufacturing cost. Manufactured products are carried in inventory until placed in service at which time they are amortized at this transfer price. On a consolidated basis, intercompany revenues and income are eliminated and the carrying value of inventories and rental merchandise in service is reduced to the manufacturing cost. Income before income taxes from MFG net of the intercompany MFG elimination offsets the merchandise amortization costs incurred by the U.S. and Canadian Rental and Cleaning reporting segment as the merchandise costs of this reporting segment are amortized and recognized based on inventories purchased from MFG at the transfer price which is above the Company's manufacturing cost.

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

The Corporate operating segment consists of costs associated with the Company's distribution center, sales and marketing, information systems, engineering, procurement, supply chain, accounting and finance, human resources, other general and administrative costs and interest expense. The revenues generated from the Corporate operating segment represent certain direct sales made by the Company directly from its distribution center. The products sold by this operating segment are the same products rented and sold by the U.S. and Canadian Rental and Cleaning reporting segment. No assets or capital expenditures are allocated to this operating segment in the information reviewed by the chief executive officer. However, depreciation and amortization expense related to certain assets are reflected in operating income and income before income taxes for the Corporate operating segment. The assets that give rise to this depreciation and amortization are included in the total assets of the U.S. and Canadian Rental and Cleaning reporting segment as this is how they are tracked and reviewed by the Company. The majority of expenses accounted for within the Corporate segment relate to costs of the U.S. and Canadian Rental and Cleaning segment, with the remainder of the costs relating to the Specialty Garment and First Aid segments.

The Specialty Garments operating segment purchases, rents, cleans, delivers and sells, specialty garments and non-garment items primarily for nuclear and cleanroom applications and provides cleanroom cleaning services at limited customer locations. The First Aid operating segment sells first aid cabinet services and other safety supplies, provides certain safety training, as well as maintains wholesale distribution and pill packaging operations.

The Company refers to the U.S. and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as its "Core Laundry Operations," which is included as a subtotal in the following table (in thousands):

	U.S. and Canadian Rental and Cleaning	MFG	Net Interco MFG Elim	Corporate	Subtotal Core Laundry Operations	Specialty Garments	First Aid	Total
<b>Thirteen weeks ended</b>								
<b>February 25, 2023</b>								
Revenues	\$ 463,803	\$ 74,231	\$ (74,231)	\$ 13,247	\$ 477,050	\$ 42,127	\$ 23,514	\$ 542,691
Operating income (loss)	\$ 64,010	\$ 22,252	\$ (6,008)	\$ (66,612)	\$ 13,642	\$ 8,045	\$ (977)	\$ 20,710
Interest income, net	\$ (1,025)	\$ —	\$ —	\$ (2,006)	\$ (3,031)	\$ —	\$ —	\$ (3,031)
Income (loss) before taxes	\$ 65,051	\$ 22,127	\$ (6,008)	\$ (64,812)	\$ 16,358	\$ 8,247	\$ (978)	\$ 23,627
<b>February 26, 2022</b>								
Revenues	\$ 424,896	\$ 65,618	\$ (65,618)	\$ 8,160	\$ 433,056	\$ 35,538	\$ 18,102	\$ 486,696
Operating income (loss)	\$ 59,914	\$ 14,826	\$ 1,545	\$ (57,540)	\$ 18,745	\$ 3,850	\$ 18	\$ 22,613
Interest (income) expense, net	\$ (814)	\$ —	\$ —	\$ 63	\$ (751)	\$ —	\$ —	\$ (751)
Income (loss) before taxes	\$ 60,711	\$ 14,711	\$ 1,545	\$ (58,067)	\$ 18,900	\$ 3,849	\$ 21	\$ 22,770
<b>Twenty-six weeks ended</b>								
<b>February 25, 2023</b>								
Revenues	\$ 926,627	\$ 151,742	\$ (151,742)	\$ 27,821	\$ 954,448	\$ 86,206	\$ 43,835	\$ 1,084,489
Operating income (loss)	\$ 146,655	\$ 45,554	\$ (12,791)	\$ (131,945)	\$ 47,473	\$ 18,228	\$ (1,573)	\$ 64,128
Interest income, net	\$ (2,045)	\$ —	\$ —	\$ (3,755)	\$ (5,800)	\$ —	\$ —	\$ (5,800)
Income (loss) before taxes	\$ 148,627	\$ 45,331	\$ (12,791)	\$ (129,004)	\$ 52,163	\$ 18,437	\$ (1,577)	\$ 69,023
<b>February 26, 2022</b>								
Revenues	\$ 844,949	\$ 156,343	\$ (156,343)	\$ 16,953	\$ 861,902	\$ 75,022	\$ 35,936	\$ 972,860
Operating income (loss)	\$ 133,839	\$ 38,851	\$ (6,054)	\$ (111,384)	\$ 55,252	\$ 12,479	\$ (328)	\$ 67,403
Interest (income) expense, net	\$ (1,480)	\$ —	\$ —	\$ 81	\$ (1,399)	\$ —	\$ —	\$ (1,399)
Income (loss) before taxes	\$ 135,281	\$ 38,677	\$ (6,054)	\$ (112,057)	\$ 55,847	\$ 11,954	\$ (329)	\$ 67,472

**17. Shares Repurchased and Dividends**

On October 25, 2022, the Company announced that it would be raising its quarterly dividend to \$0.31 per share of Common Stock and to \$0.248 per share of Class B Common Stock, up from \$0.30 and \$0.24 per share, respectively. The amount and timing of any dividend payment is subject to the approval of the Board of Directors each quarter.

On October 18, 2021, the Company's Board of Directors authorized a share repurchase program to repurchase from time to time up to \$100.0 million of its outstanding shares of Common Stock, inclusive of the amount which remained available under the existing share repurchase program approved on January 2, 2019. Repurchases made under the program, if any, will be made in either the open market or in privately negotiated transactions. The timing, manner, price and amount of any repurchases will depend on a variety of factors, including economic and market conditions, the Company stock price, corporate liquidity requirements and priorities, applicable legal requirements and other factors. The share repurchase program has been funded to date with the Company's available cash and will be funded in the future using the Company's available cash or capacity under its Credit Agreement and may be suspended or discontinued at any time. During the thirteen and twenty-six weeks ended February 25, 2023, the Company did not repurchase any shares. During the thirteen and twenty-six weeks ended February 26, 2022, the Company repurchased 52,500 and 75,250 shares for an average price per share of \$190.37 and \$167.54, respectively, under the share repurchase program. As of February 25, 2023, the Company had \$63.6 million remaining to repurchase under the share repurchase program.

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

### SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any documents incorporated by reference may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements contained in this Quarterly Report on Form 10-Q and any documents incorporated by reference are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as "estimates," "anticipates," "projects," "plans," "expects," "intends," "believes," "seeks," "could," "should," "may," "will," "strategy," "objective," "assume," "strive," "design," "assumption," "vision" or the negative versions thereof, and similar expressions and by the context in which they are used. Such forward-looking statements are based upon our current expectations and speak only as of the date made. Such statements are highly dependent upon a variety of risks, uncertainties and other important factors that could cause actual results to differ materially from those reflected in such forward-looking statements. Such factors include, but are not limited to, uncertainties caused by an economic recession or other adverse economic conditions, including, without limitation, as a result of continued high inflation rates or further increases in inflation or interest rates or extraordinary events or circumstances such as geopolitical conflicts like the conflict between Russia and Ukraine or the COVID-19 pandemic, and their impact on our customers' businesses and workforce levels, disruptions of our business and operations, including limitations on, or closures of, our facilities, or the business and operations of our customers or suppliers in connection with extraordinary events or circumstances such as the COVID-19 pandemic, uncertainties regarding our ability to consummate and successfully integrate acquired businesses, including Clean Uniform ("Clean"), and the performance of such businesses, uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation, any adverse outcome of pending or future contingencies or claims, our ability to compete successfully without any significant degradation in our margin rates, seasonal and quarterly fluctuations in business levels, our ability to preserve positive labor relationships and avoid becoming the target of corporate labor unionization campaigns that could disrupt our business, the effect of currency fluctuations on our results of operations and financial condition, our dependence on third parties to supply us with raw materials, which such supply could be severely disrupted as a result of extraordinary events or circumstances such as the COVID-19 pandemic or the conflict between Russia and Ukraine, any loss of key management or other personnel, increased costs as a result of any changes in federal, state, international or other laws, rules and regulations or governmental interpretation of such laws, rules and regulations, uncertainties regarding, or adverse impacts from continued high price levels of natural gas, electricity, fuel and labor or increases in such costs, the negative effect on our business from sharply depressed oil and natural gas prices, including, without limitation, as a result of extraordinary events or circumstances such as the COVID-19 pandemic, the continuing increase in domestic healthcare costs, increased workers' compensation claim costs, increased healthcare claim costs, including as a result of extraordinary events or circumstances such as the COVID-19 pandemic, our ability to retain and grow our customer base, demand and prices for our products and services, fluctuations in our Specialty Garments business, political or other instability, supply chain disruption or infection among our employees in Mexico and Nicaragua where our principal garment manufacturing plants are located, including, without limitation, as a result of extraordinary events or circumstances such as the COVID-19 pandemic, our ability to properly and efficiently design, construct, implement and operate a new customer relationship management ("CRM") computer system and an enterprise resource planning ("ERP") computer system, interruptions or failures of our information technology systems, including as a result of cyber-attacks, additional professional and internal costs necessary for compliance with any changes in or additional Securities and Exchange Commission ("SEC"), New York Stock Exchange and accounting or other rules, including, without limitation, recent rules proposed by the SEC regarding climate-related and cybersecurity-related disclosures, strikes and unemployment levels, our efforts to evaluate and potentially reduce internal costs, economic and other developments associated with the war on terrorism and its impact on the economy, the impact of foreign trade policies and tariffs or other impositions on imported goods on our business, results of operations and financial condition, general economic conditions, our ability to successfully implement our business strategies and processes, including our capital allocation strategies, our ability to successfully remediate the material weakness in internal control over financial reporting disclosed in our Annual Report on Form 10-K for the year ended August 27, 2022 and the other factors described under "Part I, Item 1A. Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended August 27, 2022 and in our other filings with the SEC, including, without limitation, under Part II, Item 1A. "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. We undertake no obligation to update any forward-looking statements to reflect events or circumstances arising after the date on which they are made.

### Business Overview

UniFirst Corporation, together with its subsidiaries, hereunder referred to as "we", "our", the "Company", or "UniFirst", is one of the largest providers of workplace uniforms and protective work wear clothing in the U.S. We design, manufacture, personalize, rent, clean, deliver, and sell a wide range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks, aprons and specialized protective wear, such as flame resistant and high visibility garments. We also rent and sell industrial wiping products, floor mats, facility service products and other non-garment items, and provide restroom and cleaning supplies and first aid cabinet services and other safety supplies as well as provide certain safety training to a variety of manufacturers, retailers and service companies.

We serve businesses of all sizes in numerous industry categories. Typical customers include automobile service centers and dealers, delivery services, food and general merchandise retailers, food processors and service operations, light manufacturers, maintenance facilities, restaurants, service companies, soft and durable goods wholesalers, transportation companies, healthcare providers and others who require employee clothing for image, identification, protection or utility purposes. We also provide our customers with restroom and cleaning supplies, including air fresheners, paper products and hand soaps.

At certain specialized facilities, we also decontaminate and clean work clothes and other items that may have been exposed to radioactive materials and service special cleanroom protective wear and facilities. Typical customers for these specialized services include government agencies, research and development laboratories, high technology companies and utilities operating nuclear reactors.

We continue to expand into additional geographic markets through acquisitions and organic growth. We currently service over 300,000 customer locations in the U.S., Canada and Europe from over 260 customer service, distribution and manufacturing facilities.

As mentioned and described in Note 16, "Segment Reporting," to our Consolidated Financial Statements, we have five reporting segments: U.S. and Canadian Rental and Cleaning, Manufacturing ("MFG"), Corporate, Specialty Garments and First Aid. We refer to the laundry locations of the U.S. and Canadian Rental and Cleaning reporting segment as "industrial laundries" or "industrial laundry locations", and to the U.S. and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as our "Core Laundry Operations."

#### **Critical Accounting Policies and Estimates**

The discussion of our financial condition and results of operations is based upon the Consolidated Financial Statements, which have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). As such, management is required to make certain estimates, judgments and assumptions that are believed to be reasonable based on the information available. These estimates and assumptions affect the reported amount of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties, the most important and pervasive accounting estimates used and areas most sensitive to material changes from external factors. The critical accounting estimates that we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements presented in this report are described in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 27, 2022. There have been no significant changes in our critical accounting estimates since the year ended August 27, 2022.

#### **Effects of Inflation and Current Economic Conditions**

In general, we believe that our results of operations are not dependent on moderate changes in the inflation rate. Historically, we have been able to manage the impacts of more significant changes in inflation rates through our customer relationships, customer agreements that generally provide for price increases and continued focus on improvements of operational productivity. However, the current inflationary environment has had a negative impact on our margins, including as a result of increased energy costs for our vehicles and our plants, as well as increasing wages in the labor markets in which we compete. Inflation could continue to pressure our margins in future periods. In addition, in response to the concerns over inflation risk in the broader U.S. economy, the U.S. Federal Reserve has been steadily increasing its benchmark interest rate since March 2022 and has signaled that additional rate increases will continue in 2023. It is possible that increases in interest rates may ultimately result in an economic recession, which could have a material adverse impact on our business. Adverse economic conditions resulting from inflationary pressures, U.S. Federal Reserve actions, geopolitical issues or otherwise are difficult to predict and may have a material adverse impact on our business, results of operations and financial condition.

Please see Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended August 27, 2022 for an additional discussion of risks and potential risks of inflation and adverse economic conditions on our business, financial condition and results of operations.

#### **COVID-19 Assessment**

At times during the global COVID-19 pandemic, our revenues have been significantly adversely impacted as a result of many customers closing their businesses or operating at limited capacities. In addition, at times during the pandemic, we have experienced supply chain disruptions with respect to certain products, including hand sanitizer and masks. Although our operating results continue



to be impacted by supply chain disruption and increased costs for supplies, including as a result of general inflationary pressures and Russia's invasion of Ukraine, these adverse impacts and disruptions have declined since the height of the pandemic.

As the COVID-19 pandemic has continued, instances of new COVID-19 cases have risen periodically with the outbreak of various COVID-19 variants, and new COVID-19 variants could emerge and spread in the future and have an adverse impact on our business.

We remain focused on the safety and well-being of our team partners and on the service of our customers. We will continue to review and assess the ongoing COVID-19 pandemic and its impacts on our team partners, our customers, our suppliers and our business so that we can seek to address the impacts on our business and service our customers.

Please see Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended August 27, 2022 for an additional discussion of risks and potential risks of the COVID-19 pandemic on our business, financial condition and results of operations.

## Results of Operations

The following table presents certain selected financial data, including the percentage of revenues represented by each item, for the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022.

(In thousands, except percentages)	Thirteen weeks ended			Twenty-six weeks ended						
	February 25, 2023	% of Revenues	February 26, 2022	% of Revenues	% Change	February 25, 2023	% of Revenues	February 26, 2022	% of Revenues	% Change
Revenues	\$ 542,691	100.0 %	\$ 486,696	100.0 %	11.5 %	\$ 1,084,489	100.0 %	\$ 972,860	100.0 %	11.5 %
Operating expenses:										
Cost of revenues (1)	369,896	68.2	324,816	66.7	13.9	723,868	66.7	634,946	65.3	14.0
Selling and administrative expenses (1)	122,190	22.5	112,406	23.1	8.7	239,553	22.1	216,794	22.3	10.5
Depreciation and amortization	29,895	5.5	26,861	5.5	11.3	56,940	5.3	53,717	5.5	6.0
Total operating expenses	521,981	96.2	464,083	95.4	12.5	1,020,361	94.1	905,457	93.1	12.7
Operating income	20,710	3.8	22,613	4.6	(8.4)	64,128	5.9	67,403	6.9	(4.9)
Other income, net	(2,917)	(0.5)	(157)	(0.0)	1,758.0	(4,895)	(0.5)	(69)	(0.0)	6,994.2
Income before income taxes	23,627	4.4	22,770	4.7	3.8	69,023	6.4	67,472	6.9	2.3
Provision for income taxes	5,817	1.1	4,319	0.9	34.7	17,256	1.6	15,316	1.6	12.7
Net income	\$ 17,810	3.3 %	\$ 18,451	3.8 %	(3.5) %	\$ 51,767	4.8 %	\$ 52,156	5.4 %	(0.7) %

(1) Exclusive of depreciation on our property, plant and equipment and amortization on our intangible assets.

### General

We derive our revenues through the design, manufacture, personalization, rental, cleaning, delivering, and selling of a wide range of uniforms and protective clothing, including shirts, pants, jackets, coveralls, lab coats, smocks and aprons and specialized protective wear, such as flame resistant and high visibility garments. We also rent industrial wiping products, floor mats, facility service products, other non-garment items, and provide restroom and cleaning supplies and first aid cabinet services and other safety supplies, to a variety of manufacturers, retailers and service companies. We have five reporting segments, U.S. and Canadian Rental and Cleaning, MFG, Specialty Garments, First Aid and Corporate. We refer to the U.S. and Canadian Rental and Cleaning, MFG, and Corporate reporting segments combined as our "Core Laundry Operations."

Cost of revenues include the amortization of rental merchandise in service and merchandise costs related to direct sales as well as labor and other production, service and delivery costs and distribution costs associated with operating our Core Laundry Operations, Specialty Garments facilities and First Aid locations. Selling and administrative costs include costs related to our sales and marketing functions as well as general and administrative costs associated with our corporate offices, non-operating environmental sites and operating locations including information systems, engineering, materials management, manufacturing planning, finance, budgeting and human resources.

Our operating results are also directly impacted by the costs of the gasoline used to fuel our vehicles and the natural gas used to operate our plants. Our operating margins have been, and may continue to be, adversely impacted by the recent volatility in energy prices. In addition, as described above, the current inflationary environment has had a negative impact on our margins, and could continue to pressure our margins in future periods.

Our business is subject to various state and federal regulations, including employment laws and regulations, minimum wage requirements, overtime requirements, working condition requirements, citizenship requirements, healthcare insurance mandates and other laws and regulations that impact our labor costs. Labor costs have increased recently as a result of increases in state and local minimum wage levels as well as the overall impact of wage pressure as the result of a low unemployment environment.

In fiscal 2018, we initiated a multiyear CRM project to further develop, implement and deploy a third-party application we licensed. This new solution improves functionality, capability and information flow and increases automation in servicing our customers. As of February 25, 2023, we capitalized \$43.9 million related to this CRM project. We began deployment of our new CRM system during the second half of fiscal 2021 and anticipate that deployment will continue through fiscal 2023. We are depreciating this system over a 10-year life and recognized \$0.8 million and \$1.6 million of amortization expense during the thirteen and twenty-six weeks ended February 25, 2023, respectively.

In fiscal 2022, we initiated a multiyear ERP project with a strong focus on supply chain and procurement automation and technology. We believe that this initiative will become the core of the UniFirst technology footprint and will integrate and complement the capabilities of the CRM system that we are currently deploying. We expect this system and the supply chain and procurement capabilities that it will provide will enable more efficient back-end processes and improved demand forecasting and allow us to more effectively respond to and mitigate the types of supply chain challenges we experienced during the pandemic and continue to experience primarily as a result of the inflationary environment.

Over the next few years, we intend to be focused on three discrete strategic initiatives that are critical to our efforts to transform the Company in terms of our overall capabilities and competitive positioning. These initiatives are the continued rollout of our new CRM system (discussed above), the implementation of the ERP system (discussed above) and investments in the UniFirst brand. We refer to these initiatives together as our "Key Initiatives". For the thirteen and twenty-six weeks ended February 25, 2023, we incurred \$9.1 million and \$19.1 million, respectively, of costs directly attributable to our Key Initiatives. For the thirteen and twenty-six weeks ended February 26, 2022, we incurred \$6.7 million and \$12.7 million, respectively, of costs directly attributable to our Key Initiatives.

On October 25, 2022, we announced that we will be raising our quarterly dividend to \$0.31 per share of Common Stock and to \$0.248 per share of Class B Common Stock, up from \$0.30 and \$0.24 per share, respectively. The amount and timing of any dividend payment is subject to the approval of our Board of Directors each quarter.

On October 18, 2021, our Board of Directors authorized a share repurchase program to repurchase from time to time up to \$100.0 million of our outstanding shares of Common Stock, inclusive of the amount which remained available under the existing share repurchase program approved on January 2, 2019. Repurchases made under the program, if any, will be made in either the open market or in privately negotiated transactions. The timing, manner, price and amount of any repurchases will depend on a variety of factors, including economic and market conditions, the Company stock price, corporate liquidity requirements and priorities, applicable legal requirements and other factors. The share repurchase program has been funded to date with our available cash and will be funded in the future using our available cash or capacity under our Credit Agreement (defined below) and may be suspended or discontinued at any time. During the twenty-six weeks ended February 25, 2023, we did not repurchase any shares. During the thirteen and twenty-six weeks ended February 26, 2022, we repurchased 52,500 and 75,250 shares, respectively, for an average price per share of \$190.37 and \$167.54, respectively, under the share repurchase program. As of February 25, 2023, we had \$63.6 million remaining to repurchase under our share repurchase program.

On March 9, 2023, we exercised the accordion feature of the Credit Agreement pursuant to an amendment to the Credit Agreement. The exercise of the accordion feature increases the aggregate commitments under the Credit Agreement by \$100.0 million, for a total aggregate commitment of up to \$275.0 million. In addition, the amendment provides for the replacement of LIBOR with SOFR such that borrowings are based on, at the Company's election, the SOFR rate or a base rate, plus in each case a spread based on the Company's consolidated funded debt ratio. The amendment also refreshed the accordion feature, so that, provided there is no default or event of default under the Credit Agreement and we are in compliance with our financial covenants on a pro forma basis, we may request an increase in the aggregate commitments under the Credit Agreement (in the form of revolving or term tranches) of up to an additional \$100.0 million, for a total aggregate commitment of up to \$375.0 million.

On March 13, 2023, we completed our previously announced acquisition of the business and certain real estate assets of Clean from Clean Holdco, Inc. and certain of its affiliates for an aggregate purchase price of approximately \$300 million. Clean is a uniform, workwear and facility service program provider with 11 locations covering Missouri, Illinois, Arkansas, Kansas and Oklahoma. The results of operations from Clean will be included in our results under the Core Laundry Operations' segment subsequent to the acquisition date of March 13, 2023. We paid for the acquisition of Clean with cash on hand and borrowings under the Credit Agreement.

**Thirteen weeks ended February 25, 2023 compared with thirteen weeks ended February 26, 2022**

## Revenues

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Core Laundry Operations	\$ 477,050	\$ 433,056	\$ 43,994	10.2%
Specialty Garments	42,127	35,538	6,589	18.5%
First Aid	23,514	18,102	5,412	29.9%
Consolidated total	\$ 542,691	\$ 486,696	\$ 55,995	11.5%

The increase in consolidated revenues of 11.5% during the second quarter of fiscal 2023 compared to the prior year comparable period was due primarily to growth in our Core Laundry Operations' of 10.2%. The increase in our Core Laundry Operations' was due to organic growth of 10.1%, effect of Canadian dollar exchange rate changes on our revenues of (0.3)%, and acquisition related growth of 0.4%. The Core Laundry Operations' strong organic growth rate was primarily the result of pricing efforts over the last year to share with our customers the cost increases that we have incurred in our business due to the ongoing inflationary environment.

Specialty Garments revenues in the second quarter of fiscal 2023 increased compared to the prior year comparable period. Cleanroom revenue growth accounted for growth of 8.1% and the North American nuclear operations accounted for growth of 10.4% due primarily to increased project work in second quarter of fiscal 2023. Specialty Garments' results are often affected by seasonality and the timing and length of our customers' power reactor outages as well as our project-based activities.

First Aid revenues in the second quarter of fiscal 2023 increased compared to the prior year comparable period. Increased activity in the wholesale distribution business accounted for growth of 21.5% and the van business accounted for growth of 8.4%.

## Cost of Revenues

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Cost of revenues	\$ 369,896	\$ 324,816	\$ 45,080	13.9%
% of Revenues	68.2%	66.7%		

The increase in consolidated costs of revenues of 13.9% during the second quarter of fiscal 2023 compared to the prior year comparable period was due primarily to the impact of the revenue growth, mentioned above. In addition, cost of revenues increased due to an increase in Core Laundry Operations' merchandise expense as a percentage of revenues of 1.7% due to the inflationary effect on the cost of our products as well as higher levels of merchandise put in service with our customers.

## Selling and Administrative Expenses

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Selling and administrative expenses	\$ 122,190	\$ 112,406	\$ 9,784	8.7%
% of Revenues	22.5%	23.1%		

The increase in selling and administrative costs of 8.7% during the second quarter of fiscal 2023 compared to the prior year comparable period was due primarily to increased support for the revenue growth, mentioned above. Also contributing to the increase was an additional \$2.4 million of costs to support our Key Initiatives compared to the prior year comparable period and \$2.0 million of Clean acquisition-related costs in the second quarter of fiscal 2023.

## Depreciation and Amortization

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Depreciation and amortization	\$ 29,895	\$ 26,861	\$ 3,034	11.3%
% of Revenues	5.5%	5.5%		

Depreciation and amortization expense increased by 11.3% but remained relatively consistent with the prior year comparable period as a percentage of revenues. The increase was due primarily to continued investment in our technology capabilities and infrastructure to support our Key Initiatives and future growth.

### Operating Income

For the thirteen weeks ended February 25, 2023 and February 26, 2022, changes in our revenues and costs as discussed above resulted in the following changes in our operating income and margin:

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Core Laundry Operations	\$ 13,642	\$ 18,745	\$ (5,103)	(27.2)%
Specialty Garments	8,045	3,850	4,195	109.0%
First Aid	(977)	18	(995)	(5527.8)%
Operating income	\$ 20,710	\$ 22,613	\$ (1,903)	(8.4)%
Operating income margin	3.8%	4.6%		

### Other Income, net

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Interest income, net	\$ (3,031)	\$ (751)	\$ (2,280)	303.6%
Other (income) expense, net	114	594	(480)	(80.8)%
Total other income, net	\$ (2,917)	\$ (157)	\$ (2,760)	1758.0%

The increase in other income, net during the second quarter of fiscal 2023 as compared to the prior year comparable period was due primarily to increases in interest income earned on our cash reserves and short-term investments as a result of rising interest rates.

### Provision for Income Taxes

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Provision for income taxes	\$ 5,817	\$ 4,319	\$ 1,498	34.7%
Effective income tax rate	24.6%	19.0%		

The increase in the effective tax rate for the thirteen weeks ended February 25, 2023 as compared to the corresponding period in the prior year was due primarily to the impact of higher tax benefits primarily related to the release of \$1.2 million of tax reserves during the thirteen weeks ended February 26, 2022.

### Twenty-six weeks ended February 25, 2023 compared with twenty-six weeks ended February 26, 2022

#### Revenues

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Core Laundry Operations	\$ 954,448	\$ 861,902	\$ 92,546	10.7%
Specialty Garments	86,206	75,022	11,184	14.9%
First Aid	43,835	35,936	7,899	22.0%
Consolidated total	\$ 1,084,489	\$ 972,860	\$ 111,629	11.5%

The increase in consolidated revenues of 11.5% during the twenty-six weeks ended February 25, 2023 compared to the prior year comparable period was due primarily to growth in our Core Laundry Operations' of 10.7%. The increase in our Core Laundry Operations' was due to organic growth of 10.5%, effect of Canadian dollar exchange rate changes on our revenues of (0.5)%, and acquisition related growth of 0.7%. The Core Laundry Operations' strong organic growth rate was primarily the result of pricing efforts over the last year to share with our customers the cost increases that we have incurred in our business due to the ongoing inflationary environment.

Specialty Garments revenues in the first half of fiscal 2023 increased compared to the prior year comparable period. Cleanroom revenue growth accounted for growth of 8.7% and the North American nuclear operations accounted for growth of 6.2% due primarily to increased project work in fiscal 2023. Specialty Garments' results are often affected by seasonality and the timing and length of our customers' power reactor outages as well as our project-based activities.

First Aid revenues in the first half of fiscal 2023 increased compared to the prior year comparable period. Increased activity in the wholesale distribution business accounted for growth of 13.1% and the van business accounted for growth of 8.9%.

#### Cost of Revenues

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Cost of revenues	\$ 723,868	\$ 634,946	\$ 88,922	14.0%
% of Revenues	66.7%	65.3%		

The increase in consolidated costs of revenues of 14.0% during the twenty-six weeks ended February 25, 2023 compared to the prior year comparable period was due primarily to the impact of the revenue growth, as mentioned above. In addition, cost of revenues increased due to an increase in Core Laundry Operations' merchandise expense as a percentage of revenues of 1.4% due to the inflationary effect on the cost of our products as well as higher levels of merchandise put in service with our customers.

#### Selling and Administrative Expenses

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Selling and administrative expenses	\$ 239,553	\$ 216,794	\$ 22,759	10.5%
% of Revenues	22.1%	22.3%		

The increase in selling and administrative costs of 10.5% during the twenty-six weeks ended February 25, 2023 compared to the prior year comparable period was due primarily to increased support for the revenue growth, mentioned above. Also contributing to the increase was an additional \$6.4 million of costs to support our Key Initiatives compared to the prior year comparable period and \$2.0 million of Clean acquisition-related costs in fiscal 2023.

#### Depreciation and Amortization

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Depreciation and amortization	\$ 56,940	\$ 53,717	\$ 3,223	6.0%
% of Revenues	5.3%	5.5%		

Depreciation and amortization expense increased by 6.0% but remained relatively consistent with the prior year comparable period as a percentage of revenues. The increase was due primarily to continued investment in our technology capabilities and infrastructure to support our Key Initiatives and future growth.

#### Operating Income

For the twenty-six weeks ended February 25, 2023 and February 26, 2022, changes in our revenues and costs as discussed above resulted in the following changes in our operating income and margin:

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Core Laundry Operations	\$ 47,473	\$ 55,252	\$ (7,779)	(14.1)%
Specialty Garments	18,228	12,479	5,749	46.1%
First Aid	(1,573)	(328)	(1,245)	379.6%
Operating income	\$ 64,128	\$ 67,403	\$ (3,275)	(4.9)%
Operating income margin	5.9%	6.9%		

## Other Income, net

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Interest income, net	\$ (5,800)	\$ (1,399)	\$ (4,401)	314.6%
Other expense, net	905	1,330	(425)	(32.0)%
Total other income, net	\$ (4,895)	\$ (69)	\$ (4,826)	6994.2%

The increase in other income, net during the twenty-six weeks ended February 25, 2023 as compared to the prior year comparable period was due primarily to increases in interest income earned on our cash reserves and short-term investments as a result of rising interest rates.

## Provision for Income Taxes

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Dollar Change	Percent Change
Provision for income taxes	\$ 17,256	\$ 15,316	\$ 1,940	12.7%
Effective income tax rate	25.0%	22.7%		

The increase in the effective tax rate for the twenty-six weeks ended February 25, 2023 as compared to the corresponding period in the prior year was due primarily to the impact of higher tax benefits related primarily to the release of \$1.2 million of certain tax reserves during the twenty-six weeks ended February 26, 2022.

## Liquidity and Capital Resources

### General

Cash and cash equivalents and short-term investments totaled \$345.1 million as of February 25, 2023, a decrease from \$376.4 million as of prior fiscal year end. We generated \$64.2 million and \$44.9 million in cash from operating activities in the twenty-six weeks ended February 25, 2023 and February 26, 2022, respectively. The increase was primarily due to lower working capital needs of the business. During the twenty-six weeks ended February 25, 2023, we continued to invest in our business with capital expenditures totaling \$74.8 million.

On March 13, 2023, we completed our previously announced acquisition of the business and certain real estate assets of Clean and certain of its affiliates for an aggregate purchase price of approximately \$300 million. Clean is a uniform, workwear and facility service program provider with 11 locations covering Missouri, Illinois, Arkansas, Kansas and Oklahoma. We borrowed \$80.0 million from our Credit Agreement (as defined below) subsequent to the end of the second quarter of fiscal 2023 to finance the acquisition of Clean and fund our day-to-day operations.

On March 9, 2023, we exercised the accordion feature of the Credit Agreement pursuant to an amendment to the Credit Agreement. The exercise of the accordion feature increases the aggregate commitments under the Credit Agreement by \$100.0 million, for a total aggregate commitment of up to \$275.0 million. In addition, the amendment provides for the replacement of LIBOR with SOFR such that borrowings are based on, at our election, the SOFR rate or a base rate, plus in each case a spread based on our consolidated funded debt ratio. The amendment also refreshed the accordion feature, so that, provided there is no default or event of default under the Credit Agreement and we are in compliance with our financial covenants on a pro forma basis, we may request an increase in the aggregate commitments under the Credit Agreement (in the form of revolving or term tranches) of up to an additional \$100.0 million, for a total aggregate commitment of up to \$375.0 million.

Pursuant to our share repurchase program, we did not repurchase any shares of our Common Stock during the twenty-six weeks ended February 25, 2023.

We believe, although there can be no assurance, that our current cash, cash equivalents and short-term investments balances, our cash generated from future operations and amounts available under our Credit Agreement will be sufficient to meet our current anticipated working capital and capital expenditure requirements for at least the next 12 months and address related liquidity needs.

Cash flows provided by operating activities have historically been the primary source of our liquidity. We generally use these cash flows to fund most, if not all, of our operations, capital expenditure and acquisition activities as well as dividends on our Common Stock and stock repurchases. We may also use cash flows provided by operating activities, as well as proceeds from loans payable and long-term debt, to fund growth and acquisition opportunities, as well as other cash requirements.

Sources and uses of cash flows for the twenty-six weeks ended February 25, 2023 and February 26, 2022, respectively, are summarized as follows:

(In thousands, except percentages)	February 25, 2023	February 26, 2022	Percent Change
Net cash provided by operating activities	\$ 64,169	\$ 44,893	42.9%
Net cash used in investing activities	(182,561)	(102,476)	78.2%
Net cash used in financing activities	(13,753)	(28,542)	(51.8)%
Effect of exchange rate changes	(156)	(856)	(81.8)%
Net decrease in cash and cash equivalents	\$ (132,301)	\$ (86,981)	52.1%

#### *Net Cash Provided by Operating Activities*

The net cash provided by operating activities during the twenty-six weeks ended February 25, 2023 increased as compared to the prior year comparable period due to a positive impact from inventories of \$17.9 million. The positive impact from inventories was due primarily to a build in inventories in prior year that was not duplicated in 2023. Also contributing to the increase was a positive impact from prepaid and accrued income taxes of \$6.4 million. The positive impact from prepaid and accrued income taxes was due primarily to the timing of federal and state income tax payments.

#### *Net Cash Used in Investing Activities*

The net increase in cash used in investing activities during the twenty-six weeks ended February 25, 2023 was due primarily to the initial purchases of certificates of deposit during the first quarter of fiscal 2023 at a cost of \$107.0 million. There was also an increase in capital expenditures of \$14.7 million as compared to the prior year comparable period. This was partially offset by a decrease in acquisition related activity of \$35.2 million and maturities of certificates of deposit during the second quarter of fiscal 2023 of \$6.0 million as compared to the prior year comparable period.

#### *Net Cash Used in Financing Activities*

The decrease in net cash used in financing activities during the twenty-six weeks ended February 25, 2023 was due primarily to no Common Stock repurchases during the twenty-six weeks ended February 25, 2023 as compared to \$14.8 million of repurchases in the prior year comparable period. Furthermore, there was also a decrease in taxes withheld and paid related to net-share settlement of equity awards of \$1.0 million. This was partially offset by an increase in dividends paid of \$1.0 million.

#### *Long-Term Debt and Borrowing Capacity*

On March 26, 2021, we entered into an amended and restated \$175.0 million unsecured revolving credit agreement (as subsequently amended, the "Credit Agreement") with a syndicate of banks, which matures on March 26, 2026. The Credit Agreement amended and restated our prior credit agreement, which was scheduled to mature on April 11, 2021. Under the Credit Agreement, we are able to borrow funds at variable interest rates based on, at our election, the Eurodollar rate or a base rate, plus in each case a spread based on our consolidated funded debt ratio. Availability of credit requires compliance with certain financial and other covenants, including a maximum consolidated funded debt ratio and minimum consolidated interest coverage ratio as defined in the Credit Agreement. We test our compliance with these financial covenants on a fiscal quarterly basis. As of February 25, 2023, the interest rates applicable to our borrowings under the Credit Agreement would be calculated as LIBOR plus 1.00% at the time of the respective borrowing. The Credit Agreement includes provisions for the phasing out of LIBOR to SOFR. As of February 25, 2023, we had no outstanding borrowings and had outstanding letters of credit amounting to \$66.5 million, leaving \$108.5 million available for borrowing under the Credit Agreement.

As of February 25, 2023, we were in compliance with all covenants under the Credit Agreement.

On March 9, 2023, we exercised the accordion feature of the Credit Agreement pursuant to an amendment to the Credit Agreement. The exercise of the accordion feature increases the aggregate commitments under the Credit Agreement by \$100.0 million, for a total aggregate commitment of up to \$275.0 million. In addition, the amendment provides for the replacement of LIBOR with SOFR such that borrowings are based on, at our election, the SOFR rate or a base rate, plus in each case a spread based on our consolidated funded debt ratio. Subsequent to the end of the second fiscal quarter of 2023, we borrowed \$80.0 million under our Credit Agreement to finance the acquisition of Clean and fund our day-to-day operations. The amendment also refreshed the accordion feature, so that, provided there is no default or event of default under the Credit Agreement and we are in compliance with our financial covenants on a pro forma basis, we may request an increase in the aggregate commitments under the Credit Agreement (in the form of revolving or term tranches) of up to an additional \$100.0 million, for a total aggregate commitment of up to \$375.0 million.

#### *Derivative Instruments and Hedging Activities*

In August 2021, we entered into twenty forward contracts to exchange CAD for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of our domestic subsidiaries each fiscal quarter, beginning in the first fiscal quarter of 2022 and continuing through the fourth fiscal quarter of 2026. In total, we will sell approximately 14.1 million CAD at an average Canadian-dollar exchange rate of 0.7861 over these quarterly periods. We concluded that the forward contracts met the criteria to qualify as a cash flow hedge under U.S. GAAP.

As of February 25, 2023, we had forward contracts with a notional value of approximately 6.8 million CAD outstanding and recorded the fair value of the contracts, in the amount of \$0.2 million, in prepaid expenses and other current assets and other long-term assets with a corresponding \$0.1 million gain in accumulated other comprehensive loss, which was recorded net of tax. During the thirteen and twenty-six weeks ended February 25, 2023, we reclassified a nominal amount 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 25, 2023 is expected to be reclassified to revenues prior to their maturity on August 29, 2026.

#### *Commitments and Contingencies*

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

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

Under environmental laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on, or in, or emanating from, such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of, or was responsible for the presence of such hazardous or toxic substances. There can be no assurances that acquired or leased locations have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of liability upon our Company under such laws or expose our Company to third-party actions such as tort suits. We continue to address environmental conditions under terms of consent orders negotiated with the applicable environmental authorities or otherwise with respect to certain sites.

We have accrued certain costs related to certain sites, including but not limited to sites in Woburn and Somerville, Massachusetts, as it has been determined that the costs are probable and can be reasonably estimated. We, together with multiple other companies, are party to a consent decree related to our property and other parcels of land (the "Central Area") at a site in Woburn, Massachusetts. The United States Environmental Protection Agency (the "EPA") has provided us 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 consent decree does not address any remediation work that may be required in the Central Area. We, and other signatories, have implemented and proposed to do additional work at the Woburn site but many of the EPA's comments remain to be resolved. We have accrued costs to perform certain work responsive to the EPA's comments. Additionally, we have implemented mitigation measures and continue to monitor environmental conditions at the Somerville, Massachusetts site. We have agreed to undertake additional actions responsive to a notice of audit findings from the Massachusetts Department of Environmental Protection concerning a regulatory submittal that we made in 2009 for a portion of the site. We have received demands from the local transit authority for reimbursement of certain costs associated with its construction of a new municipal transit station in the area of the Somerville site. We have reserved for costs in connection with this matter; however, in light of the uncertainties associated with this matter, these costs and the related reserve may change.



We routinely review and evaluate sites that may require remediation and monitoring and determine our estimated costs based on various estimates and assumptions. These estimates are developed using our 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 our sites;
- Information available from regulatory agencies as to costs of remediation and monitoring;
- The number, financial resources and relative degree of responsibility of other potentially responsible parties (“PRPs”) who may be liable for remediation and monitoring of a specific site; and
- The typical allocation of costs among PRPs.

There is usually a range of reasonable estimates of the costs associated with each site. In accordance with U.S. GAAP, our accruals represent the amount within the range that we believe is the best estimate or the low end of a range of estimates if no point within the range is a better estimate. When we believe that both the amount of a particular liability and the timing of the payments are reliably determinable, we adjust the cost in current dollars using a rate of 3% for inflation until the time of expected payment and discount the cost to present value using current risk-free interest rates. As of February 25, 2023, the risk-free interest rates we utilized ranged from 3.93% to 4.52%.

For environmental liabilities that have been discounted, we include interest accretion, based on the effective interest method, in selling and administrative expenses on the Consolidated Statements of Income. The changes to the amounts of our environmental liabilities for the twenty-six weeks ended February 25, 2023 were as follows (in thousands):

	February 25, 2023
Balance as of August 27, 2022	\$ 32,191
Revisions in estimates	(5)
Costs incurred for which reserves have been provided	(794)
Insurance proceeds	59
Interest accretion	518
Changes in discount rates	(1,655)
Balance as of February 25, 2023	\$ 30,314

Anticipated payments and insurance proceeds relating to currently identified environmental remediation liabilities as of February 25, 2023, for the next five fiscal years and thereafter, as measured in current dollars, are reflected below.

(In thousands)	2023	2024	2025	2026	2027	Thereafter	Total
Estimated costs – current dollars	\$ 11,336	\$ 3,051	\$ 1,741	\$ 1,437	\$ 1,250	\$ 14,945	\$ 33,760
Estimated insurance proceeds	(113)	(159)	(173)	(159)	(173)	(230)	(1,007)
Net anticipated costs	\$ 11,223	\$ 2,892	\$ 1,568	\$ 1,278	\$ 1,077	\$ 14,715	\$ 32,753
Effect of inflation							9,906
Effect of discounting							(12,345)
Balance as of February 25, 2023							\$ 30,314

Estimated insurance proceeds are primarily received from an annuity received as part of our 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 two sites related to our 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 25, 2023, the balance in this escrow account, which is held in a trust and is not recorded in our Consolidated Balance Sheet, was approximately \$4.8 million. Also included in estimated insurance proceeds are amounts we are entitled to receive pursuant to legal settlements as reimbursements from three insurance companies for estimated costs at the site in Uvalde, Texas.

Our nuclear garment decontamination facilities are licensed by respective state agencies, as delegated authority by the Nuclear Regulatory Commission (the “NRC”) pursuant to the NRC’s Agreement State program and are subject to applicable federal and state radioactive material regulations. In addition, our international locations (Canada, the United Kingdom and the European Union) are regulated by equivalent respective jurisdictional 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, we are also subject to legal proceedings and claims arising from the conduct of our business operations, including personal injury claims, customer contract matters, employment claims and environmental matters as described above.

We are subject to two claims made by former employees in September 2022 alleging damages under the Fair Labor Standards Act. The claims are expected to be resolved for nominal amounts.

In addition, in the fourth quarter of fiscal 2022, the Mexican federal tax authority issued a tax assessment on our subsidiary in Mexico for fiscal 2016 import taxes, value added taxes and custom processing fees of over \$17.0 million, plus surcharges, fines and penalties of over \$67.7 million for a total assessment of over \$84.7 million. We disagree with such tax assessment and have filed an administrative appeal before the legal division of the Mexican federal tax authority challenging the validity of the tax assessment. While we are unable to ascertain the ultimate outcome of this matter, based on the information currently available, we believe that a loss with respect to this matter is neither probable nor remote. Given the uncertainty associated with the ultimate resolution of this matter, we are unable to reasonably assess an estimate or range of estimates of any potential losses.

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

#### *Contractual Obligations and Other Commercial Commitments*

As of February 25, 2023, there were no material changes to our contractual obligations that were disclosed in our Annual Report on Form 10-K for the year ended August 27, 2022. As of February 25, 2023, we did not have any off-balance sheet arrangements.

#### **Recent Accounting Pronouncements**

See Note 2, "Recent Accounting Pronouncements" to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for more information on recently implemented and issued accounting standards.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### *Foreign Currency Exchange Risk*

We have determined that all of our foreign subsidiaries operate primarily in local currencies that represent the functional currencies of such subsidiaries. All assets and liabilities of our foreign subsidiaries are translated into U.S. dollars using the exchange rate prevailing at the balance sheet date. The effects of exchange rate fluctuations on the translation of assets and liabilities are recorded as a component of shareholders' equity. Revenues and expenses are translated at the average exchange rates in effect during each month of the fiscal year. As such, our financial condition and operating results are affected by fluctuations in the value of the U.S. dollar as compared to currencies in foreign countries. Revenues denominated in currencies other than the U.S. dollar represented approximately 7.4% and 7.1%, respectively, of total consolidated revenues for the thirteen and twenty-six weeks ended February 25, 2023. Total assets denominated in currencies other than the U.S. dollar represented approximately 6.6% and 7.0% of total consolidated assets as of February 25, 2023 and August 27, 2022, respectively. If exchange rates had increased or decreased by 10% from the actual rates in effect during the thirteen and twenty-six weeks ended February 25, 2023, our revenues would have increased or decreased by a nominal amount and \$0.4 million, respectively, and total assets as of February 25, 2023 would have increased or decreased by approximately \$16.3 million.

In August 2021, we entered into twenty forward contracts to exchange CAD for U.S. dollars at fixed exchange rates in order to manage our exposure related to certain forecasted CAD denominated sales of one of our subsidiaries. The hedged transactions are specified as the first amount of CAD denominated revenues invoiced by one of the Company's domestic subsidiaries each fiscal quarter, beginning in the first fiscal quarter of 2022 and continuing through the fourth fiscal quarter of 2026. In total, the Company will sell approximately 14.1 million CAD at an average Canadian-dollar exchange rate of 0.7861 over these quarterly periods. The Company concluded that the forward contracts met the criteria to qualify as a cash flow hedge under U.S. GAAP.

As of February 25, 2023, we had forward contracts with a notional value of approximately 6.8 million CAD outstanding and recorded the fair value of the contracts, in the amount of \$0.2 million, in prepaid expenses and other current assets and other long-term assets with a corresponding \$0.1 million gain in accumulated other comprehensive loss, which was recorded net of tax. During the twenty-six weeks ended February 25, 2023, we reclassified a nominal amount 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 25, 2023 is expected to be reclassified to revenues prior to their maturity on August 29, 2026.

Other than the forward contracts, discussed above, we do not operate a hedging program to mitigate the effect of a significant change in the value of the functional currencies of our foreign subsidiaries, which include the Canadian dollar, euro, British pound, Mexican peso and Nicaraguan cordoba, as compared to the U.S. dollar. Any losses or gains resulting from unhedged foreign currency transactions, including exchange rate fluctuations on intercompany accounts are reported as transaction losses (gains) in our other income, net. The intercompany payables and receivables are denominated in Canadian dollars, euros, British pounds, Mexican pesos and Nicaraguan cordobas. During the thirteen and twenty-six weeks ended February 25, 2023, transaction loss of \$0.1 million and gain of \$0.4 million, respectively, and were included in other income. If exchange rates had increased or decreased by 10% during the thirteen and twenty-six weeks ended February 25, 2023, we would have recognized exchange gains or losses of approximately \$0.9 million and \$0.6 million, respectively.

#### *Interest Rate Sensitivity*

We are exposed to market risk from changes in interest rates, which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our operating and financing activities. We are exposed to interest rate risk primarily through borrowings under our Credit Agreement. Subsequent to the end of the second fiscal quarter of 2023, we borrowed \$80.0 million under the Credit Agreement. Under the Credit Agreement, we borrow funds at variable interest rates based on, at our election, the SOFR rate or a base rate, plus in each case a spread based on our consolidated funded debt ratio. To the extent we have borrowings outstanding under the Credit Agreement, changes in interest rates result in changes in our interest expense.

Please see Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended August 27, 2022 for an additional discussion of risks and potential risks on our business, financial performance and the market price of our Common Stock.

## **ITEM 4. CONTROLS AND PROCEDURES**

### *Disclosure Controls and Procedures*

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, solely as a result of the material weakness previously identified by management and described in our Annual Report on Form 10-K for the year ended August 27, 2022, our disclosure controls and procedures were not effective to ensure that material information relating to the Company required to be disclosed by the Company in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply our judgment in designing and evaluating the controls and procedures. We continue to review our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

### *Changes in Internal Control over Financial Reporting*

Other than the remediation measures with respect to the material weakness described below, there were no changes in our internal control over financial reporting during the second quarter of fiscal 2023 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

### *Previously Identified Material Weakness*

As described in Part II, Item 9A of our Annual Report on Form 10-K for the year ended August 27, 2022, our management identified a material weakness in internal control over financial reporting related to the revenue and accounts receivable process, primarily due to ineffective information technology general controls (ITGCs) in the area of user access over the CRM system that we are in the process of deploying. This issue was attributable to numerous role security defects that we experienced in the application and uncertainty that additional role security defects would not arise. Our business process controls within the revenue and accounts receivable process, both automated and manual, that are dependent on the completeness and accuracy of the information derived from the affected IT system were also deemed ineffective because they could have been adversely impacted.

### *Remediation*

Management is currently working with the application provider to implement security enhancements to the CRM system that will provide improved control over user access. We believe that these actions as well as other enhancements to our business process

controls, both automated and manual, will enable us to remediate the material weakness. The material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We currently believe, although there can be no assurance, that the remediation of the material weakness will be completed by the end of fiscal 2023.

Our Chief Executive Officer and Chief Financial Officer have certified in certifications furnished with this Quarterly Report on Form 10-Q that, to the best of their knowledge, the information contained in this Quarterly Report on Form 10-Q fairly present, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in this Quarterly Report on Form 10-Q.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are subject to legal proceedings and claims arising from the current conduct of our business operations, including personal injury, customer contract, employment claims and environmental matters as described in our Consolidated Financial Statements. We maintain insurance coverage providing indemnification against many of such claims, and we do not expect that we will sustain any material loss as a result thereof. Refer to Note 12, “Commitments and Contingencies,” to the Consolidated Financial Statements, as well as Part II, Item 1A. “Risk Factors” below, for further discussion.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended August 27, 2022, which could materially affect our business, financial condition, and future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and operating results. Except to the extent previously updated or to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations”), there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended August 27, 2022.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not Applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

ITEM 6. EXHIBITS

- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Steven S. Sintros \(filed herewith\).](#)
- 31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Shane O'Connor \(filed herewith\).](#)
- 32.1 [Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\).](#)
- 32.2 [Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\).](#)
- 99.1 [Amendment No. 1 to Second Amended and Restated Credit Agreement, dated March 9, 2023, by and among UniFirst Corporation and certain of its subsidiaries, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the other lenders party thereto \(incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Commission on March 17, 2023\).](#)
- 101 The following financial information from UniFirst Corporation Quarterly Report on Form 10-Q for the quarter ended February 25, 2023 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101) (filed herewith).

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 by the undersigned thereunto duly authorized.

UniFirst Corporation

April 6, 2023

By: /s/ Steven S. Sintros  
Steven S. Sintros  
President and Chief Executive Officer

April 6, 2023

By: /s/ Shane O'Connor  
Shane O'Connor  
Executive Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION  
302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven S. Sintros, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of UniFirst Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant, and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 6, 2023

By: /s/ Steven S. Sintros  
Steven S. Sintros  
President and Chief Executive Officer  
(Principal Executive Officer)

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION  
302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shane O'Connor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of UniFirst Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant, and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 6, 2023

By: /s/ Shane O'Connor  
Shane O'Connor  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION  
906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Shane O'Connor, Executive Vice President and Chief Financial Officer of UniFirst Corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended February 25, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 6, 2023

By:           /s/ Shane O'Connor          

Shane O'Connor  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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