

UNIFIRST CORP
Form 10-Q
April 08, 2010

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 27, 2010**

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: **1-8504**

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)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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 2, 2010 were 14,508,379 and 4,913,369, respectively.

UniFirst Corporation

Quarterly Report on Form 10-Q

For the Quarter ended February 27, 2010

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

(In thousands, except per share data)	Thirteen weeks ended		Twenty-six weeks ended	
	February 27, 2010	February 28, 2009	February 27, 2010	February 28, 2009
Revenues	\$ 253,562	\$ 257,285	\$ 509,741	\$ 519,839
Operating expenses:				
Cost of revenues (1)	157,025	158,972	306,249	316,035
Selling and administrative expenses (1)	52,423	50,113	103,895	107,600
Depreciation and amortization	15,033	14,339	30,089	28,042
Total operating expenses	224,481	223,424	440,233	451,677
Income from operations	29,081	33,861	69,508	68,162
Other expense (income):				
Interest expense	2,185	2,324	4,369	4,915
Interest income	(545)	(547)	(1,069)	(1,051)
Exchange rate loss	783	195	582	1,129
	2,423	1,972	3,882	4,993
Income before income taxes	26,658	31,889	65,626	63,169
Provision for income taxes	10,432	13,609	25,824	26,027
Net income	\$ 16,226	\$ 18,280	\$ 39,802	\$ 37,142
Income per share Basic:				
Common Stock	\$ 0.88	\$ 1.00	\$ 2.16	\$ 2.03
Class B Common Stock	\$ 0.71	\$ 0.80	\$ 1.73	\$ 1.62
Income per share Diluted:				
Common Stock	\$ 0.83	\$ 0.94	\$ 2.05	\$ 1.92
Weighted average number of shares outstanding Basic:				
Common Stock	14,467	14,389	14,454	14,387
Class B Common Stock	4,931	4,935	4,932	4,935
	19,398	19,324	19,386	19,322
Weighted average number of shares outstanding Diluted:				
Common Stock	19,477	19,354	19,455	19,368
Dividends per share:				
Common Stock	\$ 0.0375	\$ 0.0375	\$ 0.0750	\$ 0.0750
Class B Common Stock	\$ 0.0300	\$ 0.0300	\$ 0.0600	\$ 0.0600

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

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The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	February 27,	August 29,
(In thousands, except share data)	2010	2009 (a)
Assets		
Cash and cash equivalents	\$ 84,249	\$ 60,151
Receivables, less reserves of \$5,679 and \$5,567, respectively	105,564	97,784
Inventories	40,379	43,586
Rental merchandise in service	75,318	73,063
Prepaid and deferred income taxes	25,752	24,901
Prepaid expenses	3,352	2,889
Total current assets	334,614	302,374
Property, plant and equipment:		
Land, buildings and leasehold improvements	328,950	325,034
Machinery and equipment	363,113	352,511
Motor vehicles	121,268	113,048
	813,331	790,593
Less -- accumulated depreciation	427,537	407,823
	385,794	382,770
Goodwill	267,811	261,171
Customer contracts, net	57,622	56,616
Other intangible assets, net	2,995	3,438
Other assets	2,420	2,416
	\$ 1,051,256	\$ 1,008,785
Liabilities and shareholders' equity		
Current liabilities:		
Current maturities of long-term obligations	\$ 6,058	\$ 6,447
Accounts payable	39,469	41,180
Accrued liabilities	108,009	104,003
Accrued income taxes		2,437
Total current liabilities	153,536	154,067
Long-term obligations, net of current maturities	175,411	175,568
Deferred income taxes	52,290	52,115
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1.00 par value; 2,000,000 shares authorized; no shares issued and outstanding		
Common Stock, \$0.10 par value; 30,000,000 shares authorized; 14,498,879 and 14,435,254 issued and outstanding, respectively	1,450	1,443
Class B Common Stock, \$0.10 par value; 20,000,000 shares authorized; 4,921,369 and 4,933,369 issued and outstanding, respectively	492	493
Capital surplus	21,976	20,137
Retained earnings	643,683	605,262
Accumulated other comprehensive income (loss)	2,418	(300)

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Total shareholders' equity	670,019	627,035
	\$ 1,051,256	\$ 1,008,785

(a) Derived from audited financial statements

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

UniFirst Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Twenty-six weeks ended	
	February 27,	February 28,
(In thousands)	2010	2009
Cash flows from operating activities:		
Net income	\$ 39,802	\$ 37,142
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	25,619	23,546
Amortization of intangible assets	4,470	4,496
Amortization of deferred financing costs	133	133
Deferred income taxes	(340)	(163)
Stock-based compensation	848	496
Accretion on environmental contingencies	397	334
Accretion on asset retirement obligations	284	253
Changes in assets and liabilities, net of acquisitions:		
Receivables	(6,890)	(2,882)
Inventories	3,042	(5,923)
Rental merchandise in service	(846)	10,843
Prepaid expenses	(448)	(2,231)
Accounts payable	(1,760)	(13,000)
Accrued liabilities	3,876	1,542
Accrued income taxes	(3,050)	5,746
Net cash provided by operating activities	65,137	60,332
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(13,156)	(3,248)
Capital expenditures	(27,840)	(39,235)
Other	(1,106)	318
Net cash used in investing activities	(42,102)	(42,165)
Cash flows from financing activities:		
Proceeds from long-term obligations	8,850	102,659
Payments on long-term obligations	(9,006)	(118,374)
Proceeds from exercise of Common Stock options	996	31
Payment of cash dividends	(1,381)	(1,376)
Net cash used in financing activities	(541)	(17,060)
Effect of exchange rate changes	1,604	(2,697)
Net increase (decrease) in cash and cash equivalents	24,098	(1,590)
Cash and cash equivalents at beginning of period	60,151	25,655
Cash and cash equivalents at end of period	\$ 84,249	\$ 24,065

The accompanying notes are an integral part of these

Consolidated Financial Statements.

UniFirst Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Basis of Presentation

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

It is suggested that these Consolidated Financial Statements be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 29, 2009. There have been no material changes in the accounting policies followed by the Company during the current fiscal year. Results for an interim period are not indicative of any future interim periods or for an entire fiscal year.

2. Recent Accounting Pronouncements

In June 2008, the FASB issued revised guidance which clarifies whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore, need to be included in the earnings allocation in computing earnings per share (EPS). The Company adopted the revised guidance on August 30, 2009, and the adoption did not have a material impact on its Consolidated Financial Statements.

In June 2009, the FASB approved its Accounting Standards Codification, (the Codification), as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, was effective for interim or annual financial periods ending after September 15, 2009. Therefore, starting in the Company's first quarter of fiscal 2010, any references made to US GAAP use the new Codification numbering system prescribed by the FASB. The Codification was not intended to change or alter existing US GAAP and, as a result, it did not have any impact on the Company's Consolidated Financial Statements.

In January 2010, the FASB issued revised guidance which requires additional disclosures about items transferring into and out of Levels 1 and 2 in the fair value hierarchy. The revised guidance also requires additional separate disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, and clarifies, among other things, the existing fair value disclosures about the level of disaggregation. This pronouncement is effective for interim and annual financial periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements, which are effective for interim and annual financial periods beginning after December 15, 2010. The Company expects the adoption of this guidance will not have a material impact on its Consolidated Financial Statements.

3. Acquisitions

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During the twenty-six weeks ended February 27, 2010, the Company completed five acquisitions with an aggregate purchase price of approximately \$13.2 million. The results of operations of these acquisitions have been included in the Company's consolidated financial results since their respective acquisition dates. None of these acquisitions was significant in relation to the Company's consolidated financial results and, therefore, pro forma financial information has not been presented.

4. Fair Value Measurements

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

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

	As of February 27, 2010		
	Level 1	Level 2	Level 3
Assets:			
Cash Equivalents	\$25,576		
Total	\$25,576		
Liabilities:			
Derivative Instruments	\$	3,017	
Total	\$	3,017	

5. Derivative Instruments and Hedging Activities

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

As of February 27, 2010, the Company had recorded the fair value of the interest rate swap of \$3.0 million in accrued liabilities and a corresponding loss of \$1.8 million in accumulated other comprehensive income (loss), which was net of the associated tax benefit. As of August 29, 2009, the amounts recorded in accrued liabilities and other comprehensive income were \$3.6 million and \$2.2 million, respectively. Of the \$1.8 million loss deferred in accumulated other comprehensive income (loss) as of February 27, 2010, a \$1.8 million loss is expected to be reclassified to interest expense in the next twelve months.

The Company has recorded any realized gains or losses from its interest rate swap as an adjustment to interest expense in its Consolidated Statements of Income. For the thirteen weeks ended February 27, 2010 and February 28, 2009, the Company reclassified a loss from accumulated other comprehensive income (loss) into interest expense totaling \$0.8 million and \$0.3 million, respectively. For the twenty-six weeks ended February 27, 2010 and February 28, 2009, the Company reclassified a loss from accumulated other comprehensive income (loss) into interest expense totaling \$1.6 million and \$0.5 million, respectively.

6. Employee Benefit Plans

Defined Contribution Retirement Savings Plan

The Company has a defined contribution retirement savings plan with a 401(k) feature for all eligible employees not under collective bargaining agreements. The Company matches a portion of the employee's contribution and can make an additional contribution at its discretion. Contributions charged to expense under the plan for the thirteen weeks ended February 27, 2010 and February 28, 2009 were \$2.7 million and \$2.9 million, respectively. Contributions charged to expense under the plan for the twenty-six weeks ended February 27, 2010 and February 28, 2009 were \$5.3 million and \$5.6 million, respectively.

Pension Plans and Supplemental Executive Retirement Plans

The Company maintains an unfunded Supplemental Executive Retirement Plan for certain eligible employees of the Company, a non-contributory defined benefit pension plan covering union employees at one of its locations, and a frozen pension plan the Company assumed in connection with its acquisition of Textilease Corporation in fiscal 2004. The amounts charged to expense related to these plans for the thirteen weeks ended February 27, 2010 and February 28, 2009 were \$0.5 million and \$0.4 million, respectively. The amounts charged to expense related to these plans for both the twenty-six weeks ended February 27, 2010 and February 28, 2009 were \$0.9 million.

7. Net Income Per Share

As described in Note 2, *Recent Accounting Pronouncements*, the Company adopted revised guidance on August 30, 2009 which clarifies whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in computing earnings per share. This adoption did not have an impact on the basic or diluted earnings per share for the thirteen week or twenty-six week periods ended February 27, 2010. The following table sets forth the computation of basic and diluted earnings per share using the two-class method for amounts attributable to the Company's shares of Common Stock and Class B Common Stock (in thousands):

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Thirteen weeks ended		Twenty-six weeks ended	
February	February	February	February
27,	28,	27,	28,
2010	2009	2010	2009

Changes in net assets and liabilities-	-	-	4,750
Prepaid expenses	156	287	-
Accounts payable	(1,095)	2,766	1,130
Accrued liabilities	(3,400)	-	2,250
Net Cash Used in Operating Activities	(16,854)	(1,558)	(117,961)
Investing Activities:			
Cash provided by investing activities	-	-	-
Net Cash Provided by Investing Activities	-	-	-
Financing Activities:			
Loan from shareholder	16,795	1,500	56,652
Issuance of common stock for cash	-	-	67,750
Net Cash Provided by Financing Activities	16,795	1,500	124,402
Net (Decrease) Increase in Cash	(59)	(58)	6,441
Cash - Beginning of Period	6,500	6,354	-
Cash - End of Period	\$6,441	\$6,296	\$6,441
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest			\$- \$- \$-
Income taxes			\$- \$- \$-

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

BNH INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010

1. Summary of Significant Accounting Policies

Basis of Presentation and Organization

BNH Inc. (the "Company") is a Nevada corporation in the development stage, and has limited operations. The Company was incorporated under the laws of the State of Nevada on September 4, 2007. Initially, the proposed business plan of the Company was to establish the Company as a distributor of bio-degradable plastic utensils to environmentally conscious consumers in Israel and later in the United States. Currently, the Company has shifted its focus from bio-plastic products to the emerging greenhouse gas (GHG) carbon credit market. The accompanying financial statements of the Company were prepared from the accounts of the Company under the accrual basis of accounting.

Unaudited Interim Financial Statements

The interim financial statements of the Company as of March 31, 2010, and for the periods then ended, and cumulative from inception, are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2010, and the results of its operations and its cash flows for the periods ended March 31, 2010, and cumulative from inception. These results are not necessarily indicative of the results expected for the calendar year ending December 31, 2010. The accompanying financial statements and notes thereto do not reflect all disclosures required under accounting principles generally accepted in the United States. Refer to the Company's audited financial statements as of December 31, 2009, filed with the SEC, for additional information, including significant accounting policies.

Cash and Cash Equivalents

For purposes of reporting within the statement of cash flows, the Company considers all cash on hand, cash accounts not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Revenue Recognition

The Company is in the development stage and has yet to realize revenues from operations. Once the Company has commenced operations, it will recognize revenues when delivery of goods or completion of services has occurred provided there is persuasive evidence of an agreement, acceptance has been approved by its customers, the fee is fixed or determinable based on the completion of stated terms and conditions, and collection of any related receivable is probable.

Loss per Common Share

Basic loss per share is computed by dividing the net loss attributable to the common stockholders by the weighted average number of shares of common stock outstanding during the period. Fully diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were no dilutive financial instruments issued or outstanding for the period ended March 31, 2010.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the bases of certain assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the assets and liabilities generating the differences.

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The Company maintains a valuation allowance with respect to deferred tax assets. The Company establishes a valuation allowance based upon the potential likelihood of realizing the deferred tax asset and taking into consideration the Company's financial position and results of operations for the current period. Future realization of the deferred tax benefit depends on the existence of sufficient taxable income within the carry-forward period under the federal tax laws.

Changes in circumstances, such as the Company generating taxable income, could cause a change in judgment about the realizability of the related deferred tax asset. Any change in the valuation allowance will be included in income in the year of the change in estimate.

Fair Value of Financial Instruments

The Company estimates the fair value of financial instruments using the available market information and valuation methods. Considerable judgment is required in estimating fair value. Accordingly, the estimates of fair value may not be indicative of the amounts the Company could realize in a current market exchange. As of December 31, the carrying value of accounts payable-trade and accrued liabilities approximated fair value due to the short-term nature and maturity of these instruments.

Deferred Offering Costs

The Company defers as other assets the direct incremental costs of raising capital until such time as the offering is completed. At the time of the completion of the offering, the costs are charged against the capital raised. Should the offering be terminated, deferred offering costs are charged to operations during the period in which the offering is terminated.

Concentration of Risk

As of March 31, 2010, the Company maintained its cash account at one commercial bank. The balance in the account was subject to FDIC coverage.

Common Stock Registration Expenses

The Company considers incremental costs and expenses related to the registration of equity securities with the SEC, whether by contractual arrangement as of a certain date or by demand, to be unrelated to original issuance transactions. As such, subsequent registration costs and expenses are reflected in the accompanying financial statements as general and administrative expenses, and are expensed as incurred.

Lease Obligations

All non-cancellable leases with an initial term greater than one year are categorized as either capital leases or operating leases. Assets recorded under capital leases are amortized according to the methods employed for property and equipment or over the term of the related lease, if shorter.

Estimates

The financial statements are prepared on the basis of accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of March 31, 2010 and expenses for the three months ended March 31, 2010, and cumulative from inception. Actual results could differ from those estimates made by management.

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Fiscal Year End

The Company has adopted a fiscal year end of December 31.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"), codified in FASB ASC 820-10-65, which provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of ASC 820-10-65 did not have an impact on the Company's results of operations or financial condition.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165") codified in FASB ASC 855-10-05, which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855-10-05 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. FASB ASC 855-10-05 is effective for interim and annual periods ending after June 15, 2009. FASB ASC 855-10-05 requires that public entities evaluate subsequent events through the date that the financial statements are issued.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 166"), codified as FASB ASC 860, which requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. FASB ASC 860 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires additional disclosures. FASB ASC 860 is effective for fiscal years beginning after November 15, 2009. The adoption of FASB ASC 860 did not have an impact on the Company's financial condition, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), codified as FASB ASC 810-10, which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. FASB ASC 810-10 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. FASB ASC 810-10 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. FASB ASC 810-10 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. FASB ASC 810-10 is effective for fiscal years beginning after November 15, 2009. The adoption of FASB ASC 810-10 did not have an impact on the Company's financial condition, results of operations or cash flows.

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, we have updated references to GAAP in our financial statements. The adoption of FASB ASC 105 did not impact the Company's financial position or results of operations.

2. Development Stage Activities and Going Concern

The Company is currently in the development stage, and has not commenced operations. Initially, the business plan of the Company is to establish the Company as a distributor of bio-plastic utensils to environmentally conscious consumers in Israel and later in the United States. Currently, the Company has shifted its focus from bioplastic products to the emerging greenhouse gas (GHG) carbon credit market.

The Company began a capital formation activity through a PPO, exempt from registration under the Securities Act of 1933, to raise up to \$50,000 through the issuance of 2,000,000 shares of its common stock, par value \$0.001 per share, at an offering price of \$0.025 per share. As of January 23, 2008, the Company had fully subscribed the PPO and raised \$50,000 in proceeds with the issuance of 2,000,000 shares of its common stock.

The Company also commenced an activity to submit a Registration Statement on Form S-1 to the Securities and Exchange Commission ("SEC") to register 2,000,000 of its outstanding shares of common stock on behalf of selling stockholders. The Company will not receive any of the proceeds of this registration activity once the shares of common stock are sold. The Registration Statement on Form S-1 was filed with the SEC on April 16, 2008, and declared effective on April 30, 2008.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern. The Company has not established any source of revenues to cover its operating costs, and as such, has incurred an operating loss since inception. Further, as of March 31, 2010, the cash resources of the Company were insufficient to meet its current business plan. These and other factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

3. Loan from Stockholder

As of March 31, 2010, loans from an individual who is a stockholder of the Company amounted to \$56,652. The loans were provided for working capital purposes, and are unsecured, non-interest bearing, and have no terms for repayment.

4. Common Stock

On September 4, 2007, pursuant to the terms of a subscription agreement, the Company sold 250,000 shares of common stock to Mrs. Goldy Klein, Secretary, for cash payment of \$250 (par value). The Company believes this issuance was deemed to be exempt under Regulation S of the Securities Act.

On October 18, 2007, the Company issued 1,500,000 shares of common stock, valued at \$1,500, to an officer of the Company for services rendered.

On October 25, 2007, the Company issued 250,000 shares of common stock, valued at \$250, to an officer of the Company for services rendered.

On November 12, 2007, the Company issued 3,000,000 shares of common stock, valued at \$3,000, to an officer of the Company for services rendered.

In addition, on November 30, 2007, the Company began a capital formation activity through a PPO, exempt from registration under the Securities Act of 1933, to raise up to \$50,000 through the issuance of 2,000,000 shares of its

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common stock, par value \$0.001 per share, at an offering price of \$0.025 per share. As of December 27, 2007, the Company had received \$26,000 in proceeds from the PPO. As of January 23, 2008, the Company had fully subscribed the PPO and raised \$50,000 in proceeds with the issuance of 2,000,000 shares of its common stock.

The Company also commenced an activity to submit a Registration Statement on Form S-1 to the Securities and Exchange Commission ("SEC") to register 2,000,000 of its outstanding shares of common stock on behalf of selling stockholders. The Company will not receive any of the proceeds of this registration activity once the shares of common stock are sold. The Registration Statement on Form S-1 was filed with the SEC on April 16, 2008, and declared effective on April 30, 2008.

On July 27, 2009, 291,667 shares were issued pursuant to a private placement subscription agreement for cash consideration of \$8,750 at a subscription price of \$0.03 per unit.

On November 9, 2009, 291,667 shares were issued pursuant to a private placement subscription agreement for cash consideration of \$8,750 at a subscription price of \$0.03 per unit.

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5. Income Taxes

The provision (benefit) for income taxes for the three months ended March 31, 2010 and 2009 and, was as follows (assuming a 23% effective tax rate):

	2010	2009
Current Tax Provision:		
Federal-		
Taxable income	\$ -	\$ -
Total current tax provision	\$ -	\$ -
Deferred Tax Provision:		
Federal-		
Loss carryforwards	\$ 2,878	\$ 1,061
Change in valuation allowance	(2,878)	(1,061)
Total deferred tax provision	\$ -	\$ -

The Company had deferred income tax assets as of March 31, 2010 and December 31, 2009, as follows:

	2010	2009
Loss carryforwards	\$ 29,001	\$ 26,122
Less - valuation allowance	(29,001)	(26,122)
Total net deferred tax assets	\$ -	\$ -

The Company provided a valuation allowance equal to the deferred income tax assets for the three months ended March 31, 2010 and the year ended December 31, 2009 because it is not presently known whether future taxable income will be sufficient to utilize the loss carryforwards.

As of March 31, 2010, the Company had approximately \$126,091 in tax loss carryforwards that can be utilized in future periods to reduce taxable income, and expire by the year 2030.

6. Related Party Transactions

On September 4, 2007, pursuant to the terms of a subscription agreement, the Company sold 250,000 shares of common stock to Mrs. Goldy Klein, Secretary, for cash payment of \$250 (par value). The Company believes this issuance was deemed to be exempt under Regulation S of the Securities Act.

On October 18, 2007, the Company issued 1,500,000 shares of common stock, valued at \$1,500 to an officer of the Company for services rendered.

On October 25, 2007, the Company issued 250,000 shares of common stock, valued at \$250 to an officer of the Company for services rendered.

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On November 12, 2007, the Company issued 3,000,000 shares of common stock, valued at \$3,000 to an officer of the Company for services rendered.

As described in Note 3, as of March 31, 2010, the Company owed \$56,652 to an individual who is a stockholder of the Company.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand our historical results of operations during the periods presented and our financial condition. This MD&A should be read in conjunction with our financial statements and the accompanying notes, and contains forward-looking statements that involve risks and uncertainties. See section entitled "Cautionary Statement Concerning Forward Looking Statements" above.

Overview

We were incorporated in the State of Nevada on September 4, 2007. Initially we had been in the process of establishing ourselves as a company in the business of distributing and selling environmentally friendly and biodegradable plastics (bioplastics for short), in the form of disposable utensils, plates, and cups to environmentally-conscious consumers in Israel and later in the United States. Currently, the Company has shifted its focus from bioplastic products to the emerging greenhouse gas (GHG) carbon credit market.

We have not generated any revenue since our inception. We are a development stage company with limited operations. Our auditors have issued a going concern opinion. This means that our auditors believe there is substantial doubt that we can continue as an ongoing business for the next twelve months.

Plan of Operation

We have not had any revenues since our inception on September 4, 2007. As originally stated, the business plan of the Company was to establish the Company as a distributor of environmentally-friendly, bioplastic utensils. Currently, the Company has shifted its focus from bioplastic products to the emerging greenhouse gas (GHG) carbon credit market. The Company plans to provide matching services for corporations who need to reduce emission outputs in light of more stringent environmental regulations with emission credit specialists who can assist such corporations in reducing their emissions and in earning and/or trading carbon credits. Our activities and plans in the carbon credit market are described in more detail below.

In the next twelve months, we intend to target corporations, first in Israel and in the US, and eventually in Europe, that are considered greenhouse gas polluters and which, if advised correctly, may make changes in their facilities to reduce the amount of greenhouse gas their facilities produce and thereby earn carbon credits. In order to achieve these goals, we will attempt to retain a qualified board of advisors and to attract a new member to our Board of Directors in order assist us in identifying and locating professionals who could implement such carbon credit reductions and polluters that will require such services.

We intend to attract a board of advisors by engaging a professional head hunting company. If we receive additional funding, we may seek to hire professional management for the Company.

The Potential GHG Carbon Credit Market in the United States

Current worldwide legislation and regulatory measures to reduce atmospheric concentrations of greenhouse gases have their roots in climate change challenges presented by the United Nations Framework Convention on Climate Change and the Kyoto Protocol.

On June 27, 2009, the U.S. House of Representatives passed the ground breaking American Clean Energy and Security Act to impose first-ever limits in the U.S. related to greenhouse-gas emissions linked to global warming. It is expected that this legislation will face a tough legislative battle in the Senate. President Obama called the vote in the

House of Representatives “a bold and necessary step that holds the promise of creating new industry and millions of new jobs.” The bill, he said, would usher in “a critical transition to a clean-energy economy without untenable burdens on the American people.”

The bill, if approved by the Senate, would create a market in the United States for trading pollution permits to curb emissions.

Reduction Target

The American Clean Energy and Security Act calls for the U.S. to reduce its greenhouse-gas emissions by 17 percent from 2005 levels by 2020. It would establish a limited number of pollution permits, more than 70 percent of which would initially be given away free to utilities, manufacturers, state governments and others, according to the Congressional Budget Office. The permits could then be traded or sold. In addition, most states would be required to generate 20 percent of their electricity from renewable sources by 2020.

Jobs and Oil Usage Reduction

House Democratic leaders say the bill would create 1.7 million new jobs and save 240 million barrels of oil by 2020.

Cost Per Household

According to the Congressional Budget Office the new bill would cost the average American household \$175 a year in extra expenses.

We believe that the carbon market is in an expansion phase, and that in the coming years it will grow if U.S. federal regulation of GHG emissions becomes a reality. Any cap-and-trade system will most likely include provisions relating to allowances issued to regulated entities by the government, emission reduction certificates generated by clean development projects outside the regulated entities, and market-based incentives for Reduced Emissions from Deforestation and Degradation (REDD), such as forestry offsets.

As corporations that produce GHG emissions become subject to increased regulation, they will be interested in effective and relatively inexpensive ways to reduce their GHG emissions to comply with, as well as benefit from, any applicable cap-and-trade system.

Matching Services – Carbon Credits

We foresee the development of a new service market in which brokers would match GHG emissions specialists with corporations with high GHG emissions which are interested in receiving advice on how to earn and trade carbon credits.

Our management has decided to enter this field and we plan to introduce GHG emissions consultants to GHG emissions producing corporations, and to assist these GHG emissions consultants with entering into business agreements with these GHG emissions producers. In exchange for our services, our plan is to receive a percentage of the revenues earned by such consultants on each client that we match.

As a preliminary step, we intend to increase the size of our Board of Directors and our advisory board to include experts in the field of climate technologies. We intend to retain the necessary professionals to assist us in matching GHG emissions producers with GHG emissions consultants.

Over the next twelve months we plan to continue in our efforts to locate suitable corporations in Israel and the United States, and eventually in Europe, that are seeking to reduce emission outputs and thereby earn carbon credits. In addition we plan to locate suitable climate consultants whom we can match their services with the corporations. We will also attempt to retain an advisory board as well as to expand our Board of Directors to include climate, environmental and other professionals. We expect these new Board members not only to help us build credibility in

the eyes of potential customers but also to work to bring in business to our company.

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Management continues to seek funding from its shareholders and other qualified investors to pursue our business plan. In the alternative, we may be amenable to a sale, merger or other acquisition in the event such transaction is deemed by management to be in the best interests of our shareholders.

Results of Operations

Revenues

We had no revenues for the period from September 4, 2007 (date of inception) through March 31, 2010.

Expenses

Our expenses for the three month period ended March 31, 2010 were \$12,515 compared with \$4,611 for the same period three month period in 2009. Our expenses since our inception were \$126,091. These expenses were comprised primarily of professional fees and general and administrative expenses.

Net Income (Loss)

Our net loss for the three month period ended March 31, 2010 was \$12,515 compared with \$4,611 for the same three month period in 2009. During the period from September 4, 2007 (date of inception) through March 31, 2010, we incurred a net loss of \$126,091. This loss consisted primarily of professional fees and administrative expenses. Since inception, we have sold 7,583,334 shares of common stock.

Liquidity and Capital Resources

Our balance sheet as of March 31, 2010, reflects assets of \$6,441. Cash and cash equivalents from inception to date have been insufficient to provide the working capital necessary to operate to date.

We anticipate generating losses and, therefore, may be unable to continue operations in the future. If we require additional capital, we would have to issue debt or equity or enter into a strategic arrangement with a third party. There can be no assurance that additional capital will be available to us. We currently have no agreements, arrangements or understandings with any person to obtain funds through bank loans, lines of credit or any other sources.

Going Concern Consideration

The financial statements contained herein for the fiscal quarter ended March 31, 2010, have been prepared on a “going concern” basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the reasons discussed herein and in the footnotes to our financial statements included herein, there is a significant risk that we will be unable to continue as a going concern. Our audited financial statements included in our Annual Report on Form 10-K for the period ended December 31, 2009, contain additional note disclosures describing the circumstances that lead to this disclosure by our registered independent auditors.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes from the information provided in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our 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, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management’s evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit

Number	Exhibit Description
3.1	- Certificate of Incorporation.*

3.2	- Bylaws.*
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31	- Rule 13a-14(a)/15d-14(a) Certification of Principal Executive and Financial Officer
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32	- Section 1350 Certification of Principal Executive and Financial Officer
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* incorporated by reference from Registrant's Registration Statement on Form S-1 filed on April 16, 2008 Registration No. 333-150266.

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.

BNH INC.

By: /s/ Nehemya Hesin
Nehemya Hesin
Title: President, Treasurer and Director
(Principal Executive Officer, Principal Financing Officer
and Principal Accounting Officer)

Dated: May 4, 2010
