CINTAS CORP
Form 10-Q
April 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

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

For the quarterly period ended February 28, 2013

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 0-11399

CINTAS CORPORATION
(Exact name of Registrant as specified in its charter)

WASHINGTON	31-1188630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6800 CINTAS BOULEVARD
P.O. BOX 625737
CINCINNATI, OHIO 45262-5737
(Address of principal executive offices)(Zip Code)

(513) 459-1200
(Registrant's telephone number, including area code)

Indicate by checkmark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ü No

Indicate by a checkmark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ü No

Indicate by checkmark 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. (Check one):

Large Accelerated Filer ü   Accelerated Filer   Smaller Reporting Company
Non-Accelerated Filer   (Do not check if a smaller reporting company)

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No ü

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

Class	Outstanding March 31, 2013
Common Stock, no par value	122,520,572

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CINTAS CORPORATION
ITEM 1. FINANCIAL STATEMENTS.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)
(In thousands except per share data)

	Three Months Ended		Nine Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenue:				
Rental uniforms and ancillary products	$748,887	$721,012	$2,259,569	$2,163,224
Other services	326,787	291,100	927,816	885,194
	1,075,674	1,012,112	3,187,385	3,048,418
Costs and expenses:				
Cost of rental uniforms and ancillary products	434,809	409,958	1,301,859	1,223,611
Cost of other services	198,924	176,251	565,674	530,067
Selling and administrative expenses	308,918	288,367	908,512	895,945
Operating income	133,023	137,536	411,340	398,795
Interest income	(132)	(373)	(358)	(1,141)
Interest expense	16,302	17,219	49,194	52,281
Income before income taxes	116,853	120,690	362,504	347,655
Income taxes	42,148	44,655	133,039	128,632
Net income	$74,705	$76,035	$229,465	$219,023
Basic earnings per share	$0.60	$0.58	$1.84	$1.67
Diluted earnings per share	$0.60	$0.58	$1.83	$1.67
Dividends declared per share	$—	$—	$0.64	$0.54

See accompanying notes.

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CINTAS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended		Nine Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net income	$74,705	$76,035	$229,465	$219,023
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(8,173)	11,203	519	(9,343)
Change in fair value of derivatives(1)	(36)	304	(187)	485
Amortization of interest rate lock agreements	488	377	1,464	1,131
Change in fair value of available-for-sale securities(2)	1	(29)	(11)	(4)
Other comprehensive (loss) income	(7,720)	11,855	1,785	(7,731)
Comprehensive income	$66,985	$87,890	$231,250	$211,292

(1) Net of $0.2 million of tax benefit for the three months ended February 29, 2012. Net of less than $0.1 million of tax expense and $0.3 million of tax benefit for the nine months ended February 28, 2013 and February 29, 2012, respectively.

(2) Net of less than $0.1 million of tax benefit and $0.1 million of tax expense for the three months ended February 28, 2013 and February 29, 2012, respectively. Net of less than $0.1 million of tax benefit and $0.1 million of tax expense for the nine months ended February 28, 2013 and February 29, 2012, respectively.

See accompanying notes.

CINTAS CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands except share data)

	February 28, 2013 (Unaudited)	May 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$217,470	$339,825
Marketable securities	28,216	—
Accounts receivable, net	495,124	450,861
Inventories, net	246,957	251,205
Uniforms and other rental items in service	481,576	452,785
Income taxes, current	15,331	22,188
Prepaid expenses and other	24,778	24,704
Total current assets	1,509,452	1,541,568
Property and equipment, at cost, net	976,844	944,305
Goodwill	1,519,987	1,485,375
Service contracts, net	93,573	76,822
Other assets, net	121,443	112,836
	$4,221,299	$4,160,906
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$109,064	$94,840
Accrued compensation and related liabilities	90,533	91,214
Accrued liabilities	238,462	256,642
Deferred tax liability	62,019	2,559
Long-term debt due within one year	674	225,636
Total current liabilities	500,752	670,891
Long-term liabilities:		
Long-term debt due after one year	1,308,656	1,059,166
Deferred income taxes	209,455	204,581
Accrued liabilities	72,190	87,133
Total long-term liabilities	1,590,301	1,350,880
Shareholders' equity:		
Preferred stock, no par value:		
100,000 shares authorized, none outstanding	—	—
Common stock, no par value:		
425,000,000 shares authorized,		
FY 2013: 174,570,683 issued and 122,723,896 outstanding		
FY 2012: 173,745,913 issued and 126,519,758 outstanding	178,290	148,255
Paid-in capital	103,666	107,019
Retained earnings	3,631,793	3,482,073
Treasury stock:		

FY 2013: 51,846,787 shares		
FY 2012: 47,226,155 shares	(1,821,951)	(1,634,875)
Other accumulated comprehensive income	38,448	36,663
Total shareholders' equity	2,130,246	2,139,135
	$4,221,299	$4,160,906

See accompanying notes.

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CINTAS CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from operating activities:		
Net income	$229,465	$219,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	123,242	115,566
Amortization of intangible assets	17,884	29,520
Stock-based compensation	16,660	15,023
Deferred income taxes	63,799	(995)
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(41,402)	(11,760)
Inventories, net	4,437	(26,958)
Uniforms and other rental items in service	(28,803)	(40,435)
Prepaid expenses and other	9	(5,977)
Accounts payable	13,475	6,372
Accrued compensation and related liabilities	(680)	3,251
Accrued liabilities	(35,682)	9,327
Income taxes payable	5,939	(4,243)
Net cash provided by operating activities	368,343	307,714
Cash flows from investing activities:		
Capital expenditures	(151,799)	(117,716)
Proceeds from redemption of marketable securities	97,651	519,955
Purchase of marketable securities and investments	(135,398)	(576,404)
Acquisitions of businesses, net of cash acquired	(64,625)	(20,882)
Other, net	(662)	1,853
Net cash used in investing activities	(254,833)	(193,194)
Cash flows from financing activities:		
Proceeds from issuance of debt	250,000	—
Repayment of debt	(225,472)	(1,216)
Proceeds from exercise of stock-based compensation awards	7,156	356
Dividends paid	(79,744)	(70,820)
Repurchase of common stock	(187,076)	(262,682)
Other, net	(1,385)	1,390
Net cash used in financing activities	(236,521)	(332,972)
Effect of exchange rate changes on cash and cash equivalents	656	(1,671)
Net decrease in cash and cash equivalents	(122,355)	(220,123)
Cash and cash equivalents at beginning of period	339,825	438,106
Cash and cash equivalents at end of period	$217,470	$217,983

See accompanying notes.

CINTAS CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The consolidated condensed financial statements of Cintas Corporation (Cintas, the Company, we, us or our) included herein have been prepared by Cintas, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequately presented, it is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012. A summary of our significant accounting policies is presented beginning on page 35 of that report. There have been no material changes in the accounting policies followed by Cintas during the current fiscal year.

As disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012, inventories are valued at the lower of cost (first-in, first-out) or market. Inventory is comprised of the following amounts:

(In thousands)	February 28, 2013	May 31, 2012
Raw materials	$19,747	$19,138
Work in process	16,782	13,052
Finished goods	210,428	219,015
	$246,957	$251,205

Interim results are subject to variations and are not necessarily indicative of the results of operations for a full fiscal year. In the opinion of management, adjustments (which include only normal recurring adjustments) necessary for a fair statement of the consolidated results of the interim periods shown have been made.

2. Fair Value Measurements

FASB Accounting Standard Codification (ASC) Topic 820 defines fair value as the exchange price that would be received for 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 at the measurement date. It also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are 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.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Cintas' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, Cintas utilizes two basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded on a recurring basis at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider valuing an exact or similar asset or liability to that of Cintas, including those traded on exchanges.

All financial instruments 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 consolidated balance sheet date. These financial instruments measured at fair value on a recurring basis are summarized below:

(In thousands)	As of February 28, 2013			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$217,470	$—	$—	$217,470
Marketable securities:				
U.S. municipal bonds	—	5,812	—	5,812
Canadian treasury securities	—	22,404	—	22,404
Total assets at fair value	$217,470	$28,216	$—	$245,686
(In thousands)	As of May 31, 2012			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$339,825	$—	$—	$339,825
Total assets at fair value	$339,825	$—	$—	$339,825

Cintas' cash and cash equivalents and marketable securities are generally classified within Level 1 or Level 2 of the fair value hierarchy. Financial instruments classified as Level 1 are based on quoted market prices in active markets, and financial instruments classified as Level 2 are based on quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The types of financial instruments Cintas classifies within Level 1 include most bank deposits and money market securities. Cintas does not adjust the quoted market price for such financial instruments.

The types of financial instruments Cintas classifies within Level 2 include Canadian treasury securities (both federal and provincial) and highly rated U.S. state or municipal bonds. The valuation technique used for Cintas' marketable securities classified within Level 2 of the fair value hierarchy is primarily the market approach. The primary inputs to value Cintas' marketable securities is the respective instruments future cash flows based on its stated yield and the amount a market participant would pay for a similar instrument. Primarily all of Cintas' marketable securities are actively traded and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change in the near term.

The funds invested in Canadian marketable securities are not presently expected to be repatriated, but instead are expected to be invested indefinitely in foreign subsidiaries. Interest, realized gains and losses and declines in value determined to be other than temporary on available-for-sale securities are included in interest income or expense. The cost of the securities sold is based on the specific identification method. The amortized cost basis of the marketable securities as of February 28, 2013 was $28.2 million. There were no outstanding marketable securities as of May 31, 2012. All outstanding marketable securities as of February 28, 2013, had contractual maturities due within one year.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Cintas believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the consolidated balance sheet date.

Cintas' non-financial assets and liabilities not permitted or required to be measured at fair value on a recurring basis primarily relate to assets and liabilities acquired in a business acquisition. Cintas is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a non-recurring basis (including business acquisitions). Based on the nature of Cintas' business acquisitions, which occur regularly throughout the fiscal year, the majority of the assets acquired and liabilities assumed consist of working capital, primarily valued using Level 2 inputs, property and equipment, also primarily valued using Level 2 inputs and goodwill and other identified intangible assets valued using Level 3 inputs. In general, non-recurring fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to non-financial assets and liabilities.

Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows and company specific discount rates.

3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share using the two-class method for amounts attributable to Cintas' common shares:

	Three Months Ended		Nine Months Ended	
(In thousands except per share data)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Basic Earnings per Share				
Net income	$74,705	$76,035	$229,465	$219,023
Less dividends to:				
Common shares	$—	$—	$78,866	$70,055
Unvested shares	—	—	878	765
Total dividends	$—	$—	$79,744	$70,820
Undistributed net income	$74,705	$76,035	$149,721	$148,203
Less: net income allocated to participating unvested securities	517	556	1,048	1,096
Net income available to common shareholders	$74,188	$75,479	$148,673	$147,107
Basic weighted average common shares outstanding	123,120	129,735	124,483	130,261
Basic earnings per common share:				
Common shares - distributed earnings	$0.00	$0.00	$0.64	$0.54
Common shares - undistributed earnings	0.60	0.58	1.20	1.13
Total common shares	$0.60	$0.58	$1.84	$1.67
Unvested shares - distributed earnings	$0.00	$0.00	$0.64	$0.54
Unvested shares - undistributed earnings	0.60	0.58	1.20	1.13
Total unvested shares	$0.60	$0.58	$1.84	$1.67

(In thousands except per share data)	Three Months Ended February 28, 2013	Three Months Ended February 29, 2012	Nine Months Ended February 28, 2013	Nine Months Ended February 29, 2012
Diluted Earnings per Share				
Net income	$74,705	$76,035	$229,465	$219,023
Less dividends to:				
Common shares	$—	$—	$78,866	$70,055
Unvested shares	—	—	878	765
Total dividends	$—	$—	$79,744	$70,820
Undistributed net income	$74,705	$76,035	$149,721	$148,203
Less: net income allocated to participating unvested securities	517	556	1,048	1,096
Net income available to common shareholders	$74,188	$75,479	$148,673	$147,107
Basic weighted average common shares outstanding	123,120	129,735	124,483	130,261
Effect of dilutive securities – employee stock options	637	210	418	60
Diluted weighted average common shares outstanding	123,757	129,945	124,901	130,321
Diluted earnings per share:				
Common shares - distributed earnings	$0.00	$0.00	$0.64	$0.54
Common shares - undistributed earnings	0.60	0.58	1.19	1.13
Total common shares	$0.60	$0.58	$1.83	$1.67
Unvested shares - distributed earnings	$0.00	$0.00	$0.64	$0.54
Unvested shares - undistributed earnings	0.60	0.58	1.19	1.13
Total unvested shares	$0.60	$0.58	$1.83	$1.67

For the three months ended February 28, 2013 and February 29, 2012, 0.6 million and 1.1 million options granted to purchase shares of Cintas common stock were excluded from the computation of diluted earnings per share, respectively. For the nine months ended February 28, 2013 and February 29, 2012, 0.8 million and 2.1 million options granted to purchase shares of Cintas common stock were excluded from the computation of diluted earnings per share, respectively. The exercise prices of these options were greater than the average market price of the common stock (anti-dilutive).

On October 18, 2011, we announced that the Board of Directors authorized a 500.0 million share buyback program at market prices. During the first nine months of fiscal 2013, we purchased 4.4 million shares of Cintas common stock for a total purchase price of $179.4 million. From the inception of the October 18, 2011 share buyback program through April 9, 2013, Cintas has purchased a total of 8.0 million shares of Cintas common stock at an average price of $40.05 for a total purchase price of $319.2 million. In addition, for the nine months ended February 28, 2013, Cintas acquired 0.2 million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the nine months ended February 28, 2013. These shares were acquired at an average price of $37.95 per share for a total purchase price of $7.7 million.

4. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the nine months ended February 28, 2013, by operating segment, are as follows:

Goodwill (in thousands)	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
Balance as of June 1, 2012	$944,449	$23,968	$192,465	$324,493	$1,485,375
Goodwill acquired	—	—	23,798	10,422	34,220
Foreign currency translation	13	(16)	—	395	392
Balance as of February 28, 2013	$944,462	$23,952	$216,263	$335,310	$1,519,987

Service Contracts (in thousands)	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
Balance as of June 1, 2012	$29,156	$—	$29,334	$18,332	$76,822
Service contracts acquired	—	—	10,199	22,024	32,223
Service contracts amortization	(4,540)	—	(5,880)	(5,072)	(15,492)
Foreign currency translation	18	—	—	2	20
Balance as of February 28, 2013	$24,634	$—	$33,653	$35,286	$93,573

Information regarding Cintas' service contracts and other assets is as follows:

	As of February 28, 2013		
(In thousands)	Carrying Amount	Accumulated Amortization	Net
Service contracts	$416,866	$323,293	$93,573
Noncompete and consulting agreements	$77,661	$72,468	$5,193
Investments [(1)]	99,107	—	99,107
Other	21,502	4,359	17,143
Total	$198,270	$76,827	$121,443

	As of May 31, 2012		
(In thousands)	Carrying Amount	Accumulated Amortization	Net
Service contracts	$384,622	$307,800	$76,822
Noncompete and consulting agreements	$76,036	$69,954	$6,082
Investments [(1)]	90,198	—	90,198
Other	19,828	3,272	16,556
Total	$186,062	$73,226	$112,836

[(1)] Investments at February 28, 2013, include the cash surrender value of insurance policies of $70.5 million, equity method investments of $27.7 million and cost method investments of $0.9 million. In the second quarter of fiscal 2013, Cintas sold stock of an equity method investment for a gain of $8.5 million. No further sales occurred in the third quarter of fiscal 2013. Investments at May 31, 2012, include the cash surrender value of insurance policies of $57.4 million, equity method investments of $31.9 million and cost method investments of $0.9 million.

Amortization expense was $17.9 million and $29.5 million for the nine months ended February 28, 2013 and February 29, 2012, respectively. Estimated amortization expense, excluding any future acquisitions, for each of the next five full fiscal years is $23.5 million, $21.6 million, $18.7 million, $13.6 million and $8.5 million, respectively.

Investments recorded using the cost method are evaluated for impairment on an annual basis or when indicators of impairment are identified. For the three and nine months ended February 28, 2013 and February 29, 2012, no losses due to impairment were recorded.

5. Debt, Derivatives and Hedging Activities

Cintas' commercial paper program has a capacity of $300.0 million that is fully supported by a backup revolving credit facility through a credit agreement with its banking group. This revolving credit facility has an accordion feature that allows for a maximum borrowing capacity of $450.0 million and has a maturity date of October 6, 2016. No commercial paper or borrowings on our revolving credit facility were outstanding as of February 28, 2013 or May 31, 2012.

On June 1, 2012, Cintas repaid at maturity $225.0 million aggregate principal amount of its 6.00% senior notes due 2012. On June 5, 2012, Cintas issued $250.0 million aggregate principal amount of senior notes due June 1, 2022. These senior notes bear interest at a rate of 3.25% paid semi-annually beginning December 1, 2012.

Cintas used interest rate lock agreements to hedge against movements in the treasury rates at the time Cintas issued its senior notes in fiscal 2007, fiscal 2008, fiscal 2011 and fiscal 2013. The amortization of the cash flow hedges resulted in an increase to other comprehensive income of $0.5 million and $0.4 million for the three months ended February 28, 2013 and February 29, 2012, respectively, and $1.5 million and $1.1 million for the nine months ended February 28, 2013 and February 29, 2012, respectively.

Cintas has certain covenants related to debt agreements. These covenants limit Cintas' ability to incur certain liens, to engage in sale-leaseback transactions and to merge, consolidate or sell all or substantially all of Cintas' assets. These covenants also require Cintas to maintain certain debt to EBITDA and interest coverage ratios. Cross-default provisions exist between certain debt instruments. Cintas is in compliance with all of the significant debt covenants for all periods presented. If a default of a significant covenant were to occur, the default could result in an acceleration of the maturity of the indebtedness, impair liquidity and limit the ability to raise future capital.

6. Income Taxes

In the normal course of business, Cintas provides for uncertain tax positions and the related interest, and adjusts its unrecognized tax benefits and accrued interest accordingly. During the three months ended February 28, 2013, unrecognized tax benefits increased by approximately $2.2 million and accrued interest increased by approximately $0.1 million. During the nine months ended February 28, 2013, unrecognized tax benefits decreased by approximately $29.9 million and accrued interest decreased by approximately $1.0 million. The decrease in unrecognized tax benefits for the nine months ended February 28, 2013, was due to a change in the IRS capitalization regulations adopted by Cintas in the second quarter of fiscal 2013 and resulted in a reclassification between long-term accrued liabilities and deferred tax liability.

All U.S. federal income tax returns are closed to audit through fiscal 2010. Cintas is currently in advanced stages of various audits in certain foreign jurisdictions and certain domestic states. The years under audit cover fiscal years back to 2005. Based on the resolution of the various audits and changes in tax law, it is reasonably possible that the balance of unrecognized tax benefits could decrease by $1.3 million for the fiscal year ending May 31, 2013.

On December 23, 2011, the U.S. Department of the Treasury and the Internal Revenue Service issued temporary regulations (Regulations Section 2011-14) that provide guidance on amounts paid to improve tangible property, and acquire or produce tangible property, as well as guidance regarding the disposition of property and the expensing of supplies and materials. The finalized regulations are effective for Cintas' fiscal year ending May 31, 2014. Due to the recently announced extension of effective date of the regulations and indications of changes to the de minimis and disposition rules, Cintas continues to review these regulations, but does not believe there will be a material impact on Cintas' consolidated financial statements.

7. Litigation and Other Contingencies

Cintas is subject to legal proceedings, insurance receipts, legal settlements and claims arising from the ordinary course of its business, including personal injury, customer contract, environmental and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such ordinary course of business actions will not have a material adverse effect on the consolidated financial position, consolidated results of operation or consolidated cash flows of Cintas. Cintas is party to additional litigation not considered in the ordinary course of business, including the litigation discussed below.

Cintas is a defendant in a purported class action lawsuit, Mirna E. Serrano, et al. v. Cintas Corporation (Serrano), filed on May 10, 2004, and pending in the United States District Court, Eastern District of Michigan, Southern Division. The Serrano plaintiffs alleged that Cintas discriminated against women in hiring into various service sales representative positions across all divisions of Cintas. On November 15, 2005, the Equal Employment Opportunity Commission (EEOC) intervened in the Serrano lawsuit. The Serrano plaintiffs seek injunctive relief, compensatory damages, punitive damages, attorneys' fees and other remedies. On October 27, 2008, the United States District Court in the Eastern District of Michigan granted summary judgment in favor of Cintas limiting the scope of the putative class in the Serrano lawsuit to female applicants for service sales representative positions at Cintas locations within the state of Michigan. Consequently, all claims brought by female applicants for service sales representative positions outside of the state of Michigan were dismissed. Similarly, any claims brought by the EEOC on behalf of similarly situated female applicants outside of the state of Michigan have also been dismissed from the Serrano lawsuit. In September 2010, the Court in Serrano dismissed all private individual claims and all claims of the EEOC and the 13 individuals it claimed to represent. The EEOC appealed the District Court's summary judgment decisions and various other rulings to the United States Court of Appeals for the Sixth Circuit. On November 9, 2012, the Sixth Circuit Court of Appeals reversed the District Court's opinion and remanded the claims back to the District Court.

Cintas is a defendant in another purported class action lawsuit, Blanca Nelly Avalos, et al. v. Cintas Corporation (Avalos), which was filed in the United States District Court, Eastern District of Michigan, Southern Division. The Avalos plaintiffs alleged that Cintas discriminated against women, African-Americans and Hispanics in hiring into various service sales representative positions in Cintas' Rental division only throughout the United States. The Avalos plaintiffs sought injunctive relief, compensatory damages, punitive damages, attorneys' fees and other remedies. The claims in Avalos originally were brought in the lawsuit captioned Robert Ramirez, et al. v. Cintas Corporation (Ramirez), filed on January 20, 2004, in the United States District Court, Northern District of California, San Francisco Division. On May 11, 2006, the Ramirez and Avalos African-American, Hispanic and female failure to hire into service sales representative positions claims and the EEOC's intervention were consolidated for pretrial purposes with the Serrano case and transferred to the United States District Court for the Eastern District of Michigan, Southern Division. The consolidated case was known as Mirna E. Serrano/Blanca Nelly Avalos, et al. v. Cintas Corporation (Serrano/Avalos). On March 31, 2009, the United States District Court, Eastern District of Michigan, Southern Division entered an order denying class certification to all plaintiffs in the Serrano/Avalos lawsuits. Following denial of class certification, the Court permitted the individual Avalos and Serrano plaintiffs to proceed separately. In the Avalos case, the Court dismissed the remaining claims of the individual plaintiffs who remained in that case after the denial of class certification. On May 11, 2010, Plaintiff Tanesha Davis, on behalf of all similarly situated plaintiffs in the Avalos case, filed a notice of appeal of the District Court's summary judgment order in the United States Court of Appeals for the Sixth Circuit. The Sixth Circuit Court of Appeals has made no determination regarding the merits of Davis' appeal.

The litigation discussed above, if decided or settled adversely to Cintas, may, individually or in the aggregate, result in liability material to Cintas' consolidated financial condition, consolidated results of operation or consolidated cash flows and could increase costs of operations on an ongoing basis. Any estimated liability relating to these proceedings is not determinable at this time. Cintas may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements if it believes such settlement is in the best interest of Cintas' shareholders.

8. Segment Information

Cintas classifies its businesses into four operating segments based on the types of products and services provided. The Rental Uniforms and Ancillary Products operating segment consists of the rental and servicing of uniforms and other garments including flame resistant clothing, mats, mops and shop towels and other ancillary items. In addition to these rental items, restroom cleaning services and supplies and carpet and tile cleaning services are also provided within this operating segment. The Uniform Direct Sales operating segment consists of the direct sale of uniforms and related items. The First Aid, Safety and Fire Protection Services operating segment consists of first aid, safety and fire protection products and services. The Document Management Services operating segment consists of document destruction, document imaging and document retention services.

Cintas evaluates the performance of each operating segment based on several factors of which the primary financial measures are operating segment revenue and income before income taxes. The accounting policies of the operating segments are the same as those described in Note 1 entitled Basis of Presentation. Information related to the operations of Cintas' operating segments is set forth below:

(In thousands)	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Corporate	Total
For the three months ended February 28, 2013						
Revenue	$748,887	$126,129	$112,878	$87,780	$—	$1,075,674
Income (loss) before income taxes	$102,547	$16,050	$10,530	$3,896	$(16,170)	$116,853
For the three months ended February 29, 2012						
Revenue	$721,012	$109,114	$101,378	$80,608	$—	$1,012,112
Income (loss) before income taxes	$112,471	$14,481	$7,724	$2,860	$(16,846)	$120,690
As of and for the nine months ended February 28, 2013						
Revenue	$2,259,569	$336,611	$335,232	$255,973	$—	$3,187,385
Income (loss) before income taxes	$335,505	$35,195	$29,205	$11,435	$(48,836)	$362,504
Total assets	$2,809,886	$167,835	$392,820	$605,072	$245,686	$4,221,299
As of and for the nine months ended February 29, 2012						
Revenue	$2,163,224	$322,762	$306,808	$255,624	$—	$3,048,418
Income (loss) before income taxes	$316,366	$36,130	$25,069	$21,230	$(51,140)	$347,655
Total assets	$2,813,701	$153,181	$369,288	$564,383	$352,614	$4,253,167

9. Supplemental Guarantor Information

Cintas Corporation No. 2 (Corp. 2) is the indirectly, wholly-owned principal operating subsidiary of Cintas. Corp. 2 is the issuer of the $1,300.0 million aggregate principal amount of long-term senior notes, which are unconditionally guaranteed, jointly and severally, by Cintas Corporation and its wholly-owned, direct and indirect domestic subsidiaries.

As allowed by SEC rules, the following condensed consolidating financial statements are provided as an alternative to filing separate financial statements of the guarantors. Each of the subsidiaries presented in the following condensed consolidating financial statements has been fully consolidated in Cintas' consolidated financial statements. The following condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Cintas and notes thereto of which this note is an integral part.

Condensed consolidating financial statements for Cintas, Corp. 2, the subsidiary guarantors and non-guarantors are presented on the following pages:

Condensed Consolidating Income Statement
Three Months Ended February 28, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	$—	$565,731	$151,595	$55,906	$(24,345)	$748,887
Other services	—	394,957	9,679	31,950	(109,799)	326,787
Equity in net income of affiliates	74,705	—	—	—	(74,705)	—
	74,705	960,688	161,274	87,856	(208,849)	1,075,674
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	—	367,447	85,481	39,108	(57,227)	434,809
Cost of other services	—	247,942	2,733	19,605	(71,356)	198,924
Selling and administrative expenses	—	295,643	(4,592)	24,972	(7,105)	308,918
Operating income	74,705	49,656	77,652	4,171	(73,161)	133,023
Interest income	—	(2)	(86)	(44)	—	(132)
Interest expense (income)	—	16,480	(175)	(3)	—	16,302
Income before income taxes	74,705	33,178	77,913	4,218	(73,161)	116,853
Income taxes	—	9,981	23,901	8,272	(6)	42,148
Net income (loss)	$74,705	$23,197	$54,012	$(4,054)	$(73,155)	$74,705

Condensed Consolidating Income Statement
Three Months Ended February 29, 2012
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	$—	$550,167	$141,867	$52,652	$(23,674)	$721,012
Other services	—	361,849	8,504	27,785	(107,038)	291,100
Equity in net income of affiliates	76,035	—	—	—	(76,035)	—
	76,035	912,016	150,371	80,437	(206,747)	1,012,112
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	—	350,615	80,270	35,984	(56,911)	409,958
Cost of other services	—	240,568	(5,902)	17,532	(75,947)	176,251
Selling and administrative expenses	—	286,257	(17,100)	22,926	(3,716)	288,367
Operating income	76,035	34,576	93,103	3,995	(70,173)	137,536
Interest income	—	(54)	(280)	(202)	163	(373)
Interest expense (income)	—	17,559	(333)	(7)	—	17,219
Income before income taxes	76,035	17,071	93,716	4,204	(70,336)	120,690
Income taxes	—	7,114	36,109	1,438	(6)	44,655
Net income	$76,035	$9,957	$57,607	$2,766	$(70,330)	$76,035

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Condensed Consolidating Income Statement
Nine Months Ended February 28, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	$—	$1,717,290	$457,183	$165,060	$(79,964)	$2,259,569
Other services	—	1,151,628	31,188	90,292	(345,292)	927,816
Equity in net income of affiliates	229,465	—	—	—	(229,465)	—
	229,465	2,868,918	488,371	255,352	(654,721)	3,187,385
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	—	1,099,289	269,837	114,651	(181,918)	1,301,859
Cost of other services	—	740,797	(6,633)	55,877	(224,367)	565,674
Selling and administrative expenses	—	866,546	(15,754)	72,978	(15,258)	908,512
Operating income	229,465	162,286	240,921	11,846	(233,178)	411,340
Interest income	—	(33)	(247)	(78)	—	(358)
Interest expense (income)	—	49,323	(126)	(3)	—	49,194
Income before income taxes	229,465	112,996	241,294	11,927	(233,178)	362,504
Income taxes	—	39,236	83,784	10,042	(23)	133,039
Net income	$229,465	$73,760	$157,510	$1,885	$(233,155)	$229,465

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Condensed Consolidating Income Statement
Nine Months Ended February 29, 2012
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	$—	$1,662,058	$425,455	$156,511	$(80,800)	$2,163,224
Other services	—	1,087,507	40,176	86,425	(328,914)	885,194
Equity in net income of affiliates	219,023	—	—	—	(219,023)	—
	219,023	2,749,565	465,631	242,936	(628,737)	3,048,418
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	—	1,053,496	248,561	107,163	(185,609)	1,223,611
Cost of other services	—	698,073	(4,168)	53,662	(217,500)	530,067
Selling and administrative expenses	—	828,080	6,297	71,391	(9,823)	895,945
Operating income	219,023	169,916	214,941	10,720	(215,805)	398,795
Interest income	—	(211)	(518)	(575)	163	(1,141)
Interest expense (income)	—	53,148	(1,214)	347	—	52,281
Income before income taxes	219,023	116,979	216,673	10,948	(215,968)	347,655
Income taxes	—	44,011	81,518	3,121	(18)	128,632
Net income	$219,023	$72,968	$135,155	$7,827	$(215,950)	$219,023

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Condensed Consolidating Statement of Comprehensive Income
Three Months Ended February 28, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income (loss)	$74,705	$23,197	$54,012	$(4,054)	$(73,155)	$74,705
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	(7)	—	(8,166)	—	(8,173)
Change in fair value of derivatives	—	(36)	—	—	—	(36)
Amortization of interest rate lock agreements	—	488	—	—	—	488
Change in fair value of available-for-sale securities	—	—	4	(3)	—	1
Other comprehensive income (loss)	—	445	4	(8,169)	—	(7,720)
Comprehensive income (loss)	$74,705	$23,642	$54,016	$(12,223)	$(73,155)	$66,985

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Condensed Consolidating Statement of Comprehensive Income
Three Months Ended February 29, 2012
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$76,035	$9,957	$57,607	$2,766	$(70,330)	$76,035
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	20	—	11,183	—	11,203
Change in fair value of derivatives	—	(27)	—	331	—	304
Amortization of interest rate lock agreements	—	377	—	—	—	377
Change in fair value of available-for-sale securities	—	—	—	(29)	—	(29)
Other comprehensive income	—	370	—	11,485	—	11,855
Comprehensive income	$76,035	$10,327	$57,607	$14,251	$(70,330)	$87,890

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Condensed Consolidating Statement of Comprehensive Income
Nine Months Ended February 28, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$229,465	$73,760	$157,510	$1,885	$(233,155)	$229,465
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	519	—	519
Change in fair value of derivatives	—	(187)	—	—	—	(187)
Amortization of interest rate lock agreements	—	1,464	—	—	—	1,464
Change in fair value of available-for-sale securities	—	—	(3)	(8)	—	(11)
Other comprehensive income (loss)	—	1,277	(3)	511	—	1,785
Comprehensive income	$229,465	$75,037	$157,507	$2,396	$(233,155)	$231,250

Condensed Consolidating Statement of Comprehensive Income
Nine Months Ended February 29, 2012
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$219,023	$72,968	$135,155	$7,827	$(215,950)	$219,023
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	(15)	—	(9,328)	—	(9,343)
Change in fair value of derivatives	—	180	—	305	—	485
Amortization of interest rate lock agreements	—	1,131	—	—	—	1,131
Change in fair value of available-for-sale securities	—	—	—	(4)	—	(4)
Other comprehensive income (loss)	—	1,296	—	(9,027)	—	(7,731)
Comprehensive income (loss)	$219,023	$74,264	$135,155	$(1,200)	$(215,950)	$211,292

Condensed Consolidating Balance Sheet
As of February 28, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$—	$46,596	$139,548	$31,326	$—	$217,470
Marketable securities	—	—	5,811	22,405	—	28,216
Accounts receivable, net	—	344,563	107,460	43,101	—	495,124
Inventories, net	—	207,720	24,814	11,123	3,300	246,957
Uniforms and other rental items in service	—	351,693	110,310	37,568	(17,995)	481,576
Income taxes, current	—	(10,466)	17,757	8,040	—	15,331
Prepaid expenses and other	—	7,334	14,539	2,905	—	24,778
Total current assets	—	947,440	420,239	156,468	(14,695)	1,509,452
Property and equipment, at cost, net	—	623,384	260,463	92,997	—	976,844
Goodwill	—	—	1,451,520	68,467	—	1,519,987
Service contracts, net	—	89,175	197	4,201	—	93,573
Other assets, net	1,626,551	1,628,389	2,665,764	764,474		