

CINTAS CORP
Form 10-Q
October 07, 2008

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2008

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
(State or other jurisdiction of
incorporation or organization)

31-1188630
(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 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 Accelerated Filer Smaller Reporting Company

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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

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

Class	Outstanding September 30, 2008
Common Stock, no par value	152,788,444

CINTAS CORPORATION
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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 August 31,	
	2008	2007
Revenue:		
Rental uniforms and ancillary products	\$ 721,373	\$ 710,354
Other services	280,806	258,774
	1,002,179	969,128
Costs and expenses (income):		
Cost of rental uniforms and ancillary products	407,290	391,490
Cost of other services	169,806	160,266
Selling and administrative expenses	287,295	276,710
Operating income	137,788	140,662
Interest income	(1,065)	(1,462)
Interest expense	13,031	12,837
Income before income taxes	125,822	129,287
Income taxes	47,186	48,224
Net income	\$ 78,636	\$ 81,063
Basic earnings per share	\$ 0.51	\$ 0.51
Diluted earnings per share	\$ 0.51	\$ 0.51

See accompanying notes.

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

	August 31, 2008 (Unaudited)	May 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,243	\$ 66,224
Marketable securities	122,652	125,471
Accounts receivable, net	431,681	430,078
Inventories, net	242,094	238,669
Uniforms and other rental items in service	373,241	370,416
Deferred income tax asset	40,656	39,410
Prepaid expenses	18,381	12,068
Total current assets	1,286,948	1,282,336
Property and equipment, at cost, net	987,582	974,575
Goodwill	1,320,501	1,315,569
Service contracts, net	146,197	152,757
Other assets, net	85,371	83,364
	\$ 3,826,599	\$ 3,808,601
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 87,418	\$ 94,755
Accrued compensation and related liabilities	33,778	50,605
Accrued liabilities	176,053	207,925
Current income taxes payable	45,657	12,887
Long-term debt due within one year	957	1,070
Total current liabilities	343,863	367,242
Long-term liabilities:		
Long-term debt due after one year	949,588	942,736
Deferred income taxes	123,425	124,184
Accrued liabilities	118,872	120,308
Total long-term liabilities	1,191,885	1,187,228
Shareholders' equity:		
Preferred stock, no par value:		
100,000 shares authorized, none outstanding	----	----
Common stock, no par value:		
425,000,000 shares authorized,		

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FY 2009:	173,083,426 issued and 152,788,444 outstanding		
FY 2008:	173,083,426 issued and 153,691,103 outstanding	129,182	129,182
Paid-in capital		63,943	60,408
Retained earnings		2,862,938	2,784,302
Treasury stock:			
FY 2009:	20,294,982 shares	(797,888)	(772,041)
FY 2008:	19,392,323 shares		
Other accumulated comprehensive income		32,676	52,280
Total shareholders' equity		2,290,851	2,254,131
		\$ 3,826,599	\$ 3,808,601

See accompanying notes.

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

	Three Months Ended August 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 78,636	\$ 81,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	39,040	35,636
Amortization of deferred charges	10,845	10,586
Stock-based compensation	3,535	2,132
Deferred income taxes	(1,482)	17,418
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(3,369)	644
Inventories, net	(3,795)	(4,293)
Uniforms and other rental items in service	(4,437)	(7,128)
Prepaid expenses	(6,332)	(2,117)
Accounts payable	(7,567)	5,435
Accrued compensation and related liabilities	(16,696)	(28,386)
Accrued liabilities and other	(32,758)	(77,926)
Income taxes payable	32,718	24,001
Net cash provided by operating activities	88,338	57,065
Cash flows from investing activities:		
Capital expenditures	(54,461)	(45,344)
Proceeds from sale or redemption of marketable securities	171	29,156
Purchase of marketable securities and investments	(10,379)	(6,237)
Acquisitions of businesses, net of cash acquired	(12,106)	(32,630)
Other	627	177
Net cash used in investing activities	(76,148)	(54,878)
Cash flows from financing activities:		
Proceeds from issuance of debt	7,000	224,750
Repayment of debt	(261)	(225,282)
Stock options exercised	----	7,230
Repurchase of common stock	(25,847)	----
Other	287	(3,465)
Net cash (used in) provided by financing activities	(18,821)	3,233
Effect of exchange rate changes on cash and cash equivalents	(1,350)	61
Net (decrease) increase in cash and cash equivalents	(7,981)	5,481

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Cash and cash equivalents at beginning of period	66,224	35,360
Cash and cash equivalents at end of period	\$ 58,243	\$ 40,841

See accompanying notes.

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CINTAS CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in thousands except per share data)

1. Basis of Presentation

The consolidated condensed financial statements of Cintas Corporation (Cintas) 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 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 most recent Form 10-K for the fiscal year ended May 31, 2008. A summary of our significant accounting policies is presented on page 38 of that report. There have been no material changes in the accounting policies followed by Cintas during the fiscal year.

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.

Certain prior year amounts have been reclassified to conform to current year presentation.

2. New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosure requirements about fair value measurements. In February 2008, the FASB released a FASB Staff Position (FSP FAS 157-2, Effective Date of FASB Statement No. 157) which delayed the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Cintas adopted FAS 157 on June 1, 2008, as required. The adoption of FAS 157 for our financial assets and liabilities did not have a material impact on Cintas' results of operations or financial condition. Cintas' adoption of FAS 157 is more fully described in Note 3 entitled Fair Value Measurements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations (FAS 141(R)). Under FAS 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. For Cintas, FAS 141(R) is effective for acquisitions and adjustments to an acquired entity's deferred tax asset and liability balances occurring after May 31, 2009. Cintas is currently evaluating the future impact and disclosures under FAS 141(R).

CINTAS CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(In thousands except per share data)

3. Fair Value Measurements

Effective June 1, 2008, Cintas adopted FAS 157, which 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. FAS 157 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:

Quoted prices in active markets for identical assets or liabilities.

Level 1 –

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.

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 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. These assets measured at fair value on a recurring basis are summarized below:

	As of August 31, 2008			Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 58,243	\$ ----	\$ ----	\$ 58,243
Marketable securities, available-for-sale	122,652	----	----	122,652
Total assets at fair value	\$ 180,895	\$ ----	\$ ----	\$ 180,895

CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In thousands except per share data)

4. Earnings per Share

The following table represents a reconciliation of the shares used to calculate basic and diluted earnings per share for the respective periods:

	Three Months Ended August 31,	
	2008	2007
Numerator:		
Net income	\$ 78,636	\$ 81,063
Denominator:		
Denominator for basic earnings per share-weighted average shares (000's)	153,394	158,771
Effect of dilutive securities- employee stock options (000's)	227	267
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions (000's)	153,621	159,038
Basic earnings per share	\$ 0.51	\$ 0.51
Diluted earnings per share	\$ 0.51	\$ 0.51

5. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the three months ended August 31, 2008, by operating segment, are as follows:

	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
Goodwill					
Balance as of June 1, 2008	\$ 863,581	\$ 23,956	\$ 165,544	\$ 262,488	\$ 1,315,569
Goodwill acquired	---	---	82	7,170	7,252
Foreign currency translation	(1,185)	(74)	---	(1,061)	(2,320)
Balance as of August 31, 2008	\$ 862,396	\$ 23,882	\$ 165,626	\$ 268,597	\$ 1,320,501

CINTAS CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(In thousands except per share data)

	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
Service Contracts					
Balance as of June 1, 2008	\$ 84,574	\$ 328	\$ 41,944	\$ 25,911	\$ 152,757
Service contracts acquired	---	---	249	1,735	1,984
Service contracts amortization	(3,206)	(65)	(1,558)	(1,859)	(6,688)
Foreign currency translation	(1,662)	(28)	---	(166)	(1,856)
Balance as of August 31, 2008	\$ 79,706	\$ 235			