CINTAS CORP
Form 10-Q
October 09, 2009

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2009

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 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 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 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 ___

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, 2009
Common Stock, no par value	152,865,470

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ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(In thousands except per share data)

	Three Months Ended August 31, 2009	Three Months Ended August 31, 2008
Revenue:		
Rental uniforms and ancillary products	$ 655,638	$ 721,373
Other services	235,931	280,806
	891,569	1,002,179
Costs and expenses:		
Cost of rental uniforms and ancillary products	362,929	407,290
Cost of other services	145,845	169,806
Selling and administrative expenses	264,427	287,295
Legal settlement, net of insurance proceeds	19,477	----
Operating income	98,891	137,788
Interest income	(359)	(1,065)
Interest expense	12,038	13,031
Income before income taxes	87,212	125,822
Income taxes	33,228	47,186
Net income	$ 53,984	$ 78,636
Basic earnings per share	$ 0.35	$ 0.51
Diluted earnings per share	$ 0.35	$ 0.51

See accompanying notes.

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CINTAS CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands except share data)

	August 31, 2009 (Unaudited)	May 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 227,311	$ 129,745
Marketable securities	130,568	120,393
Accounts receivable, net	359,142	357,678
Inventories, net	185,349	202,351
Uniforms and other rental items in service	329,444	335,447
Income taxes, current	----	25,512
Deferred income tax asset	70,772	66,368
Prepaid expenses	21,924	17,035
Assets held for sale	15,744	15,744
Total current assets	1,340,254	1,270,273
Property and equipment, at cost, net	901,286	914,627
Goodwill	1,333,319	1,331,388
Service contracts, net	117,337	124,330
Other assets, net	86,874	80,333
	$3,779,070	$3,720,951
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 73,362	$ 69,965
Accrued compensation and related liabilities	41,285	48,414
Accrued liabilities	192,647	198,488
Income taxes, current	6,741	----
Long-term debt due within one year	578	598
Total current liabilities	314,613	317,465
Long-term liabilities:		
Long-term debt due after one year	785,899	786,058
Deferred income taxes	153,057	149,032
Accrued liabilities	100,460	100,987
Total long-term liabilities	1,039,416	1,036,077
Shareholders equity:		
Preferred stock, no par value:		
100,000 shares authorized, none outstanding	----	----
Common stock, no par value:		
425,000,000 shares authorized,		
FY 2010: 173,202,743 issued and 152,865,470 outstanding		
FY 2009: 173,085,926 issued and 152,790,170 outstanding	131,925	129,215
Paid-in capital	73,284	72,364
Retained earnings	2,992,403	2,938,419
Treasury stock:		
FY 2010: 20,337,273 shares		
FY 2009: 20,295,756 shares	(798,847)	(797,888)
Other accumulated comprehensive income	26,276	25,299
Total shareholders equity	2,425,041	2,367,409

	$3,779,070	$3,720,951

See accompanying notes.

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CINTAS CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended	
	August 31, 2009	August 31, 2008
Cash flows from operating activities:		
Net income	$ 53,984	$ 78,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,549	39,040
Amortization of deferred charges	10,356	10,845
Stock-based compensation	3,630	3,535
Deferred income taxes	(412)	(1,482)
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(1,425)	(3,369)
Inventories, net	16,976	(3,795)
Uniforms and other rental items in service	5,986	(4,437)
Prepaid expenses	(4,890)	(6,332)
Accounts payable	3,481	(7,554)
Accrued compensation and related liabilities	(7,118)	(16,696)
Accrued liabilities and other	(6,433)	(32,771)
Income taxes payable	32,210	32,718
Net cash provided by operating activities	144,894	88,338
Cash flows from investing activities:		
Capital expenditures	(24,819)	(54,461)
Proceeds from sale or redemption of marketable securities	----	171
Purchase of marketable securities and investments	(19,259)	(10,379)
Acquisitions of businesses, net of cash acquired	(2,633)	(12,106)
Other, net	(25)	627
Net cash used in investing activities	(46,736)	(76,148)
Cash flows from financing activities:		
Proceeds from issuance of debt	----	7,000
Repayment of debt	(179)	(261)
Exercise of stock-based compensation awards	2,710	----
Repurchase of common stock	(959)	(25,847)
Other, net	(2,194)	287
Net cash used in financing activities	(622)	(18,821)
Effect of exchange rate changes on cash and cash equivalents	30	(1,350)
Net increase (decrease) in cash and cash equivalents	97,566	(7,981)
Cash and cash equivalents at beginning of period	129,745	66,224
Cash and cash equivalents at end of period	$227,311	$ 58,243

See accompanying notes.

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(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 Form 10-K for the fiscal year ended May 31, 2009. A summary of our significant accounting policies is presented beginning 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.

2. New Accounting Standards

Effective June 1, 2008, Cintas adopted Financial Accounting Standards Board (FASB) 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. However, FASB Staff Position 157-2 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). FAS 157 became effective for Cintas for all non-financial assets and non-financial liabilities on June 1, 2009. The adoption of FAS 157 for our non-financial assets and non-financial liabilities did not have a significant impact on our consolidated financial statements.

Effective June 1, 2009, Cintas adopted FASB 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 are recognized separately from the acquisition and expensed as incurred, restructuring costs generally are 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. The adoption of FAS 141(R) did not have a material impact on Cintas results of operations or financial condition. Any future effects of FAS 141(R) will depend upon the terms and size of future acquisitions.

Effective June 1, 2009, Cintas adopted Emerging Issues Task Force (EITF) 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF 03-06-1). EITF 03-06-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in FASB Statement No. 128, *Earnings per Share*. The adoption did not have a material impact on basic or diluted earnings per share. Cintas adoption of EITF 03-06-1 is more fully described in Note 5 entitled Earnings per Share.

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(Unaudited)

(In thousands except per share data)

Effective June 1, 2009, Cintas adopted the provisions of FASB Statement No. 165, *Subsequent Events* (FAS No. 165). The objective of FAS No. 165 is to establish general standards of accounting for and disclosure of events that occur after the consolidated balance sheet date but before the consolidated financial statements are issued or are available to be issued. Cintas has evaluated and disclosed any subsequent events through October 9, 2009, which is the date of filing of the Form 10-Q.

3. Restructuring and Related Activity

Due to the declining economic conditions during fiscal 2009 which negatively impacted the U.S. and Canadian economies and Cintas businesses, during the fourth quarter of fiscal 2009, management initiated certain restructuring activities to eliminate excess capacity and reduce our cost structure. These activities include closing or converting to branches 16 of our rental processing plants and reducing our workforce by 1,200 employees. We expect these restructuring activities to be completed by May 31, 2010.

A progression of our restructuring liability balance, primarily recorded in accrued compensation and related liabilities, at August 31, 2009, is as follows:

	Employee Termination Costs	Other Exit Costs	Total
Balance as of June 1, 2009	$ 5,915	$ 2,272	$ 8,187
Cash paid fiscal 2010	(1,717)	----	(1,717)
Balance as of August 31, 2009	$ 4,198	$ 2,272	$ 6,470

4. Fair Value Measurements

FAS 157 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:

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.

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(Unaudited)

(In thousands except per share data)

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, 2009			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$227,311	$ ----	$ ----	$227,311
Marketable securities, available-for-sale	130,568	----	----	130,568
Other assets, net	25,435	----	----	25,435
Total assets at fair value	$383,314	$ ----	$ ----	$383,314
Current accrued liabilities	$ ----	$ 143	$ ----	$ 143
Total liabilities at fair value	$ ----	$ 143	$ ----	$ 143

	As of May 31, 2009			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$129,745	$ ----	$ ----	$129,745
Marketable securities, available-for-sale	120,393	----	----	120,393
Accounts receivable, net	----	78	----	78
Other assets, net	17,105	----	----	17,105
Total assets at fair value	$267,243	$ 78	$ ----	$267,321
Current accrued liabilities	$ ----	$ 253	$ ----	$ 253
Total liabilities at fair value	$ ----	$ 253	$ ----	$ 253

As of August 31, 2009, all marketable securities are concentrated in the U.S. and Canada and consist primarily of Canadian treasury securities. The funds invested in Canadian marketable securities are not expected to be repatriated, but instead are expected to be invested indefinitely in foreign subsidiaries. The amortized cost basis of the marketable securities as August 31, 2009 and May 31, 2008, are $130,597 and $120,403, respectively. All contractual maturities of the marketable securities held at August 31, 2009, are within one year.

Other assets, net, include retirement assets. Current accrued liabilities include foreign currency forward contracts.

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(Unaudited)

(In thousands except per share data)

5. Earnings per Share

As described in Note 2 entitled New Accounting Standards, Cintas adopted EITF 03-06-1 on June 1, 2009, using the retrospective method. The retrospective application had no impact on the basic and diluted earnings per share for the three months ended August 31, 2008. 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	
	August 31, 2009	August 31, 2008
Basic Earnings per Share		
Net income	$53,984	$78,636
Less: net income allocated to participating unvested securities	136	116
Net income available to common shareholders	$53,848	$78,520
Basic weighted average common shares outstanding	152,828	153,394
Basic earnings per share	$ 0.35	$ 0.51
Diluted Earnings per Share		
Net income	$53,984	$78,636
Less: net income allocated to participating unvested securities	136	116
Net income available to common shareholders	$53,848	$78,520
Basic weighted average common shares outstanding	152,828	153,394
Effect of dilutive securities employee stock options	----	----
Diluted weighted average common shares outstanding	152,828	153,394
Diluted earnings per share	$ 0.35	$ 0.51

At August 31, 2009 and 2008, 5,000 and 4,571 options granted to purchase shares of Cintas common stock were excluded from the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common shares (anti-dilutive).

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(Unaudited)

(In thousands except per share data)

6. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the three months ended August 31, 2009, 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, 2009	$861,879	$23,891	$166,872	$278,746	$1,331,388
Goodwill acquired					