CINTAS CORP
Form 10-Q
January 08, 2010
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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 November 30, 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	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 √ 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 December 31, 2009
Common Stock, no par value	152,869,220

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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 November 30,		Six Months Ended November 30,	
	2009	2008	2009	2008
Revenue:				
Rental uniforms and ancillary products	$643,597	$711,454	$1,299,235	$1,432,827
Other services	240,912	273,730	476,843	554,536
	884,509	985,184	1,776,078	1,987,363
Costs and expenses:				
Cost of rental uniforms and ancillary products	363,728	401,614	726,657	808,904
Cost of other services	150,934	168,570	296,779	338,376
Selling and administrative expenses	259,406	284,608	523,833	571,903
Legal settlements, net of insurance proceeds	4,052	---	23,529	---
Operating income	106,389	130,392	205,280	268,180
Interest income	(314)	(830)	(673)	(1,895)
Interest expense	12,579	12,768	24,617	25,799
Income before income taxes	94,124	118,454	181,336	244,276
Income taxes	36,948	46,616	70,176	93,802
Net income	$ 57,176	$ 71,838	$ 111,160	$ 150,474
Basic earnings per share	$ 0.37	$ 0.47	$ 0.72	$ 0.98
Diluted earnings per share	$ 0.37	$ 0.47	$ 0.72	$ 0.98

See accompanying notes.

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CINTAS CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands except share data)

	November 30, 2009 (Unaudited)	May 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 342,014	$ 129,745
Marketable securities	138,226	120,393
Accounts receivable, net	377,151	357,678
Inventories, net	166,373	202,351
Uniforms and other rental items in service	329,561	335,447
Income taxes, current	8,906	25,512
Deferred income tax asset	69,558	66,368
Prepaid expenses	17,637	17,035
Assets held for sale	15,744	15,744
Total current assets	1,465,170	1,270,273
Property and equipment, at cost, net	888,005	914,627
Goodwill	1,334,773	1,331,388
Service contracts, net	110,104	124,330
Other assets, net	88,296	80,333
	$3,886,348	$3,720,951
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 73,574	$ 69,965
Accrued compensation and related liabilities	46,872	48,414
Accrued liabilities	224,526	198,488
Long-term debt due within one year	588	598
Total current liabilities	345,560	317,465
Long-term liabilities:		
Long-term debt due after one year	785,748	786,058
Deferred income taxes	157,143	149,032
Accrued liabilities	101,812	100,987
Total long-term liabilities	1,044,703	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: 173,206,493 issued and 152,869,220 outstanding		
FY 2009: 173,085,926 issued and 152,790,170 outstanding	132,034	129,215
Paid-in capital	77,116	72,364

Retained earnings	3,049,579	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	36,203	25,299
Total shareholders equity	2,496,085	2,367,409
	$3,886,348	$3,720,951

See accompanying notes.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	November 30, 2009	November 30, 2008
Cash flows from operating activities:		
Net income	$111,160	$150,474
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	75,899	78,372
Amortization of deferred charges	20,568	21,522
Stock-based compensation	7,571	6,911
Deferred income taxes	4,777	(1,840)
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(12,843)	(8,064)
Inventories, net	34,874	(15,169)
Uniforms and other rental items in service	5,495	(6,237)
Prepaid expenses	(568)	(3,799)
Accounts payable	6,914	(509)
Accrued compensation and related liabilities	(1,646)	(8,685)
Accrued liabilities and other	25,246	(16,400)
Income taxes payable	16,728	(21,435)
Net cash provided by operating activities	294,175	175,141
Cash flows from investing activities:		
Capital expenditures	(48,092)	(95,957)
Proceeds from sale or redemption of marketable securities	25,852	61,662
Purchase of marketable securities and investments	(53,060)	(23,222)
Acquisitions of businesses, net of cash acquired	(6,601)	(18,331)
Other, net	1,053	353
Net cash used in investing activities	(80,848)	(75,495)
Cash flows from financing activities:		
Proceeds from issuance of debt	----	7,500
Repayment of debt	(321)	(80,749)
Exercise of stock-based compensation awards	2,819	----
Repurchase of common stock	(959)	(25,847)
Other, net	(3,536)	413
Net cash used in financing activities	(1,997)	(98,683)
Effect of exchange rate changes on cash and cash equivalents	939	(4,774)
Net increase (decrease) in cash and cash equivalents	212,269	(3,811)
Cash and cash equivalents at beginning of period	129,745	66,224

Cash and cash equivalents at end of period	$342,014	$ 62,413

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 Pronouncements

The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) effective for financial statements issued for interim and annual periods ending after September 30, 2009. The ASC is an aggregation of previously issued authoritative GAAP in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been removed. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates (ASU). The following is a list of recent pronouncements issued by the FASB.

Effective June 1, 2008, Cintas adopted fair value measurements guidance for financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Effective June 1, 2009, Cintas adopted fair value measurements guidance for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a nonrecurring basis. The guidance defines fair value, establishes guidance for measuring fair value and expands disclosures regarding fair value measurements. The adoptions did not have a material impact on our consolidated financial statements. See Note 4 entitled Fair Value Measurements for additional information.

Effective June 1, 2009, Cintas adopted new guidance on business combinations, in which an entity is required to recognize assets acquired, liabilities assumed, contractual contingencies and contingent consideration at 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. This adoption did not have a material impact on Cintas results of operations or financial condition. Any future effects will depend upon the terms and size of future acquisitions.

Effective June 1, 2009, Cintas adopted new guidance for determining whether instruments granted in share-based payment transactions are participating securities. This guidance 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 of determining earnings per share. The adoption did not have a material impact on basic or diluted earnings per share. Cintas adoption 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 new guidance on subsequent events. The objective of this guidance 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 January 8, 2010, which is the date of filing of the Form 10-Q. This adoption did not have a material impact on Cintas results of operations or financial condition.

3. Restructuring and Related Activity

Due to 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 approximately 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 November 30, 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	(3,005)	(12)	(3,017)
Balance as of November 30, 2009	$ 2,910	$ 2,260	$ 5,170

Cash paid during the three months ended November 30, 2009, was $1,300.

4. Fair Value Measurements

FASB ASC 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.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(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 November 30, 2009			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$342,014	$ ----	$ ----	$342,014
Marketable securities	118,245	19,981	----	138,226
Other assets, net	29,532	----	----	29,532
Total assets at fair value	$489,791	$19,981	$ ----	$509,772
Current accrued liabilities	$ ----	$ 333	$ ----	$ 333
Total liabilities at fair value	$ ----	$ 333	$ ----	$ 333

	As of May 31, 2009			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$129,745	$ ----	$ ----	$129,745
Marketable securities	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 November 30, 2009, all marketable securities are concentrated in the U.S. and Canada and consist primarily of Canadian treasury securities and U.S. municipal bonds. 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 of November 30, 2009 and May 31, 2009, is $138,207 and $120,403, respectively. All contractual maturities of the marketable securities held at November 30, 2009, are within one year.

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

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In thousands except per share data)

5. Earnings per Share

As described in Note 2 entitled New Accounting Pronouncements, Cintas adopted new guidance for determining whether instruments granted in share-based payment transactions are participating securities 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 or six months ended November 30, 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 November 30,		Six Months Ended November 30,	
	2009	2008	2009	2008
Basic Earnings per Share Net income	$57,176	$71,838	$111,160	$150,474
Less: net income allocated to participating unvested securities	226	154	362	270
Net income available to common shareholders	$56,950	$71,684	$110,798	$150,204
Basic weighted average common shares outstanding	152,866	152,788	152,847	153,093
Basic earnings per share	$ 0.37	$ 0.47	$ 0.72	$ 0.98
Diluted Earnings per Share Net income	$57,176	$71,838	$111,160	$150,474
Less: net income allocated to participating unvested securities	226	154	362	270
Net income available to common shareholders	$56,950	$71,684	$110,798	$150,204
Basic weighted average common shares outstanding	152,866	152,788	152,847	153,093
Effect of dilutive securities employee stock options	----	----	----	----
Diluted weighted average common shares outstanding	152,866	152,788	152,847	153,093
Diluted earnings per share	$ 0.37	$ 0.47	$ 0.72	$ 0.98

For the three months ended November 30, 2009 and 2008, 3,556 and 5,949 options granted to purchase shares of Cintas common stock were excluded from the computation of diluted earnings per share. For the six months ended November 30, 2009 and 2008, 4,442 and 5,192 options granted to purchase shares

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CINTAS CORPORATION

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(Unaudited)

(In thousands except per share data)

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).

6. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the six months ended November 30, 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, net	(564)	----	655	1,794	1,885
Foreign currency translation	527	30	----	943	1,500
Balance as of November 30, 2009	$861,842	$23,921	$167,527	$281,483	$1,334,773

	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Document Management	Total
Service Contracts					
Balance as of June 1, 2009	$65,897	$ ----	$36,042	$22,391	$124,330
Service contracts acquired	----	----	385	848	1,233
Service contracts amortization	(9,379)	(12)	(3,044)	(3,918)	(16,353)
Foreign currency translation	738	12	----	144	894
Balance as of November 30, 2009	$57,256	$ ----	$33,383	$19,465	$110,104

Information regarding Cintas   service contracts and other assets are as follows:

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CINTAS CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(In thousands except per share data)

	As of November 30, 2009		
	Carrying Amount	Accumulated Amortization	Net
Service contracts	$337,599	$227,495	$110,104
Noncompete and consulting agreements	$ 65,195	$ 48,578	$ 16,617
Investments	64,895	----	64,895
Other	10,638	3,854	6,784
Total	$140,728	$ 52,432	$ 88,296

	As of May 31, 2009		
	Carrying Amount	Accumulated Amortization	Net
Service contracts	$335,473	$211,143	$124,330
Noncompete and consulting agreements	$ 65,683	$ 44,320	$ 21,363
Investments	51,762	----	51,762
Other	10,675	3,467	7,208