CINTAS CORP
Form 10-Q
October 10, 2014

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 August 31, 2014

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 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 September 30, 2014
Common Stock, no par value	116,979,108

CINTAS CORPORATION
TABLE OF CONTENTS

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

	Three Months Ended	
	August 31, 2014	August 31, 2013
Revenue:		
Rental uniforms and ancillary products	$856,872	$792,866
Other services	245,205	307,380
	1,102,077	1,100,246
Costs and expenses:		
Cost of rental uniforms and ancillary products	470,609	454,731
Cost of other services	153,522	189,420
Selling and administrative expenses	314,458	316,483
Operating income	163,488	139,612
Gain on deconsolidation of Shredding business	6,619	—
Gain on sale of stock of an equity method investment	21,739	—
Interest income	(53)	(68)
Interest expense	16,583	16,523
Income before income taxes	175,316	123,157
Income taxes	65,525	45,759
Income from continuing operations	109,791	77,398
Income from discontinued operations, net of tax	317	356
Net income	$110,108	$77,754
Basic earnings per share:		
Continuing operations	$0.94	$0.63
Discontinued operations	—	—
Basic earnings per share	$0.94	$0.63
Diluted earnings per share:		
Continuing operations	$0.93	$0.63
Discontinued operations	—	—
Diluted earnings per share	$0.93	$0.63

See accompanying notes.

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

	Three Months Ended	
	August 31, 2014	August 31, 2013
Net income	$110,108	$77,754
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(2,115)	(646)
Change in fair value of derivatives	17	—
Amortization of interest rate lock agreements	488	488
Change in fair value of available-for-sale securities	—	(14)
Other comprehensive loss	(1,610)	(172)
Comprehensive income	$108,498	$77,582

See accompanying notes.

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

	August 31, 2014 (Unaudited)	May 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$581,453	$513,288
Accounts receivable, net	489,211	508,427
Inventories, net	249,817	251,239
Uniforms and other rental items in service	513,615	506,537
Assets held for sale	151,263	—
Prepaid expenses and other current assets	27,590	26,190
Total current assets	2,012,949	1,805,681
Property and equipment, at cost, net	838,493	855,702
Investments	451,897	458,357
Goodwill	1,189,968	1,267,411
Service contracts, net	44,185	55,675
Other assets, net	18,778	19,626
	$4,556,270	$4,462,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$141,795	$150,070
Accrued compensation and related liabilities	44,060	85,026
Accrued liabilities	292,548	299,727
Income taxes, current	54,595	5,960
Deferred tax liability	87,842	88,845
Liabilities held for sale	15,171	—
Long-term debt due within one year	—	503
Total current liabilities	636,011	630,131
Long-term liabilities:		
Long-term debt due after one year	1,300,000	1,300,477
Deferred income taxes	242,459	246,044
Accrued liabilities	105,826	92,942
Total long-term liabilities	1,648,285	1,639,463
Shareholders' equity:		
Preferred stock, no par value:	—	—
100,000 shares authorized, none outstanding		
Common stock, no par value:	294,795	251,753
425,000,000 shares authorized		
FY 2015: 177,315,907 issued and 116,991,574 outstanding		
FY 2014: 176,378,412 issued and 117,037,784 outstanding		
Paid-in capital	123,954	134,939

Retained earnings	4,109,001	3,998,893
Treasury stock:	(2,282,594)	(2,221,155)
FY 2015: 60,324,333 shares		
FY 2014: 59,340,628 shares		
Accumulated other comprehensive income	26,818	28,428
Total shareholders' equity	2,271,974	2,192,858
	$4,556,270	$4,462,452

See accompanying notes.

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

	Three Months Ended	
	August 31, 2014	August 31, 2013
Cash flows from operating activities:		
Net income	$110,108	$77,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35,448	42,571
Amortization of intangible assets	4,206	5,823
Stock-based compensation	12,280	6,984
Gain on deconsolidation of Shredding business	(6,619)	—
Gain on sale of stock of an equity method investment	(21,739)	—
Deferred income taxes	2,108	7,373
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	8,222	(14,903)
Inventories, net	1,377	(5,258)
Uniforms and other rental items in service	(7,112)	(4,150)
Prepaid expenses and other current assets	(5,884)	(7,216)
Accounts payable	(1,325)	2,915
Accrued compensation and related liabilities	(41,262)	(34,777)
Accrued liabilities	10,384	(27,215)
Income taxes, current	48,009	32,658
Net cash provided by operating activities	148,201	82,559
Cash flows from investing activities:		
Capital expenditures	(68,050)	(37,462)
Proceeds from redemption of marketable securities	—	35,233
Purchase of marketable securities and investments	(6,981)	(32,941)
Proceeds from Shredding transaction	3,344	—
Proceeds from sale of stock of an equity method investment	29,933	—
Dividends received on equity method investment	5,247	—
Acquisitions of businesses, net of cash acquired	(2,328)	(32,216)
Other, net	16	382
Net cash used in investing activities	(38,819)	(67,004)
Cash flows from financing activities:		
Repayment of debt	(180)	(167)
Proceeds from exercise of stock-based compensation awards	13,623	14,085
Repurchase of common stock	(61,439)	(106,977)
Other, net	6,798	4,126
Net cash used in financing activities	(41,198)	(88,933)
Effect of exchange rate changes on cash and cash equivalents	(19)	(225)
Net increase (decrease) in cash and cash equivalents	68,165	(73,603)

Cash and cash equivalents at beginning of period	513,288	352,273
Cash and cash equivalents at end of period	$581,453	$278,670

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, 2014. 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 current 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 with the current year presentation for amounts related to discontinued operations (see Note 12 entitled Discontinued Operations for further information).

On April 30, 2014, Cintas completed its previously announced partnership transaction with the shareholders of Shred-it International Inc. (Shred-it) to combine Cintas’ document destruction, or shredding, business with Shred-it’s document shredding business. Under the agreement, Cintas and Shred-it each contributed its document shredding business to a newly formed partnership (the Shred-it partnership) owned 42% by Cintas and 58% by the shareholders of Shred-it. In conjunction with the partnership agreement, Cintas agreed to provide certain transition services such as information technology and accounting in support of the Shred-it partnership for a period not to exceed fifteen months from the April 30, 2014 closing date.

As disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014, inventories are valued at the lower of cost (first-in, first-out) or market. Inventory is comprised of the following amounts at:

(In thousands)	August 31, 2014	May 31, 2014
Raw materials	$16,652	$17,984
Work in process	13,835	14,304
Finished goods	219,330	218,951
	$249,817	$251,239

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)," to clarify revenue recognition principles. This guidance is intended to improve disclosure requirements and enhance the comparability of revenue recognition practices. Improved disclosures under the amended guidance relate to the nature, amount, timing and uncertainty of revenue that is recognized from contracts with customers. This guidance will be effective for reporting periods beginning after December 15, 2016 and will be required to be applied retrospectively. Early application of the amendments in this Update is not permitted. Cintas is currently evaluating the impact that ASU 2014-09 will have on its consolidated condensed financial statements.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. ASU 2014-15 defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This guidance will be effective for all entities in the first annual period ending after December 15, 2016; however, early adoption is permitted. Cintas is currently evaluating the impact that ASU 2014-15 will have on its consolidated condensed financial statements.

No other new accounting pronouncement recently issued or newly effective had or is expected to have a material impact on the Consolidated Condensed Financial Statements.

3. Fair Value Measurements

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:

	As of August 31, 2014			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$581,453	$—	$—	$581,453
Total assets at fair value	$581,453	$—	$—	$581,453
Current accrued liabilities	$—	$265	$—	$265
Total liabilities at fair value	$—	$265	$—	$265

	As of May 31, 2014			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$513,288	$—	$—	$513,288
Total assets at fair value	$513,288	$—	$—	$513,288
Current accrued liabilities	$—	$286	$—	$286
Total liabilities at fair value	$—	$286	$—	$286

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.

Foreign currency forward contracts were included in current accrued liabilities as of August 31, 2014 and May 31, 2014. The fair value of Cintas' foreign currency forward contracts are based on similar exchange traded derivatives (market approach) and are, therefore, included within Level 2 of the fair value hierarchy.

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.
In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a nonrecurring basis as required under GAAP. As a result of the shredding transaction and GAAP requirements, Cintas' equity method investment in the Shred-it partnership was initially measured at fair value. See Note 4 entitled Investments for additional information on the measurement of the investment in the Shred-it partnership.

4. Investments

Investments at August 31, 2014 of $451.9 million include an equity method investment in the Shred-it partnership of $341.4 million, other equity method investments of $15.5 million, the cash surrender value of insurance policies of $92.8 million and cost method investments of $2.2 million. Investments at May 31, 2014 of $458.4 million include an equity method investment in the Shred-it partnership of $341.4 million, other equity method investments of $29.7 million, the cash surrender value of insurance policies of $86.5 million and cost method investments of $0.8 million.

Investments are evaluated for impairment on an annual basis or when indicators of impairment exist. For the three months ended August 31, 2014 and 2013, no losses due to impairment were recorded.

On April 30, 2014, Cintas completed its previously announced partnership transaction with the shareholders of Shred-it to combine Cintas' document shredding business with Shred-it's document shredding business. Under the agreement, Cintas and Shred-it each contributed its document shredding business to a newly formed partnership owned 42% by Cintas. The resulting equity method investment (Level 3) in the Shred-it partnership was initially recorded at fair value at $339.4 million derived with a primary reliance upon the income approach utilizing various discounted cash flow models. Fair value was determined by an independent valuation specialist. Management ultimately oversees the independent valuation specialist to ensure that the transaction-specific assumptions are appropriate for Cintas. The following table details quantitative information about significant unobservable inputs used in the initial valuation of Cintas' investment in the Shred-it partnership:

(Dollars in millions)	Fair Value at April 30, 2014	Valuation Technique	Input	Range Low		High	
Equity method investment - Shred-it partnership	$339.4	Discounted Cash Flow	EBITDA Margin	20.0	%	22.0	%
			Ratio of capital expenditures to revenues	4.5	%	5.5	%
			Long-term revenue growth	1.5	%	2.0	%
			WACC Rate	9.0	%	9.0	%

In the three months ended August 31, 2014, Cintas received additional proceeds related to the contribution of the shredding business to the Shred-it partnership. The Company realized a pre-tax gain of $6.6 million as a result of the additional consideration received.

On June 30, 2014, Cintas sold stock in an equity method investment. In conjunction with the sale, Cintas also received a cash dividend of $5.2 million. Total cash received from the transaction was $35.2 million. The sale resulted in the recording of a gain, net of tax, of approximately $13.6 million in the three months ended August 31, 2014. As a result, the Company no longer has the ability to exercise significant influence over the investee. Therefore, effective July 1, 2014, the remaining investment retained by Cintas is accounted for under the cost method.

5. Earnings Per Share

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

(In thousands except per share data)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013
Basic Earnings per Share from Continuing Operations		
Income from continuing operations	$109,791	$77,398
Less: income from continuing operations allocated to participating securities	613	461
Income from continuing operations available to common shareholders	$109,178	$76,937
Basic weighted average common shares outstanding	116,659	122,130
Basic earnings per share from continuing operations	$0.94	$0.63

(In thousands except per share data)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013
Diluted Earnings per Share from Continuing Operations		
Income from continuing operations	$109,791	$77,398
Less: income from continuing operations allocated to participating securities	613	461
Income from continuing operations available to common shareholders	$109,178	$76,937
Basic weighted average common shares outstanding	116,659	122,130
Effect of dilutive securities – employee stock options & awards	1,371	762
Diluted weighted average common shares outstanding	118,030	122,892
Diluted earnings per share from continuing operations	$0.93	$0.63

Earnings per share from discontinued operations were less than $0.01 for both the three months ended August 31, 2014 and 2013.

For the both the three months ended August 31, 2014 and 2013, options granted to purchase 0.6 million 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 stock (anti-dilutive).

On July 30, 2013, we announced that the Board of Directors authorized a $500.0 million share buyback program, which does not have an expiration date. For the three months ended August 31, 2014, we purchased 0.8 million shares of Cintas common stock at an average price of $62.17 per share for a total purchase price of $49.7 million. In the period subsequent to August 31, 2014 through October 10, 2014, we did not purchase any shares of Cintas common stock. From the inception of the July 30, 2013 share buyback program through October 10, 2014, Cintas has purchased a total of 4.1 million shares of Cintas common stock at an average price of $60.19 for a total purchase price of $249.2 million. In addition, for the three months ended August 31, 2014, Cintas acquired 0.2 million million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the three months ended August 31, 2014. These shares were acquired at an average price of $63.72 per share for a total purchase price of $11.7 million.

10

6. Goodwill, Service Contracts and Other Assets

As of August 31, 2014, the document imaging and document retention services business is classified as discontinued operations. As a result, goodwill and service contracts related to this business, which were previously included in the Document Management Services operating segment, are included in the Corporate segment. As of August 31, 2014, these assets are reported in assets held for sale on the consolidated condensed balance sheet in accordance with the applicable accounting guidance.

Changes in the carrying amount of goodwill and service contracts for the three months ended August 31, 2014, by operating segment, are as follows:

Goodwill (in thousands)	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Corporate	Total
Balance as of June 1, 2014	$943,516	$23,905	$221,911	$78,079	$1,267,411
Goodwill acquired	—	—	693	—	693
Amounts reclassed to assets held for sale	—	—	—	(77,200)	(77,200)
Foreign currency translation	(54)	(3)	—	(879)	(936)
Balance as of August 31, 2014	$943,462	$23,902	$222,604	$—	$1,189,968

Service Contracts (in thousands)	Rental Uniforms & Ancillary Products	Uniform Direct Sales	First Aid, Safety & Fire Protection	Corporate	Total
Balance as of June 1, 2014	$17,171	$—	$28,034	$10,470	$55,675
Service contracts acquired	—	—	2,149	227	2,376
Service contracts amortization	(1,344)	—	(1,754)	(597)	(3,695)
Amounts reclassed to assets held for sale	—	—	—	(9,897)	(9,897)
Foreign currency translation	(71)	—	—	(203)	(274)
Balance as of August 31, 2014	$15,756	$—	$28,429	$—	$44,185

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

	As of August 31, 2014		
(In thousands)	Carrying Amount	Accumulated Amortization	Net
Service contracts	$336,083	$291,898	$44,185
Noncompete and consulting agreements	$41,261	$39,882	$1,379
Other	24,005	6,606	17,399
Total	$65,266	$46,488	$18,778

	As of May 31, 2014		
(In thousands)	Carrying Amount	Accumulated Amortization	Net
Service contracts	$360,634	$304,959	$55,675

Noncompete and consulting agreements	$49,080	$47,036	$2,044
Other	23,826	6,244	17,582
Total	$72,906	$53,280	$19,626

Amortization expense for continuing operations was $3.5 million and $5.1 million for the three months ended August 31, 2014 and 2013, respectively. Estimated amortization expense for continuing operations, excluding any future acquisitions, for each of the next five full fiscal years is $13.4 million, $10.0 million, $5.9 million, $4.9 million and $4.6 million, respectively.

7. Debt, Derivatives and Hedging Activities

Cintas' senior notes are recorded at cost. The fair value of the senior notes is estimated using Level 2 inputs based on general market prices. The carrying value and fair value of Cintas' long-term debt as of August 31, 2014 were $1,300.0 million and $1,425.9 million, respectively, and as of May 31, 2014 were $1,301.0 million and $1,421.0 million, respectively.

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 May 28, 2019. No commercial paper or borrowings on our revolving credit facility were outstanding at August 31, 2014 or May 31, 2014.

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 for the three months ended August 31, 2014 and 2013.

To hedge the exposure of movements in the foreign currency rates, Cintas may use foreign currency hedges. These hedges reduce the impact on cash flows from movements in the foreign currency exchange rates. Examples of foreign currency hedge instruments that Cintas may use are average rate options and forward contracts. Cintas had foreign currency forward contracts included in current accrued liabilities of $0.3 million as of August 31, 2014 and May 31, 2014.

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 consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) and interest coverage ratios. Cross-default provisions exist between certain debt instruments. Cintas is in compliance with all 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.

8. 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 August 31, 2014, unrecognized tax benefits increased by approximately $0.5 million and accrued interest increased by approximately $0.1 million.

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 would not change for the fiscal year ending May 31, 2015.

On September 13, 2013, the U.S. Department of the Treasury and the Internal Revenue Service released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code of 1986 regarding amounts paid to improve tangible property and acquire or produce tangible property, as well as proposed regulations regarding the disposition of property. The effective date of the final regulations was extended and will be effective for Cintas' fiscal year ending May 31, 2015. Cintas is reviewing these regulations and does not believe there will be a material impact on the consolidated financial statements when such regulations become effective.

9. 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 operations 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. On April 16, 2013, Cintas filed with the United States Supreme Court a Petition for a Writ of Certiorari seeking to review the judgment of the United States Court of Appeals for the Sixth Circuit. On October 7, 2013, the Court denied Cintas’ Petition, thus remanding the claims back to the District Court consistent with the Sixth Circuit Court’s November 9, 2012 decision.

The litigation discussed above, if decided or settled adversely to Cintas, may result in liability material to Cintas' consolidated financial condition, consolidated results of operations 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.

10. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income (loss), net of tax:

(In thousands)	Foreign Currency	Unrealized Loss on Derivatives	Other	Total
Balance at June 1, 2014	$41,525	$(12,615)	$(482)	$28,428
Other comprehensive (loss) income before reclassifications	(2,115)	17	—	(2,098)
Amounts reclassified from accumulated other comprehensive income (loss)	—	488	—	488
Net current period other comprehensive (loss) income	(2,115)	505	—	(1,610)
Balance at August 31, 2014	$39,410	$(12,110)	$(482)	$26,818

(In thousands)	Foreign Currency	Unrealized Loss on Derivatives	Other	Total
Balance at June 1, 2013	$51,312	$(14,339)	$1,150	$38,123
Other comprehensive loss before reclassifications	(646)	—	(14)	(660)
Amounts reclassified from accumulated other comprehensive income (loss)	—	488	—	488
Net current period other comprehensive (loss) income	(646)	488	(14)	(172)
Balance at August 31, 2013	$50,666	$(13,851)	$1,136	$37,951

The following table summarizes the reclassifications out of accumulated other comprehensive income (loss):

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line in the Consolidated Condensed Statements of Income
(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	
Amortization of interest rate locks	$(783)	$(783)	Interest expense
Tax benefit	295	295	Income taxes
Amortization of interest rate locks, net of tax	$(488)	$(488)	Net of tax

11. Segment Information

Effective August 31, 2014, Cintas classifies its businesses into three 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.

Prior to August 31, 2014, Cintas classified its business into four operating segments. The Document Management Services operating segment is no longer considered an operating segment for fiscal 2015 and beyond. This operating segment consisted of document shredding, document imaging and document retention services. On April 30, 2014, Cintas completed its partnership transaction with the shareholders of Shred-it to combine Cintas' shredding business with Shred-it's shredding business. The document destruction business is reported in the corporate segment as of and for the three months ended August 31, 2013. Additionally, effective August 31, 2014, the document imaging and document retention services business is classified as discontinued operations. The business' assets are reflected as held for sale. The document imaging and document retention services business has been excluded from segment results for all periods presented. Please see Note 12 entitled Discontinued Operations for additional information.

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	Corporate [1]	Total
As of and for the three months ended August 31, 2014					
Revenue	$856,872	$105,145	$140,060	$—	$1,102,077
Income before income taxes	$142,681	$9,187	$11,620	$11,828	$175,316
Total assets	$2,913,437	$133,409	$429,783	$1,079,641	$4,556,270
As of and for the three months ended August 31, 2013					
Revenue	$792,866	$107,462	$125,875	$74,043	$1,100,246
Income (loss) before income taxes	$117,393	$8,681	$11,446	$(14,363)	$123,157
Total assets	$2,842,058	$143,993	$410,633	$914,493	$4,311,177

[1] Corporate assets as of August 31, 2014 include the investment in the Shred-it partnership. Corporate assets as of August 31, 2014 and 2013 include the assets of the document imaging and document retention business, which have been classified as held for sale. Corporate results and assets as of and for the period ended August 31, 2013 include the revenue ($74.0 million), income before income taxes ($2.1 million) and assets ($479.4 million) of the document shredding business.

12. Discontinued Operations

Effective August 31, 2014, Cintas' document imaging and document retention services business is classified as discontinued operations. Strategic opportunities for the business are being evaluated, and the Company does not expect to operate the business long-term. The carrying value of the document imaging and document retention services business has been evaluated and no adjustments to the value were deemed necessary. The business was previously included in the Document Management Services operating segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of the document imaging and document retention services business have been excluded from both continuing operations and segment results for all periods presented. The balance sheet position for the document imaging and document retention services business as of August 31, 2014 is presented as assets and liabilities held for sale in the Consolidated Condensed Balance Sheet. As allowed under applicable accounting guidance, the May 31, 2014 balance sheet amounts for the document imaging and document retention services business remain in their natural classifications.

Following is selected financial information included in net income from discontinued operations for the document imaging and document retention services business:

In thousands	Three Months Ended August 31, 2014	August 31, 2013[(1)]
Revenue	$20,785	$20,097
Income from discontinued operations	576	458
Income tax expense on discontinued operations	259	102
Net income from discontinued operations	$317	$356

[(1)] Results for the three months ended August 31, 2013 were previously included in continuing operations.

The components of assets and liabilities as of August 31, 2014 of the document imaging and document retention services business held for sale were as follows:

In thousands	
Accounts receivable	$10,818
Prepaid expenses and other current assets	4,449
Property and equipment, at cost, net	48,480
Goodwill	77,200
Service contracts, net	9,897
Other assets, net	419
Total assets held for sale	$151,263
Accounts payable	$6,652
Accrued compensation and related liabilities	430
Accrued liabilities	1,250
Non-current deferred income taxes	6,697
Other liabilities, net	142
Total liabilities held for sale	$15,171

16

13. 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 August 31, 2014
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	$ —	$ 658,987	$ 176,706	$ 56,281	$ (35,102)	$ 856,872
Other services	—	343,367	6,956	17,324	(122,442)	245,205
Equity in net income of affiliates	109,791	—	—	—	(109,791)	—
	109,791	1,002,354	183,662	73,605	(267,335)	1,102,077
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	—	398,272	104,159	37,976	(69,798)	470,609
Cost of other services	—	228,239	(5,149)	11,267	(80,835)	153,522
Selling and administrative expenses	—	314,003	(12,954)	19,074	(5,665)	314,458
Operating income	109,791	61,840	97,606	5,288	(111,037)	163,488
Gain on deconsolidation of Shredding business	—	6,619	—	—	—	6,619
Gain on sale of stock of an equity method investment	—	—	21,739	—	—	21,739
Interest income	—	(5)	(48)	—	—	(53)
Interest expense	—	16,409	170	4	—	16,583
Income before income taxes	109,791	52,055	119,223	5,284	(111,037)	175,316
Income taxes	—	19,278	44,207	2,051	(11)	65,525
Income from continuing operations	109,791	32,777	75,016	3,233	(111,026)	109,791
Income (loss) from discontinued operations, net of tax	317	373	—	(56)	(317)	317
Net income	$ 110,108	$ 33,150	$ 75,016	$ 3,177	$ (111,343)	$ 110,108

18

Condensed Consolidating Income Statement
Three Months Ended August 31, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rental uniforms and ancillary products	$—	$605,758	$162,565	$54,965	$(30,422)	$792,866
Other services	—	395,193	8,549	20,669	(117,031)	307,380
Equity in net income of affiliates	77,398	—	—	—	(77,398)	—
	77,398	1,000,951	171,114	75,634	(224,851)	1,100,246
Costs and expenses (income):						
Cost of rental uniforms and ancillary products	—	383,719	98,167	38,556	(65,711)	454,731
Cost of other services	—	256,239	(3,123)	13,220	(76,916)	189,420
Selling and administrative expenses	—	304,105	(4,859)	21,442	(4,205)	316,483
Operating income	77,398	56,888	80,929	2,416	(78,019)	139,612
Interest income	—	(8)	(53)	(14,694)	14,687	(68)
Interest expense (income)	—	16,480	44	(1)	—	16,523
Income before income taxes	77,398	40,416	80,938	17,111	(92,706)	123,157
Income taxes	—	14,989	29,981	819	(30)	45,759
Income from continuing operations	77,398	25,427	50,957	16,292	(92,676)	77,398
Income from discontinued operations, net of tax	356	254	—	102	(356)	356
Net income	$77,754	$25,681	$50,957	$16,394	$(93,032)	$77,754

Condensed Consolidating Statement of Comprehensive Income
Three Months Ended August 31, 2014
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$110,108	$33,150	$75,016	$3,177	$(111,343)	$110,108
Other comprehensive (loss) income, net of tax:						
Foreign currency translation adjustments	—	—	—	(2,115)	—	(2,115)
Change in fair value of derivatives	—	—	—	17	—	17
Amortization of interest rate lock agreements	—	488	—	—	—	488
Other comprehensive income (loss)	—	488	—	(2,098)	—	(1,610)
Comprehensive income	$110,108	$33,638	$75,016	$1,079	$(111,343)	$108,498

Condensed Consolidating Statement of Comprehensive Income
Three Months Ended August 31, 2013
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$77,754	$25,681	$50,957	$16,394	$ (93,032)	$77,754
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	7	—			