CINTAS CORP
Form 10-Q
October 09, 2015

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, 2015

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, 2015
Common Stock, no par value	107,959,511

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, 2015	August 31, 2014
Revenue:		
Uniform rental and facility services	$938,408	$873,698
Other	260,482	228,379
	1,198,890	1,102,077
Costs and expenses:		
Cost of uniform rental and facility services	518,503	490,675
Cost of other	156,243	133,456
Selling and administrative expenses	338,637	314,458
Operating income	185,507	163,488
Gain on sale of stock of an equity method investment	—	21,739
Interest income	(119)	(53)
Interest expense	16,412	16,583
Income before income taxes	169,214	168,697
Income taxes	63,016	62,792
Income from continuing operations	106,198	105,905
(Loss) income from discontinued operations, net of tax benefit of $3,419 and tax expense of $2,991, respectively	(6,017)	4,203
Net income	$100,181	$110,108
Basic earnings (loss) per share:		
Continuing operations	$0.94	$0.90
Discontinued operations	(0.05)	0.04
Basic earnings per share	$0.89	$0.94
Diluted earnings (loss) per share:		
Continuing operations	$0.93	$0.89
Discontinued operations	(0.05)	0.04
Diluted earnings per share	$0.88	$0.93

See accompanying notes.

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

	Three Months Ended	
	August 31, 2015	August 31, 2014
Net income	$100,181	$110,108
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(12,013)	(2,115)
Change in fair value of derivatives	—	17
Amortization of interest rate lock agreements	488	488
Change in fair value of available-for-sale securities	(8)	—
Other comprehensive loss	(11,533)	(1,610)
Comprehensive income	$88,648	$108,498

See accompanying notes.

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

	August 31, 2015 (Unaudited)	May 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$146,860	$417,073
Marketable securities	53,354	16,081
Accounts receivable, net	531,127	496,130
Inventories, net	240,046	226,211
Uniforms and other rental items in service	537,120	534,005
Income taxes, current	—	936
Assets held for sale	194,275	21,341
Prepaid expenses and other current assets	31,170	24,030
Total current assets	1,733,952	1,735,807
Property and equipment, at cost, net	896,786	871,421
Investments	123,494	329,692
Goodwill	1,272,503	1,195,612
Service contracts, net	75,306	42,434
Other assets, net	20,908	17,494
	$4,122,949	$4,192,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$131,956	$109,607
Accrued compensation and related liabilities	53,018	88,423
Accrued liabilities	294,845	309,935
Income taxes, current	47,640	—
Deferred tax liability	103,410	112,389
Deferred tax liability associated with the investment in Shred-it	78,457	704
Long-term debt due within one year	250,000	—
Total current liabilities	959,326	621,058
Long-term liabilities:		
Long-term debt due after one year	1,050,000	1,300,000
Deferred income taxes	148,793	226,938
Accrued liabilities	116,161	112,009
Total long-term liabilities	1,314,954	1,638,947
Shareholders' equity:		
Preferred stock, no par value:	—	—
100,000 shares authorized, none outstanding		
Common stock, no par value:	387,314	329,248
425,000,000 shares authorized		
FY 2016: 179,023,676 issued and 110,021,667 outstanding		

FY 2015: 178,117,334 issued and 111,702,949 outstanding		
Paid-in capital	148,275	157,183
Retained earnings	4,327,807	4,227,620
Treasury stock:	(2,994,723)	(2,773,125)
FY 2016: 69,002,009 shares		
FY 2015: 66,414,385 shares		
Accumulated other comprehensive loss	(20,004)	(8,471)
Total shareholders' equity	1,848,669	1,932,455
	$4,122,949	$4,192,460

See accompanying notes.

5

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

	Three Months Ended	
	August 31, 2015	August 31, 2014
Cash flows from operating activities:		
Net income	$100,181	$110,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	36,165	35,448
Amortization of intangible assets	3,603	4,206
Stock-based compensation	23,917	12,280
Gain on sale of Storage Assets	(4,843)	—
Loss on investment in Shred-it Partnership	14,516	—
Gain on deconsolidation of Shredding	—	(6,619)
Gain on sale of stock of an equity method investment	—	(21,739)
Deferred income taxes	5,632	2,108
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(19,255)	8,222
Inventories, net	(8,109)	1,377
Uniforms and other rental items in service	(4,939)	(7,112)
Prepaid expenses and other current assets	(6,024)	(5,884)
Accounts payable	15,531	(1,325)
Accrued compensation and related liabilities	(35,579)	(41,262)
Accrued liabilities and other	(26,253)	10,384
Income taxes, current	48,540	48,009
Net cash provided by operating activities	143,083	148,201
Cash flows from investing activities:		
Capital expenditures	(62,631)	(68,050)
Proceeds from redemption of marketable securities	152,907	—
Purchase of marketable securities and investments	(196,020)	(6,981)
Proceeds from sale of Storage Assets	24,395	—
Proceeds from Shredding Transaction, net of cash contributed	—	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	(121,434)	(2,328)
Other, net	921	16
Net cash used in investing activities	(201,862)	(38,819)
Cash flows from financing activities:		
Repayment of debt	(16)	(180)
Proceeds from exercise of stock-based compensation awards	11,844	13,623
Repurchase of common stock	(221,598)	(61,439)
Other, net	51	6,798
Net cash used in financing activities	(209,719)	(41,198)
Effect of exchange rate changes on cash and cash equivalents	(1,715)	(19)

Net (decrease) increase in cash and cash equivalents	(270,213)	68,165
Cash and cash equivalents at beginning of period	417,073	513,288
Cash and cash equivalents at end of period	$146,860	$581,453

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, 2015. A summary of our significant accounting policies is presented beginning on page 37 of that report. There have been no material changes in the accounting policies followed by Cintas during the current fiscal year other than the adoption of new accounting pronouncements discussed in Note 2. Additionally, see Note 12 entitled Segment Information for discussion of change in reportable operating segments in the first quarter of fiscal 2016.

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.

Effective August 31, 2015, Cintas' investment in the Shred-it Partnership (Shred-it) is classified as held for sale and as a discontinued operations for all periods presented as a result of entering into a definitive agreement on July 15, 2015 to sell its investment in Shred-it. During fiscal 2015, Cintas sold its document imaging and retention services (Storage) business and, as a result, its operations are also classified as discontinued operations for all periods presented. See Note 13 entitled Discontinued Operations for more information.

As disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015, 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, 2015	May 31, 2015
Raw materials	$17,783	$16,935
Work in process	18,285	17,079
Finished goods	203,978	192,197
	$240,046	$226,211

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued 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, 2017 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 April 2014, the FASB issued ASU 2014-08, " Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amended accounting guidance related to the reporting of discontinued operations and disclosures of disposals of components of an entity. The amended guidance changes the thresholds for disposals to qualify as discontinued operations and requires additional disclosures. This guidance is effective for reporting periods beginning after December 15, 2014 and is required to be applied prospectively. Cintas has adopted ASU 2014-08 during the quarter ended August 31, 2015 and has applied this amended accounting guidance to its investment in Shred-it and will apply it to future transactions, as appropriate.

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 classified within 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, 2015			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$146,860	$—	$—	$146,860
Marketable securities:				
Canadian treasury securities	—	53,354	—	53,354
Total assets at fair value	$146,860	$53,354	$—	$200,214

	As of May 31, 2015			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$417,073	$—	$—	$417,073
Marketable securities:				
Canadian treasury securities	—	16,081	—	16,081
Total assets at fair value	$417,073	$16,081	$—	$433,154

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

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

The funds invested in Canadian treasury securities are not presently expected to be repatriated, but instead are expected to be invested indefinitely in foreign subsidiaries. Interest, realized gains and losses and declines in value determined to be other than temporary on available-for-sale securities are included in interest income or expense. The cost of the securities sold is based on the specific identification method. The amortized cost basis of marketable securities as of August 31, 2015 and May 31, 2015 was $53.4 million and $16.1 million, respectively. All outstanding marketable securities at August 31, 2015 and May 31, 2015 had contractual maturities due within one year.

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

was recorded at fair value. See Note 9 entitled Acquisitions for additional information on the preliminary measurement of the ZEE Medical assets acquired.

4. Investments

Investments at August 31, 2015 of $123.5 million include equity method investments of $14.6 million, the cash surrender value of insurance policies of $106.7 million and cost method investments of $2.2 million. Investments at May 31, 2015 of $329.7 million include the cash surrender value of insurance policies of $101.8 million, equity method investments of $225.7 million and cost method investments of $2.2 million.

Effective August 31, 2015, Cintas' investment in the Shred-it is classified as discontinued operations as a result of Cintas entering into a definitive agreement to sell its investment. Cintas' investment in Shred-it is classified as held for sale on the consolidated balance sheet at August 31, 2015. As allowed under applicable accounting guidance, the May 31, 2015 consolidated balance sheet amounts for these assets and liabilities remain in their natural classifications. See Note 13 entitled Discontinued Operations and Note 15 entitled Subsequent Event for additional information.

On June 30, 2014, Cintas sold stock in an equity method investment. In conjunction with the sale of the equity method investment, 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.

Investments are evaluated for impairment on an annual basis or when indicators of impairment exist. For the three months ended August 31, 2015 and 2014, no losses due to impairment were recorded.

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:

	Three Months Ended	
(In thousands except per share data)	August 31, 2015	August 31, 2014
Basic Earnings per Share from Continuing Operations		
Income from continuing operations	$106,198	$105,905
Less: income from continuing operations allocated to participating securities	1,742	591
Income from continuing operations available to common shareholders	$104,456	$105,314
Basic weighted average common shares outstanding	110,597	116,659
Basic earnings per share from continuing operations	$0.94	$0.90

	Three Months Ended	
(In thousands except per share data)	August 31, 2015	August 31, 2014
Diluted Earnings per Share from Continuing Operations		
Income from continuing operations	$106,198	$105,905
Less: income from continuing operations allocated to participating securities	1,742	591
Income from continuing operations available to common shareholders	$104,456	$105,314
Basic weighted average common shares outstanding	110,597	116,659
Effect of dilutive securities – employee stock options	1,632	1,371
Diluted weighted average common shares outstanding	112,229	118,030

Diluted earnings per share from continuing operations	$0.93	$0.89

9

Basic and diluted loss per share from discontinued operations were $(0.05) for the three months ended August 31, 2015. Basic and diluted earnings per share from discontinued operations were $0.04 for the three months ended August 31, 2014.

For the three months ended August 31, 2015 and 2014, options granted to purchase 0.5 million and 0.6 million shares of Cintas common stock, respectively, 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 January 13, 2015, 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, 2015, we purchased 2.4 million shares of Cintas common stock at an average price of $85.65 per share for a total purchase price of $202.5 million. In the period subsequent to August 31, 2015 through October 9, 2015, we purchased 2.1 million shares of Cintas common stock for a total purchase price of $180.4 million. The January 13, 2015 share buyback program was completed in the period subsequent to August 31, 2015. From the inception of the January 13, 2015 share buyback program through September 2015, Cintas purchased a total of 5.9 million shares of Cintas common stock at an average price of $84.07 per share for a total purchase price of $500.0 million. On August 4, 2015, we announced that the Board of Directors authorized a new $500.0 million share buyback program. Under the August 4, 2015 share buyback program, Cintas purchased 1.4 million shares of Cintas common stock for a total purchase price of $120.0 million during the period subsequent to August 31, 2015 through October 9, 2015. In addition, for the three months ended August 31, 2015, Cintas acquired 0.2 million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the three months ended August 31, 2015. These shares were acquired at an average price of $85.54 per share for a total purchase price of $19.1 million.

6. Goodwill, Service Contracts and Other Assets

Effective June 1, 2015, Cintas realigned its organizational structure and updated its reportable operating segments in light of certain changes in its business including the acquisition of Zee Medical. Cintas' updated reportable operating segments are Uniform Rental and Facility Services and First Aid and Safety Services. The remainder of Cintas' business, which consists primarily of Fire Protection Services and our Direct Sale business are included in All Other. For additional information regarding Cintas' realignment and reportable operating segment determination, see Note 12 entitled Segment Information.

As a result of Cintas' segment realignment, the composition of Cintas' reporting units for the evaluation of goodwill impairment also changed. Historically, Cintas' reporting units were the same as the reportable operating segments, Rental Uniforms and Ancillary Products, Uniform Direct Sales and First Aid, Safety and Fire Protection Services. Effective June 1, 2015, Cintas identified four reporting units for purposes of evaluating goodwill impairment, Uniform Rental and Facility Services, First Aid and Safety Services, Fire Protection Services and Uniform Direct Sale. As a result of the change in reporting units, Cintas was required to perform an interim impairment test on Goodwill at June 1, 2015. There was no impairment recorded as a result of the interim impairment test for the three months ended August 31, 2015.

As the composition of the reporting units changed, the Company allocated historical goodwill to the new reporting units based on a relative fair value allocation approach. The relative fair value allocation approach yielded the following allocation of total goodwill: Uniform Rental and Facility Services reportable operating segment goodwill of $943.9 million, First Aid and Safety Services reportable operating segment goodwill of $155.0 million and All Other goodwill of $96.7 million.

Changes in the carrying amount of goodwill and service contracts for the three months ended August 31, 2015, by reportable operating segment and all other, are as follows:

Goodwill (in thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Total
Balance as of June 1, 2015	$943,909	$154,954	$96,749	$1,195,612
Goodwill acquired	—	77,630	54	77,684
Foreign currency translation	(757)	—	(36)	(793)
Balance as of August 31, 2015	$943,152	$232,584	$96,767	$1,272,503

Service Contracts (in thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Total
Balance as of June 1, 2015	$6,677	$1,576	$34,181	$42,434
Service contracts acquired	—	34,970	940	35,910
Service contracts amortization	(1,088)	(439)	(1,511)	(3,038)
Balance as of August 31, 2015	$5,589	$36,107	$33,610	$75,306

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

	As of August 31, 2015		
(In thousands)	Carrying Amount	Accumulated Amortization	Net
Service contracts	$375,647	$300,341	$75,306
Noncompete and consulting agreements	$42,290	$40,483	$1,807
Other	27,013	7,912	19,101
Total other assets	$69,303	$48,395	$20,908

	As of May 31, 2015		
(In thousands)	Carrying Amount	Accumulated Amortization	Net
Service contracts	$340,816	$298,382	$42,434
Noncompete and consulting agreements	$41,828	$40,379	$1,449
Other	23,595	7,550	16,045
Total other assets	$65,423	$47,929	$17,494

Amortization expense for continuing operations was $3.6 million and $3.5 million for the three months ended August 31, 2015 and 2014, respectively. Estimated amortization expense for continuing operations, excluding any future acquisitions, for each of the next five full fiscal years is $14.6 million, $11.2 million, $10.3 million, $9.6 million and $9.2 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' senior notes as of August 31, 2015 were $1,300.0 million and $1,415.1 million, respectively, and as of May 31, 2015 were $1,300.0 million and $1,418.6 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 as of August 31, 2015 or May 31, 2015.

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, 2015 and 2014.

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 no foreign currency forward contracts as of August 31, 2015.

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 was 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, 2015, unrecognized tax benefits increased by approximately $0.5 million and accrued interest increased by less than $0.1 million.

All U.S. federal income tax returns are closed to audit through fiscal 2011. Cintas is currently in advanced stages of various audits in certain foreign jurisdictions and certain domestic states. The years under foreign and domestic state audits cover fiscal years back to 2009. Based on the resolution of the various audits and other potential regulatory developments, it is reasonably possible that the balance of unrecognized tax benefits will decrease by $3.4 million for the fiscal year ending May 31, 2016.

The majority of Cintas' operations are in North America. Cintas is required to file federal income tax returns, as well as state income tax returns in a majority of the domestic states and also in certain Canadian provinces. At times, Cintas is subject to audits in these jurisdictions. The audits, by nature, are sometimes complex and can require several years to resolve. The final resolution of any such tax audit could result in either a reduction in Cintas' accruals or an increase in its income tax provision, either of which could have an impact on the consolidated condensed results of operation in any given period.

9. Acquisitions

On August 1, 2015, the Company acquired all of the shares of ZEE Medical, Inc. for acquisition-date fair value consideration of $134.0 million, consisting of cash of $120.6 million and contingent consideration subject to certain holdback provisions of $13.4 million. ZEE Medical will operate within the First Aid and Safety Services reportable operating segment. This acquisition expands our footprint in van delivered first aid, safety, training and emergency products and allows us to serve an even greater number of customers in North America.

The table below summarizes the preliminary purchase price allocation of ZEE Medical as determined by valuation specialists engaged and overseen by management. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. None of the goodwill is expected to be deductible for income tax purposes. The assets acquired and liabilities assumed are valued at the estimated fair value at the acquisition date as required by GAAP.

(In thousands)	
Assets:	
Cash and cash equivalents	$431
Accounts receivable	17,310
Inventory	6,195
Other current assets	1,477
Property, plant and equipment	1,354
Goodwill	77,630
Service contracts	34,970
Other intangibles	4,500
Liabilities:	
Accounts payable	(7,342)
Accrued liabilities	(2,525)
Total Consideration	$134,000

Cintas is required to provide additional disclosures about fair value measurements as part of the consolidated condensed financial statements for each major category of assets and liabilities measured at fair value on a nonrecurring basis (including business acquisitions). The working capital assets and liabilities, as well as the property and equipment acquired, were valued using Level 2 inputs which included data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets (market approach). Goodwill, service contracts and other intangibles were valued using Level 3 inputs, which are unobservable by nature, and included internal estimates of future cash flow using a discount rate of 11% (income approach).

The results of operations of ZEE Medical are not material to the consolidated financial statements.

10. 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 Equal Employment Opportunity Commission (EEOC) systemic gender discrimination 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 (SSR) positions in the Rental Uniforms and Ancillary Products operating segment. On November 15, 2005, the EEOC intervened in the Serrano lawsuit. The Serrano plaintiffs seek lost pay, injunctive relief, compensatory damages, punitive damages, attorneys' fees and other remedies on behalf of unsuccessful female candidates for SSR positions. 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 action to female applicants for SSR positions at Cintas locations within the state of Michigan. Consequently, all claims brought by or on behalf of female applicants for SSR 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 operation or consolidated cash flows and could increase costs of operations on an ongoing basis. Any estimated liability relating to these proceedings is not determinable at this time. Cintas may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements if it believes such settlement is in the best interest of Cintas' shareholders.

11. 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, 2015	$2,987	$(10,626)	$(832)	$(8,471)
Other comprehensive loss before reclassifications	(12,013)	—	(8)	(12,021)
Amounts reclassified from accumulated other comprehensive income (loss)	—	488	—	488
Net current period other comprehensive (loss) income	(12,013)	488	(8)	(11,533)
Balance at August 31, 2015	(9,026)	(10,138)	(840)	(20,004)
(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

The following table summarizes the reclassifications out of accumulated other comprehensive (loss) income:
Reclassifications out of Accumulated Other Comprehensive (Loss) Income

Details about Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income		Affected Line in the Consolidated Condensed Statements of Income
	Three Months Ended		
(In thousands)	August 31, 2015	August 31, 2014	
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

15

12. Segment Information

GAAP requires companies to evaluate their reportable operating segments periodically and when certain events occur. As a result of a recent evaluation, effective June 1, 2015, Cintas realigned its organizational structure and updated its reportable operating segments in light of certain changes in its business including the acquisition of Zee Medical. Cintas' updated reportable operating segments are Uniform Rental and Facility Services and First Aid and Safety Services. The Uniform Rental and Facility Services reportable 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, carpet and tile cleaning services and the sale of items from our catalogs to our customers on route are included within this reportable operating segment. The First Aid and Safety Services reportable operating segment consists of first aid and safety products and services. The remainder of Cintas' business, which consists primarily of Fire Protection Services and our Direct Sale business is included in All Other.

Prior to June 1, 2015, Cintas classified its business into the following three reportable operating segments: The Rental Uniforms and Ancillary Products operating segment consisted 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 were also provided within this operating segment. The Uniform Direct Sales operating segment consisted of the direct sale of uniforms and related items. The First Aid, Safety and Fire Protection Services operating segment consisted of first aid, safety and fire protection products and services.

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

(In thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Corporate [1]	Total
As of and for the three months ended August 31, 2015					
Revenue	$938,408	$99,488	$160,994	$—	$1,198,890
Income (loss) before income taxes	$165,381	$8,592	$11,534	$(16,293)	$169,214
Total assets	$2,870,622	$398,237	$342,712	$511,378	$4,122,949
As of and for the three months ended August 31, 2014					
Revenue	$873,698	$79,924	$148,455	$—	$1,102,077
Income before income taxes	$144,816	$9,147	$9,525	$5,209	$168,697
Total assets	$2,861,790	$260,580	$354,260	$1,079,640	$4,556,270

[1] Corporate assets as of August 31, 2015 include the investment in Shred-it, which is classified as held for sale. Corporate assets as of August 31, 2014 include the assets of Storage, which was classified as held for sale, and the investment in Shred-it.

13. Discontinued Operations

Effective August 31, 2015, Cintas' investment in the Shred-it Partnership (Shred-it) is classified as held for sale and as a discontinued operations for all periods presented as a result of entering into a definitive agreement on July 15, 2015 to sell its investment in Shred-it. During fiscal 2015, Cintas sold its document imaging and retention services (Storage) business and, as a result, its operations are also classified as discontinued operations for all periods presented.

As of August 31, 2015 and May 31, 2015, the equity method investment in Shred-it was $194.3 million and $210.1 million, respectively. Cintas’ carrying value of its investment in Shred-it, as of August 31, 2015, exceeded its share of the underlying equity in the net assets of Shred-it by approximately $91.2 million (basis difference). The remaining basis difference is being amortized over the weighted average estimated useful lives of the underlying assets which generated the basis difference (approximately 9 years) and is recorded as a reduction in our share of income from Shred-it, net of tax. Cintas records its share of Shred-it's income on a one month lag. For the three months ended ended August 31, 2015, Cintas recorded a net loss on the investment in the Shred-it of $9.3 million, which included amortization of basis differences of approximately $2.8 million. After the previously announced sale of Shred-it closes, the basis difference will no longer exist and Cintas will no longer record income or loss from Shred-it. See Note 15 entitled Subsequent Event for additional information on the sale of the investment in Shred-it.

In the first quarter of fiscal 2015, Cintas received additional proceeds related to the contribution of its shredding business to the Shred-it Partnership. The Company realized a $3.9 million gain, net of tax, as a result of the additional consideration received.

In fiscal 2015, Cintas sold Storage, excluding related real estate owned by Cintas, in three separate transactions to three separate buyers. Each transaction involves contingent consideration that the Company has an opportunity to receive if specified future events occur. Because of the uncertainty surrounding the future events, these amounts represent gain contingencies that have not been recorded. Certain real estate owned by Cintas is being leased by the buyers. These lease payments do not represent a material direct cash flow of the disposed Storage business and therefore do not impact the classification of the Storage business as a discontinued operation. On July 10, 2015, Cintas sold the remaining Storage assets classified as held for sale. For the quarter ended August 31, 2015, Cintas received proceeds of $24.4 million from the sale of the remaining Storage assets classified as held for sale and recorded a $3.1 million gain, net of tax on the sale.

Following is selected financial information included in net (loss) income from discontinued operations for Shred-it, Shredding and the Storage business:

(In thousands)	Three Months Ended August 31, 2015	August 31, 2014
Revenue	$—	$20,785
Income before income taxes	237	575
Income tax expense	(85)	(240)
Gain on sale of Storage Assets	4,843	—
Loss on investment in Shred-it Partnership	(14,516)	—
Gain on the deconsolidation of Shredding[1]	—	6,619
Income tax benefit (expense) on (loss) gain	3,504	(2,751)
Net (loss) income from discontinued operations	$(6,017)	$4,203

[1] Results for the three months ended August 31, 2014 related to the gain on the deconsolidation of Shredding were previously presented in continuing operations and were reclassified to discontinued operations as previously discussed.

14. 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 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, 2015
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$—	$721,329	$202,265	$54,012	$(39,198)	$938,408
Other	—	372,611	1,293	14,811	(128,233)	260,482
Equity in net income of affiliates	106,198	—	—	—	(106,198)	—
	106,198	1,093,940	203,558	68,823	(273,629)	1,198,890
Costs and expenses (income):						
Cost of uniform rental and facility services	—	440,580	116,832	37,357	(76,266)	518,503
Cost of other	—	237,369	(8,643)	9,570	(82,053)	156,243
Selling and administrative expenses	—	347,076	(18,855)	17,880	(7,464)	338,637
Operating income	106,198	68,915	114,224	4,016	(107,846)	185,507
Interest income	—	—	(48)	(71)	—	(119)
Interest expense (income)	—	16,375	38	(1)	—	16,412
Income before income taxes	106,198	52,540	114,234	4,088	(107,846)	169,214
Income taxes	—	19,589	42,591	861	(25)	63,016
Income from continuing operations	106,198	32,951	71,643	3,227	(107,821)	106,198
Loss from discontinued operations, net of tax	(6,017)	(5,323)	—	(694)	6,017	(6,017)
Net income	$100,181	$27,628	$71,643	$2,533	$(101,804)	$100,181

19

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:						
Uniform rental and facility services	$—	$665,874	$183,181	$59,861	$(35,218)	$873,698
Other	—	336,480	481	13,744	(122,326)	228,379
Equity in net income of affiliates	105,905	—	—	—	(105,905)	—
	105,905	1,002,354	183,662	73,605	(263,449)	1,102,077
Costs and expenses (income):						
Cost of uniform rental and facility services	—	408,371	110,922	40,282	(68,900)	490,675
Cost of other	—	217,942	(10,657)	8,957	(82,786)	133,456
Selling and administrative expenses	—	314,002	(14,006)	19,074	(4,612)	314,458
Operating income	105,905	62,039	97,403	5,292	(107,151)	163,488
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	105,905	45,635	119,020	5,288	(107,151)	168,697
Income taxes	—	16,748	44,004	2,051	(11)	62,792
Income from continuing operations	105,905	28,887	75,016	3,237	(107,140)	105,905
Income (loss) from discontinued operations, net of tax	4,203	4,263	—	(60)	(4,203)	4,203
Net income	$110,108	$33,150	$75,016	$3,177	$(111,343)	$110,108

Condensed Consolidating Statement of Comprehensive Income
Three Months Ended August 31, 2015
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$100,181	$27,628	$71,643	$2,533	$(101,804)	$100,181
Other comprehensive (loss) income, net of tax:						
Foreign currency translation adjustments	—	—	—	(12,013)	—	(12,013)
Amortization of interest rate lock agreements	—	488	—	—	—	488
Change in fair value of available-for-sale securities	—	—	—	(8)	—	(8)
Other comprehensive income (loss)	—	488	—	(12,021)	—	(11,533)
Comprehensive income (loss)	$100,181	$28,116	$71,643	$(9,488)	$(101,804)	$88,648

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 Balance Sheet
As of August 31, 2015
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas