CINTAS CORP
Form 8-K
May 21, 2002
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **May 13, 2002**

CINTAS CORPORATION

(Exact name of registrant as specified in its charter)

Washington	**0-11399**	**31-1188630**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

6800 Cintas Boulevard, P.O. Box 625737 Cincinnati, Ohio **45262-5737**
(Address of principal executive offices) **Zip Code**

Registrant s telephone number, including area code **(513) 459-1200**

(Former name or former address, if changed since last report.)

Table of Contents

Item 2. Acquisition or Disposition of Assets.

On May 13, 2002, the Registrant acquired all of the outstanding stock of Omni Services, Inc. from Filuxel SA for approximately $660 million including debt assumed. The source of funds was a loan of $450 million from Bank One, NA and Merrill Lynch Bank USA in combination with borrowings of $100 million from the Registrant's commercial paper program and $106 million of cash reserves on hand. Omni operates in the uniform rental business and offers other industrial rental items, such as towels, mops and mats under the RUS brand. Omni also derives a small amount of revenue from the direct sale of garments under the brand name RUS Direct and operates a hygiene services business under the Sanis brand. The Registrant intends to continue those businesses. Financial Statements of Omni Services, Inc. and Unaudited Pro Forma Combined Condensed Financial Information are included in this Form 8-K under Item 7(a) or 7(b), respectively.

Item 5. Other Events.

The Registrant and its direct and indirect wholly-owned domestic subsidiaries, other than Cintas Corporation No. 2 (Cintas No. 2) will be unconditionally guaranteeing, jointly and severally, debt of Cintas No. 2. Cintas No. 2 is an indirect wholly-owned subsidiary of the Registrant. As allowed by SEC rules, the condensed consolidating financial statements presented in the financial statement below are provided as an alternative to filing separate financial statements. Each of the subsidiaries presented in the condensed consolidating financial statements has been fully consolidated in the Registrant s consolidated financial statements. As such, the condensed consolidating financial statements should be read in conjunction with the financial statements of Cintas and notes thereto of which this note is an integral part.

Table of Contents

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Cintas Corporation

We have audited the accompanying consolidated balance sheets of Cintas Corporation as of May 31, 2001 and 2000, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended May 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cintas Corporation at May 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Cincinnati, Ohio
July 6, 2001,
except for Note 16, as to which the date is
May 16, 2002

Table of Contents

CINTAS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
Years Ended May 31
(In thousands except per share data)

	2001	2000	1999
Revenue:			
Rentals	$ 1,610,606	$ 1,424,892	$ 1,297,248
Other services	550,094	477,099	454,320
	2,160,700	1,901,991	1,751,568
Costs and expenses (income):			
Cost of rentals	896,539	807,301	745,142
Cost of other services	367,894	315,138	305,657
Selling and administrative expenses	528,354	455,794	419,487
Acquisition-related expenses	709	834	12,088
Special charge			28,429
Environmental charge			5,000
Interest income	(4,369)	(4,742)	(4,671)
Interest expense	15,119	15,907	16,442
	1,804,246	1,590,232	1,527,574
Income before income taxes	356,454	311,759	223,994
Income taxes	134,003	118,372	85,055
Net income	$ 222,451	$ 193,387	$ 138,939
Basic earnings per share	$ 1.32	$ 1.16	$ .84
Diluted earnings per share	$ 1.30	$ 1.14	$ .82
Dividends declared and paid per share	$ .22	$ .19	$ .15

See accompanying notes.

Table of Contents

CINTAS CORPORATION

CONSOLIDATED BALANCE SHEETS
As of May 31
(In thousands except share data)

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 73,724	$ 52,182
Marketable securities	36,505	57,640
Accounts receivable, principally trade, less allowance of $8,765 and $7,364, respectively	244,450	225,735
Inventories	214,349	164,906
Uniforms and other rental items in service	242,172	213,770
Prepaid expenses	8,470	7,237
Total current assets	819,670	721,470
Property and equipment, at cost, net	702,132	642,507
Other assets	230,422	217,365
	$ 1,752,224	$ 1,581,342
Liabilities And Shareholders Equity		
Current liabilities:		
Accounts payable	$ 42,495	$ 50,976
Accrued compensation and related liabilities	35,140	28,140
Accrued liabilities	94,960	90,058
Deferred income taxes	57,703	49,614
Long-term debt due within one year	20,605	16,604
Total current liabilities	250,903	235,392
Long-term debt due after one year	220,940	254,378
Deferred income taxes	49,066	48,696
Shareholders equity:		
Preferred stock, no par value:		
100,000 shares authorized, none outstanding		
Common stock, no par value:		
425,000,000 shares authorized, 169,370,563 and 168,281,506 shares issued and outstanding, respectively	62,409	54,738
Retained earnings	1,174,330	992,450
Other accumulated comprehensive loss	(5,424)	(4,312)
Total shareholders equity	1,231,315	1,042,876
	$ 1,752,224	$ 1,581,342

See accompanying notes.

5

Table of Contents

CINTAS CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Other Accumulated Comprehensive Loss	Total Shareholders Equity
Balance at May 31, 1998	164,691	$ 47,062	$ 712,249	$ (2,516)	$ 756,795
Net income			138,939		138,939
Equity adjustment for foreign currency translation				(1,303)	(1,303)
Comprehensive income					137,636
Adjustment to conform Unitog Company s fiscal year			689		689
Dividends			(24,942)		(24,942)
Effects of acquisitions	1,472	13	2,072		2,085
Repurchase of common stock	(143)		(3,739)		(3,739)
Stock options exercised net of shares surrendered	404	2,309			2,309
Tax benefit resulting from exercise of employee stock options		590			590
Balance at May 31, 1999	166,424	49,974	825,268	(3,819)	871,423
Net income			193,387		193,387
Equity adjustment for foreign currency translation				(493)	(493)
Comprehensive income					192,894
Dividends			(31,249)		(31,249)
Effects of acquisitions	1,419	825	5,044		5,869
Stock options exercised net of shares surrendered	439	3,399			3,399
Tax benefit resulting from exercise of employee stock options		540			540
Balance at May 31, 2000	168,282	54,738	992,450	(4,312)	1,042,876
Net income			222,451		222,451
Equity adjustment for foreign currency translation				(1,112)	(1,112)
Comprehensive income					221,339
Dividends			(37,173)		(37,173)
Effects of acquisitions	459	(11)	(3,398)		(3,409)
Stock options exercised net of shares surrendered	630	5,992			5,992
Tax benefit resulting from exercise of employee stock options		1,690			1,690
Balance at May 31, 2001	169,371	$ 62,409	$ 1,174,330	$ (5,424)	$ 1,231,315

See accompanying notes.

Table of Contents

CINTAS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended May 31
(In thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 222,451	$ 193,387	$ 138,939
Adjustment to conform Unitog Company s fiscal year			689
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	90,239	78,516	68,779
Amortization of deferred charges	21,850	20,997	21,449
Write down of assets			12,609
Deferred income taxes	8,459	17,379	(1,356)
Change in current assets and liabilities, net of acquisitions of businesses:			
Accounts receivable	(16,486)	(19,259)	(14,484)
Inventories	(48,693)	(22,976)	(5,897)
Uniforms and other rental items in service	(28,471)	(14,425)	(17,898)
Prepaid expenses	(1,160)	(938)	(537)
Accounts payable	(10,107)	(600)	(15,089)
Accrued compensation and related liabilities	6,666	2,270	3,559
Accrued liabilities	2,210	3,681	12,299
Net cash provided by operating activities	246,958	258,032	203,062
Cash flows from investing activities:			
Capital expenditures	(147,444)	(161,432)	(171,248)
Proceeds from sale or redemption of marketable securities	61,609	112,908	235,400
Purchase of marketable securities	(40,474)	(98,233)	(225,189)
Acquisitions of businesses, net of cash acquired	(30,535)	(24,982)	(15,588)
Proceeds from divestiture of certain facilities	1,400	25,722	19,911
Other	(5,965)	(10,921)	(2,785)
Net cash used in investing activities	(161,409)	(156,938)	(159,499)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	230	140,739	65,778
Repayment of long-term debt	(33,634)	(177,651)	(85,502)
Stock options exercised	5,992	3,399	2,309
Dividends paid	(37,173)	(31,249)	(24,942)
Other	578	47	1,174
Net cash used in financing activities	(64,007)	(64,715)	(41,183)
Net increase in cash and cash equivalents	21,542	36,379	2,380
Cash and cash equivalents at beginning of year	52,182	15,803	13,423
Cash and cash equivalents at end of year	$ 73,724	$ 52,182	$ 15,803

See accompanying notes.

7

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except per share and share data)

1. Significant Accounting Policies

Business description. Cintas classifies its businesses into two operating segments: Rentals and Other Services. The Rentals operating segment designs and manufactures corporate identity uniforms which it rents, along with other items, to its customers. The Other Services operating segment involves the design, manufacture and direct sale of uniforms to its customers, as well as the sale of ancillary services including sanitation supplies, first aid products and services and cleanroom supplies. All of these services are provided throughout the United States and Canada to businesses of all types from small service and manufacturing companies to major corporations that employ thousands of people.

Principles of consolidation. The consolidated financial statements include the accounts of Cintas Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Financial results could differ from those estimates.

Cash and cash equivalents. Cintas considers all highly liquid investments with a maturity of three months or less, at date of purchase, to be cash equivalents.

Inventories. Inventories are valued at the lower of cost (first-in, first-out) or market. Substantially all inventories represent finished goods.

Uniforms and other rental items in service. These items are valued at cost less amortization, calculated using the straight-line method. Uniforms in service (other than cleanroom and flame retardant garments) are amortized over their useful life of eighteen months. Other rental items including shop towels, mats, cleanroom garments, flame retardant garments, linens and hygiene dispensers are amortized over their useful lives of eight to forty-eight months.

Property and equipment. Depreciation is calculated using the straight-line method over the following estimated useful lives, in years:

Buildings and Improvements	5 to 40
Equipment	3 to 10
Leasehold Improvements	2 to 5

Long-lived assets. When events or circumstances indicate that the carrying amount of long-lived assets may not be recoverable, the estimated future cash flows (undiscounted) are compared to the carrying amount of the assets. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined by discounted cash flows or appraised values, as appropriate. Long-lived assets that are held for disposal are reported at the lower of the carrying amount or the fair value, less estimated costs related to disposition.

Other assets. Other assets consist primarily of service contracts and noncompete and consulting agreements obtained through the acquisition of businesses, which are amortized by use of the straight-line method over the estimated lives of the agreements which are generally three to twelve years, and goodwill, which is amortized using the straight-line method over twenty to forty years.

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

Stock options. Cintas applies the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation expense has been reflected in the financial statements as the exercise price of options granted to employees is equal to the fair market value of Cintas common stock on the date of grant. Cintas has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock Based Compensation*.

Interest rate swap agreements. Periodic settlements under interest rate swap agreements are recognized as adjustments to interest expense for the relevant periods.

Revenue recognition. Rental revenue is recognized when services are performed and other services revenue is recognized when products are shipped and the title and risks of ownership pass to the customer. Cintas also establishes an estimate of allowances for uncollectible accounts when revenue is recorded.

Fair value of financial instruments. The following methods and assumptions were used by Cintas in estimating the fair value of financial instruments:

Cash and cash equivalents. The amounts reported approximate market value.

Marketable securities. The amounts reported are at cost, which approximates market value. Market values are based on quoted market prices.

Long-term debt. The amounts reported are at a carrying value which approximates market value. Market values are determined using similar debt instruments currently available to Cintas that are consistent with the terms, interest rates and maturities.

Other accounting pronouncements. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 was subsequently amended by two other statements and was required to be adopted in years beginning after June 15, 2000. Because of Cintas minimal use of derivatives, SFAS 133 did not have a significant effect on its financial position or results of operations when the Statement was adopted on June 1, 2001.

Effective March 1, 2001, Cintas adopted Staff Accounting Bulletin No. 101 (SAB 101), *Revenue Recognition in Financial Statements*. SAB 101 provides the Securities and Exchange Commission s views in applying accounting principles generally accepted in the United States to revenue recognition in the financial statements. The adoption of SAB 101 did not have an effect on the financial statements of Cintas.

In September 2000, the Emerging Issues Task Force (EITF) issued EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*. Under the provisions of EITF 00-10, amounts billed to a customer in a sales transaction related to shipping and handling should be classified as revenue. Effective March 1, 2001, Cintas adopted EITF 00-10, which did not have a significant effect on the amounts classified as revenue or cost of other services. The adoption had no impact on the determination of net income.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations, and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, effective for years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized, but will be subject to annual impairment tests in accordance with the

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

Statements. Other intangible assets will continue to be amortized over their useful lives. The pooling of interests method is no longer permitted for business combinations initiated after June 30, 2001. Cintas will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. Application of the nonamortization provisions of the Statements is expected to result in an increase in net income of approximately $3 million per year. During fiscal 2002, Cintas will perform the first of the required impairment tests of goodwill and has not yet determined what the effect of these tests will be on the earnings and financial position of Cintas.

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

2. Marketable Securities

All marketable securities are comprised of debt securities and classified as available-for-sale. Realized gains and losses and declines in value determined to be other than temporary on available-for-sale securities are included in interest income. The cost of the securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest income.

The following is a summary of marketable securities:

	2001		2000	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Obligations of state and political subdivisions	$ 32,171	$ 32,468	$ 44,828	$ 44,346
U.S. Treasury securities and obligations of U.S. government agencies	600	600	900	836
Other debt securities	3,734	3,794	11,912	11,858
	$ 36,505	$ 36,862	$ 57,640	$ 57,040

The gross realized gains on sales of available-for-sale securities totaled $64, $54 and $241 for the years ended May 31, 2001, 2000 and 1999, and the gross realized losses totaled $21, $130 and $25, respectively. Net unrealized gains/(losses) are $357 and $(600) at May 31, 2001 and 2000, respectively.

The cost and estimated fair value of debt securities at May 31, 2001, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay the obligations without prepayment penalties.

	Cost	Estimated Fair Value
Due in one year or less	$ 22,139	$ 22,207
Due after one year through three years	13,211	13,496
Due after three years	1,155	1,159
	$ 36,505	$ 36,862

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

3. Property and Equipment

	2001	2000
Land	$ 54,743	$ 49,829
Buildings and improvements	326,512	285,510
Equipment	589,945	528,467
Leasehold improvements	12,124	10,978
Construction in progress	74,609	73,217
	1,057,933	948,001
Less: accumulated depreciation	355,801	305,494
	$ 702,132	$ 642,507

4. Other Assets

	2001	2000
Goodwill	$ 143,368	$ 134,445
Service contracts	118,241	107,598
Noncompete and consulting agreements	63,519	56,872
	325,128	298,915
Less: accumulated amortization	123,759	103,607
	201,369	195,308
Other	29,053	22,057
	$ 230,422	$ 217,365

5. Long-term Debt

	2001	2000
Secured and unsecured term notes due through 2003 at an average rate of 9.98%	$ 7,500	$ 9,500
Unsecured term notes due through 2026 at an average rate of 6.13%	54,348	66,846
Unsecured notes due through 2009 at an average rate of 4.67%	160,156	172,946
Industrial development revenue bonds due through 2026 at an average rate of 3.91%	14,489	15,168
Other	5,052	6,522
	241,545	270,982
Less: amounts due within one year	20,605	16,604
	$ 220,940	$ 254,378

Debt in the amount of $27,041 is secured by assets with a carrying value of $32,024 at May 31, 2001. Cintas has letters of credit outstanding at May 31, 2001 approximating $33,834. Maturities of long-term debt during each of the next five years are $20,605, $158,419, $28,434, $10,339 and $7,007, respectively.

11

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

Cintas has a commercial paper program supported by a $200 million long-term credit facility. As of May 31, 2001, $140 million in commercial paper was outstanding and $60 million was available under the commercial paper or committed credit facility.

Cintas has entered into three interest rate swap agreements to manage its exposure to changes in short-term interest rates. The first agreement totaled $10 million, expired in March 2001 and allowed Cintas to pay an effective interest rate of approximately 6.16%. The second agreement totaled $35 million, expired in October 2000 and allowed Cintas to pay an effective interest rate of approximately 4.60%. The third agreement totals $10 million, expires in March 2003 and allows Cintas to pay an effective interest rate of approximately 4.76%.

Interest expense is net of capitalized interest of $1,468, $1,257 and $2,081 for the years ended May 31, 2001, 2000 and 1999, respectively. Interest paid, net of amount capitalized, was $15,194, $16,773 and $16,586 for the years ended May 31, 2001, 2000 and 1999, respectively.

6. Leases

Cintas conducts certain operations from leased facilities and leases certain equipment. Most leases contain renewal options for periods from one to ten years. The lease agreements provide for increases in rentals if the options are exercised based on increases in certain price level factors or prearranged increases. It is anticipated that expiring leases will be renewed or replaced. The minimum rental payments under noncancelable lease arrangements for each of the next five years and thereafter are: $11,608, $9,391, $7,389, $6,177, $5,000 and $9,642, respectively. Rent expense under operating leases during the years ended May 31, 2001, 2000 and 1999 was $17,063, $16,949 and $13,478, respectively.

7. Income Taxes

	2001	2000	1999
Income taxes consist of the following components:			
Current:			
Federal	$ 111,408	$ 88,842	$ 75,304
State and local	14,135	12,151	11,177
	125,543	100,993	86,481
Deferred	8,460	17,379	(1,426)
	$ 134,003	$ 118,372	$ 85,055

	2001	2000	1999
Reconciliation of income tax expense using the statutory rate and actual Income tax expense is as follows:			
Income taxes at the U.S. federal statutory rate	$ 124,760	$ 109,109	$ 78,398
State and local income taxes, net of federal benefit	9,710	9,727	8,156
Other	(467)	(464)	(1,499)
	$ 134,003	$ 118,372	$ 85,055

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

The components of deferred income taxes included on the balance sheets are as follows:

	2001	2000
Deferred tax assets:		
Employee benefits	$ 11,574	$ 9,240
Inventory obsolescence	7,603	8,235
Allowance for bad debts and other	15,317	21,782
	34,494	39,257
Deferred tax liabilities:		
In service inventory	84,579	77,501
Depreciation	50,078	50,481
Other	6,606	9,585
	141,263	137,567
Net deferred tax liability	$ 106,769	$ 98,310

Income taxes paid were $112,307, $85,509 and $77,381 for the years ended May 31, 2001, 2000 and 1999, respectively.

Undistributed earnings of foreign subsidiaries, which are intended to be indefinitely reinvested, aggregated $8,434 as of May 31, 2001.

8. Acquisitions

During the years ended May 31, 2001, 2000 and 1999, Cintas completed several acquisitions. In fiscal year ended 1999, there was one acquisition that was significant and required restatement.

Pooling of Interests

In March 1999, Cintas acquired Unitog Company (Unitog), a rental and direct sale uniform provider. Cintas exchanged 7,608,186 shares of its common stock for all the outstanding stock of Unitog.

The acquisition was treated as a pooling of interests for accounting purposes and the consolidated financial statements were restated at that time to include the financial position and operating results of Unitog for all periods prior to the merger. In accordance with the pooling of interests method of accounting, no adjustment has been made to the historical carrying amount of assets and liabilities of Unitog. As Cintas and Unitog had different year-ends at the time of the acquisition, the consolidated statements combine the consolidated financial position of Cintas at May 31, 1999, and the consolidated results of its operations and its cash flows for the fiscal year ended May 31, 1999 with the financial position of Unitog at May 31, 1999 and the recasted results of its operations for the fiscal year ended April 30, 1999 and its cash flows for the period ended May 31, 1999.

Due to the different fiscal year-ends, retained earnings includes an adjustment to record Unitog s net income for the month ended May 31, 1999, which is not included in the consolidated financial statements for any fiscal period. For this period, Unitog had revenue of $19,544, operating expenses of $17,944, including $1,424 of depreciation and amortization, and net income of $689.

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

In accordance with accounting rules for pooling of interests transactions, charges to operating income for acquisition-related expenses relating to this merger approximated $11,000 ($7,000 after tax). They primarily consisted of investment banking fees, a pre-established retention program for certain employees and professional service fees.

Purchases

For all acquisitions accounted for as purchases, including insignificant acquisitions, the purchase price paid for each has been allocated to the fair value of the assets acquired and liabilities assumed. The following summarizes the aggregate purchase price for all businesses acquired which have been accounted for as purchases:

	2001	2000
Fair value of assets acquired	$ 32,286	$ 32,577
Liabilities assumed and incurred	2,379	1,969
Total cash paid for acquisitions	$ 29,907	$ 30,608

The results of operations for the acquired businesses are included in the consolidated statements of income from the dates of acquisition. The pro forma revenue, net income and earnings per share information relating to acquired businesses are not presented because they are not material.

9. Defined Contribution Plans

Cintas Partners Plan is a non-contributory profit sharing plan and ESOP for the benefit of certain Cintas employees who have completed one year of service. The plan also includes a 401(k) savings feature covering substantially all employees. The amount of contributions to the profit sharing plan and ESOP, as well as the matching contribution to the 401(k), are made at the discretion of Cintas. Total contributions, including Cintas matching contributions, were $18,385, $15,600 and $12,100 for the years ended May 31, 2001, 2000 and 1999, respectively.

As a result of previous mergers and acquisitions, Cintas also sponsors contributory thrift plans covering certain salaried and clerical employees and certain employees subject to collective bargaining agreements. Under the provisions of these thrift plans, employees are permitted to contribute a maximum of 6% of their earnings and Cintas makes matching contributions of 25% to 50%. Employees may make additional unmatched contributions to these plans of up to 9% of their earnings. Cintas contributions to these thrift plans were $355, $596 and $1,191 for the years ended May 31, 2001, 2000 and 1999, respectively.

10. Earnings Per Share

Earnings per share are computed in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*. The basic computations are computed based on the weighted average number of common shares outstanding during each period. The diluted computations reflect the potential dilution that could occur if stock options were exercised into common stock, under certain circumstances, that then would share in the earnings of Cintas.

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

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

	2001	2000	1999
Numerator:			
Net income	$ 222,451	$ 193,387	$ 138,939
Denominator:			
Denominator for basic earnings per share weighted average shares (000 s)	168,779	167,067	165,603
Effect of dilutive securities employee stock options (000 s)	2,850	2,920	3,738
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions (000 s)	171,629	169,987	169,341
Basic earnings per share	$ 1.32	$ 1.16	$ .84
Diluted earnings per share	$ 1.30	$ 1.14	$ .82

On January 18, 2000, the Board of Directors approved a three-for-two common stock split effective March 7, 2000. All share and per share information have been adjusted to retroactively reflect the effect of this stock split for all periods presented.

11. Stock Based Compensation

Under the stock option plan adopted by Cintas in fiscal 2000, Cintas may grant officers and key employees incentive stock options and/or non-qualified stock options to purchase an aggregate of 9,000,000 shares of Cintas common stock. Options are granted at the fair market value of the underlying common stock on the date of grant and generally vest and become exercisable at the rate of 20% per year commencing five years after grant, so long as the holder remains an employee of Cintas.

As a result of the Unitog acquisition in March 1999, Cintas retained a non-qualified stock option plan for certain of its employees. The exercise price of the options granted under this plan is the fair market value at date of grant and the options vest ratably over four years and expire ten years after the date of grant. Certain provisions of the plan required immediate vesting and a cash settlement, as opposed to the issuance of common stock, upon termination of the option holders employment prior to March 24, 2000. The total compensation expense under this arrangement recorded during the fourth quarter of fiscal 1999 was $5,100, which has been paid.

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

The information presented in the following table relates primarily to stock options granted and outstanding under either the plan adopted in fiscal 2000 or under similar plans:

	Shares	Weighted Average Exercise Price
Outstanding May 31, 1998 (668,919 shares exercisable)	6,193,860	$ 15.49
Granted	620,175	32.90
Cancelled	(299,972)	20.15
Exercised	(592,886)	11.72
Outstanding May 31, 1999 (623,280 shares exercisable)	5,921,177	17.46
Granted	760,825	41.39
Cancelled	(249,575)	25.72
Exercised	(493,736)	10.71
Outstanding May 31, 2000 (671,391 shares exercisable)	5,938,691	20.74
Granted	691,500	42.88
Cancelled	(241,175)	30.87
Exercised	(662,823)	11.03
Outstanding May 31, 2001 (555,544 shares exercisable)	5,726,193	$ 24.11

The following table summarizes the information related to stock options outstanding at May 31, 2001:

		Outstanding Options		Exercisable Options	
Range of Exercise Price	Number Outstanding	Average Remaining Option Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 7.13 $12.79	999,524	2.44	$ 9.76	397,094	$ 9.34
12.92 18.58	1,561,560	4.75	15.23	125,340	13.92
19.25 34.17	1,761,409	6.45	25.70	27,109	26.07
34.31 53.19	1,403,700	8.64	42.23	6,001	36.32
$ 7.13 $53.19	5,726,193	5.82	$ 24.11	555,544	$ 11.48

At May 31, 2001, 8,304,800 shares of common stock are reserved for future issuance under the 2000 plan.

Pro forma information regarding earnings and earnings per share is required by SFAS 123 and has been determined as if Cintas had accounted for its stock options granted subsequent to May 31, 1995 under the fair value method of that Statement. The weighted average fair value of stock options granted during fiscal 2001, 2000 and 1999 was $21.40, $21.29 and $14.09, respectively. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2001	2000	1999

Risk free interest rate	5.50%	6.25%	5.50%
Dividend yield	0.50%	0.50%	0.32%
Expected volatility of Cintas common stock	34%	32%	27%
Expected life of the option in years	9	9	9

16

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are freely transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Cintas options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in Cintas opinion existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting period. Cintas pro forma information is as follows:

	2001	2000	1999
Net income:			
As reported	$ 222,451	$ 193,387	$ 138,939
Pro forma for SFAS 123	$ 218,665	$ 190,386	$ 136,796
Earnings per share:			
Pro forma basic earnings per share for SFAS 123	$ 1.30	$ 1.14	$ .83
Pro forma diluted earnings per share for SFAS 123	$ 1.27	$ 1.12	$ .81

The effects of providing pro forma disclosure are not representative of earnings to be reported for future years.

12. Litigation and Environmental Matters

Cintas is subject to legal proceedings and claims arising from the ordinary course of its business, including personal injury, customer contract and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such actions will not have a material adverse effect on the financial position or results of operations of Cintas.

In December 1992, Cintas was served with an Imminent and Substantial Endangerment and Remediation Order by the California Department of Toxic Substances Control (DTSC) relating to the facility leased by Cintas in San Leandro, California. This order requires Cintas and three other allegedly responsible parties to respond to soil and groundwater contamination at and around the San Leandro facility. Based on Cintas prior experience in remediation at similar sites, and based on all available data, the estimated cost associated with the required remediation is approximately $750. More precise estimates will not be available until DTSC makes a final decision about remediation activities at the site. Cintas has adequately provided in the financial statements for the potential costs of this remediation.

In acquiring Unitog in March 1999, Cintas became a potentially responsible party, and thus faces the possibility of joint and several liability under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) in connection with alleged environmental contamination in an area near a rental facility in Tempe, Arizona. This facility, located near the South Indian Bend Wash (SIBW) Federal Superfund site, has been tested for soil and groundwater contamination. Soil testing at Cintas facility detected volatile organic compounds, and Cintas promptly took steps to remediate the contamination. Groundwater testing in the area of Cintas property has detected a very low level of volatile organic compound contamination. The United States Environmental Protection Agency (EPA) in March 1999 issued a Record of Decision to the effect that groundwater contamination in the vicinity of Cintas plant does not warrant remediation at this time. Instead, the low levels of groundwater contamination near Cintas facility will be monitored and allowed to attenuate

17

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

naturally. The Record of Decision requires active groundwater remediation in other parts of the SIBW site, which are believed to be unrelated to Cintas. According to the Record of Decision, the EPA estimates that the 30 year net present value of costs to be incurred to remediate and monitor groundwater contamination at the SIBW site is $22,000. It is possible that the EPA will attempt to recover from the potentially responsible parties the costs it has incurred to date with respect to the SIBW site as well as the costs it expects to incur going forward.

As part of the Agreement and Plan of Merger dated January 9, 1999 between Unitog and Cintas, Cintas performed environmental testing at nine previously untested Unitog laundry facilities. The testing resulted in the discovery of soil and groundwater contamination at certain of these sites. As a result of all of the environmental matters noted above, Cintas recorded a charge to operating expense of $5,000 during the third quarter of fiscal 1999 to reflect its current estimate of the additional costs to be incurred relative to these sites. At May 31, 2001, Cintas has an undiscounted liability of $4,614 for these environmental matters.

13. Special Charge

As a result of the acquisition of Unitog in March 1999, Cintas developed a plan during the fourth quarter of fiscal 1999 to integrate Unitog into Cintas and close duplicate facilities. The intention of the plan was to position Cintas to improve service to its customers and achieve higher profitability. This plan was completed in fiscal 2000.

The plan primarily addressed: (1) exiting certain rental and manufacturing duplicate facilities resulting in asset write downs to estimated fair value, lease abandonments and costs to terminate employees and (2) selling the Unitog headquarters in Kansas City, Missouri resulting in asset write downs to their fair value upon sale and costs to terminate employees. Accordingly, Cintas recognized a special charge of $28,429, or $17,626 after income taxes, and $.11 per share during 1999. Details of the special charge and related activity for fiscal years 1999 and 2000 are as follows:

	Special Charge	1999 Activity	Accrual at May 31, 1999	2000 Activity	Accrual at May 31, 2000
Severance	$ 15,820	$ (9,772)	$ 6,048	$ (6,048)	$
Asset write downs	12,609	(12,609)			
Total	$ 28,429	$ (22,381)	$ 6,048	$ (6,048)	$

Severance costs included the cost of separation payments to certain employees who have been terminated. Asset write downs associated with the exit of certain redundant rental and manufacturing facilities related to the consolidation of facilities in areas where Cintas had sufficient capacity in existing facilities to meet anticipated requirements. The asset write down associated with the sale of the Unitog headquarters related to the closure of the facility and relocation of business functions to Cintas headquarters in Cincinnati, Ohio.

14. Segment Information

Cintas classifies its businesses into two operating segments: Rentals and Other Services. The Rentals operating segment designs and manufactures corporate identity uniforms which it rents, along with other items, to its customers. The Other Services operating segment involves the design, manufacture and direct sale of uniforms to its customers, as well as the sale of ancillary services including sanitation supplies, first aid products and services and cleanroom supplies. All of these services are provided throughout the United States and Canada

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

to businesses of all types from small service and manufacturing companies to major corporations that employ thousands of people.

Information as to the operations of Cintas different business segments is set forth below based on the distribution of products and services offered. Cintas evaluates performance based on several factors of which the primary financial measures are business segment revenue and income before income taxes. The accounting policies of the business segments are the same as those described in the Significant Accounting Policies (Note 1).

	Rentals	Other Services	Corporate	Total
May 31, 2001				
Revenue	$ 1,610,606	$ 550,094	$	$ 2,160,700
Gross margin	$ 714,067	$ 182,200	$	$ 896,267
Selling and administrative expenses	390,992	137,362		528,354
Acquisition-related expenses			709	709
Interest income			(4,369)	(4,369)
Interest expense			15,119	15,119
Income before income taxes	$ 323,075	$ 44,838	$ (11,459)	$ 356,454
Depreciation and amortization	$ 95,957	$ 16,132	$	$ 112,089
Capital expenditures	$ 133,786	$ 13,658	$	$ 147,444
Total assets	$ 1,362,298	$ 279,697	$ 110,229	$ 1,752,224
May 31, 2000				
Revenue	$ 1,424,892	$ 477,099	$	$ 1,901,991
Gross margin	$ 617,591	$ 161,961	$	$ 779,552
Selling and administrative expenses	338,887	116,907		455,794
Acquisition-related expenses			834	834
Interest income			(4,742)	(4,742)
Interest expense			15,907	15,907
Income before income taxes	$ 278,704	$ 45,054	$ (11,999)	$ 311,759
Depreciation and amortization	$ 86,270	$ 13,243	$	$ 99,513
Capital expenditures	$ 129,838	$ 31,594	$	$ 161,432
Total assets	$ 1,214,318	$ 257,202	$ 109,822	$ 1,581,342

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

	Rentals	Other Services	Corporate	Total
May 31, 1999				
Revenue	$ 1,297,248	$ 454,320	$	$ 1,751,568
Gross margin	$ 552,106	$ 148,663	$	$ 700,769
Selling and administrative expenses	314,127	105,360		419,487
Acquisition-related expenses			12,088	12,088
Special charge			28,429	28,429
Environmental charge			5,000	5,000
Interest income			(4,671)	(4,671)
Interest expense			16,442	16,442
Income before income taxes	$ 237,979	$ 43,303	$ (57,288)	$ 223,994
Depreciation and amortization	$ 80,550	$ 9,678	$	$ 90,228
Capital expenditures	$ 150,007	$ 21,241	$	$ 171,248
Total assets	$ 1,080,194	$ 239,506	$ 88,118	$ 1,407,818

15. Quarterly Financial Data (Unaudited)

The following is a summary of the results of operations for each of the quarters within the years ended May 31, 2001 and 2000:

May 31, 2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 521,959	$ 539,052	$ 536,723	$ 562,966
Gross margin	$ 217,265	$ 223,377	$ 219,916	$ 235,709
Net income	$ 50,849	$ 56,533	$ 54,910	$ 60,159
Basic earnings per share	$ .30	$ .34	$ .32	$ .36
Diluted earnings per share	$ .30	$ .33	$ .32	$ .35
Weighted average number of shares outstanding (000 s)	168,366	168,660	168,890	169,206

May 31, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 457,375	$ 465,849	$ 473,929	$ 504,838
Gross margin	$ 184,289	$ 190,166	$ 194,575	$ 210,522
Net income	$ 43,165	$ 48,335	$ 49,062	$ 52,825
Basic earnings per share	$ .26	$ .29	$ .29	$ .32
Diluted earnings per share	$ .25	$ .29	$ .29	$ .31
Weighted average number of shares outstanding (000 s)	166,502	166,898	167,368	167,498

Table of Contents

CINTAS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands except per share and share data)

16. Subsequent Event Supplemental Guarantor Information

On May 13, 2002, Cintas completed the acquisition of Omni Services, Inc. (Omni) a wholly-owned subsidiary of Filuxel SA for approximately $660,000. For the twelve months ended January 31, 2002, Omni had total revenue of approximately $300,000. In order to finance the transaction, Cintas entered into a $500,000 Bridge Loan Agreement (the Bridge Facility) with Bank One, NA and Merrill Lynch Bank USA. The purchase price for Omni was funded with $450,000 of borrowings under the Bridge Facility, $100,000 of borrowings under a commercial paper program and approximately $106,000 in cash.

Effective June 1, 2000, Cintas reorganized and created Cintas Corporation No. 2 (Corp. 2) as its principal operating subsidiary. Cintas Corporation and its wholly-owned, direct and indirect domestic subsidiaries, other than Corp. 2 will be unconditionally guaranteeing, jointly and severally, debt of Corp. 2. Corp. 2 is an indirect wholly-owned subsidiary of Cintas Corporation. As allowed by the SEC rules, the following condensed consolidating financial statements are provided as an alternative to filing separate financial statements. Each of the subsidiaries presented in the condensed consolidating financial statements has been fully consolidated in the Company s consolidated financial statements. As such, the condensed consolidating financial statements should be read in conjunction with the financial statements of Cintas and notes thereto of which this note is an integral part.

Condensed consolidating financial statements for Cintas Corporation, Corp. 2, the subsidiary guarantors and non-guarantors are presented below:

CONDENSED CONSOLIDATING INCOME STATEMENT
YEAR ENDED MAY 31, 2001

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Rentals	$	$ 1,188,257	$ 356,184	$ 66,308	$ (143)	$ 1,610,606
Other services		961,260	172,736	8,997	(592,899)	550,094
Equity in net income of affiliates	222,451				(222,451)	
	222,451					