

Cintas Corporation Annual Report 2000

# A New World of



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## Business Description

Cintas designs, manufactures and implements corporate identity uniform programs which it rents or sells to customers throughout the United States and Canada. The Company also provides ancillary services including entrance mats, sanitation supplies, first aid products and services and cleanroom supplies. The Company provides these highly specialized services to businesses of all types—from small service and manufacturing companies to major corporations that employ thousands of people.



## Principal Objective

To maximize the long-term value of Cintas for our shareholders and working partners by exceeding our customers' expectations.



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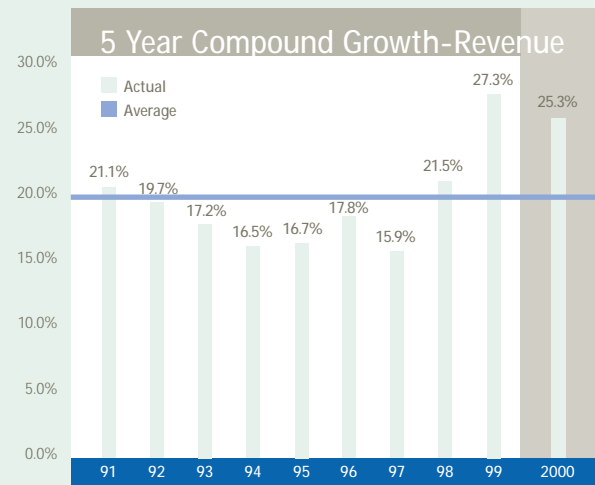
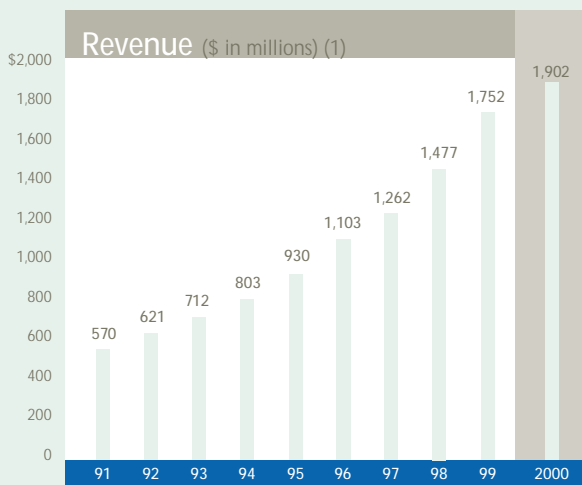


## A New World of accomplishments

- Achieved 31<sup>st</sup> consecutive year of uninterrupted growth in sales and profits.
- Revenue has increased 2.3 times in three years - a compound annual growth rate of 31%.\*
- Profits have increased 2.1 times in three years - a compound annual growth rate of 29%.\*
- Recognized as a "Moody's Dividend Achiever"—increased dividends by 27%.
- Split stock 3-for-2.
- Received highest commercial paper rating from Standard & Poor's and Moody's.
- Average daily trading volume in Cintas stock now exceeds 1,000,000 shares per day.
- Expanded uniform rental presence into 9 new cities.
- Opened 11 new uniform rental plants.
- Added 200 uniform rental routes.
- Added 45 first aid service routes.
- Expanded customer base by 50,000 new uniform customers.
- Broadened first aid customer base by 11,000 new customers.
- Automated entire first aid route system with portable route computers, in-van printers, and management reporting system.
- Developed and implemented world-class data warehouse for Customer Relationship Management (CRM).
- Ranked in top one-third of *Information Week's* "500 Leading Information Technology Innovators."
- Web site named in "The Net Marketing Top 50" by *Advertising Age's Business Marketing* magazine.
- Recognized as one of the world's most valuable companies in *The Business Week Global 1000*.
- Named in elite list of *America's Finest Companies* by the Staton Institute, for the tenth consecutive year.
- Ranked among best-performing big corporations in *Forbes Platinum 400* list, for the second consecutive year.

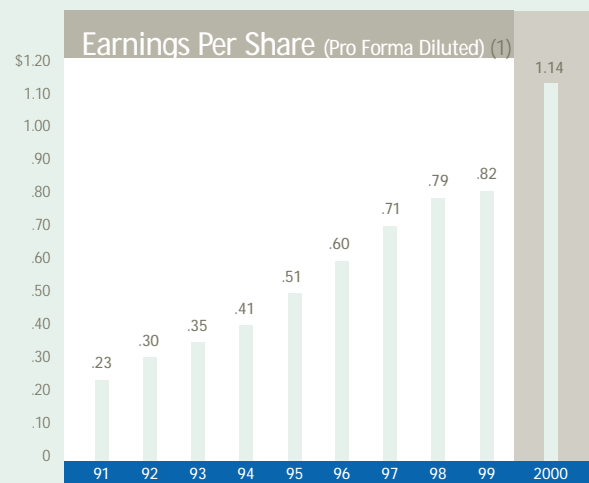
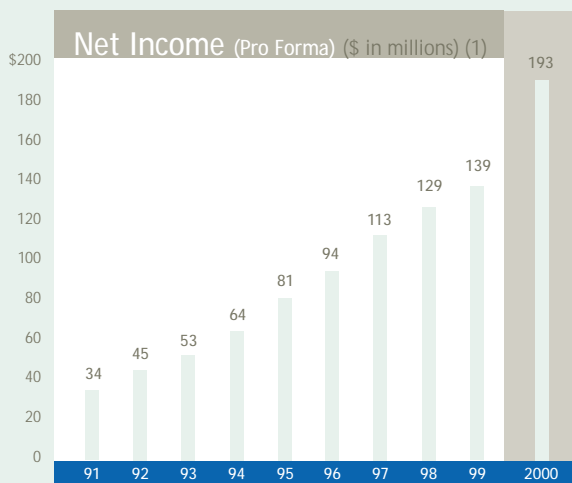
# Financial Highlights

Years Ended May 31	(In thousands except per share data)	2000	1999	% Change
<b>Operating Results</b>				
Revenue		\$1,901,991	\$1,751,568	9%
Gross Profits		779,552	700,769	11%
Net Income		193,387	138,939	39%
<b>Financial Condition</b>				
Total Assets		\$1,581,342	\$1,407,818	12%
Shareholders' Equity		1,042,876	871,423	20%
Working Capital		486,078	422,388	15%
Current Ratio		3.06 to 1	2.99 to 1	2%
<b>Per Share Data</b>				
Net Income (Diluted)		\$1.14	\$0.82	39%
Shareholders' Equity (Book Value)		6.20	5.24	18%
Dividends		0.19	0.15	27%



(Source: Based on financial data as originally reported by Cintas Corporation before restatement for pooling of interests transactions.)

Each bar represents the compound annual growth rate for the 5 years ended, for each year presented. For example, the compound annual growth rate for the 5 years ended May 31, 2000, is 25.3%.



(1) Source: Eleven Year Financial Summary (page 17).

# A New World of Service

Dear Fellow Shareholders,

With the significant progress that our Company has made in recent years, **A New World of Service** is the perfect theme for our first Annual Report in a new millennium. We enter the new millennium with an unwavering focus on our principal objective — “TO MAXIMIZE THE LONG-TERM VALUE OF CINTAS FOR OUR SHAREHOLDERS AND WORKING PARTNERS BY EXCEEDING OUR CUSTOMERS’ EXPECTATIONS.”

If you go back and look at the Cintas Annual Report for the fiscal year ended May 1997, just three years ago, you will find that we reported revenue of \$840 million and net income of \$91 million. For the fiscal year ended May 2000, revenue was \$1.9 billion, an increase of 2.3 times in three years, and a compound annual growth rate of 31%. Our net income of \$193.4 million was 2.1 times greater than 1997, representing a compound annual growth rate of 29%.

In 1997, Cintas was a more narrowly focused company with approximately 70% of our revenue coming from the rental of uniforms, primarily to blue-collar industrial and service workers. In the last three years, we not only more than doubled the size of the Company, we broadened it to serve other uniform markets. *Uniforms To You*, the leading company in the design, manufacture and implementation of uniform programs for the hospitality, foodservice, gaming and transportation industries, was a very important strategic acquisition for Cintas. It provides the opportunity to take advantage of the great growth potential in those industries. Today, the vast majority of our revenue, about 75%, is from the rental and sale of uniform programs. Revenue from uniform rentals alone, while almost doubling since 1997, now represents about 50% of our total.

What is even more exciting is that the entrée into these other segments of the uniform business provides exciting opportunities to grow the more profitable uniform rental business in the future. One of the key drivers of industry growth is that companies are beginning to understand the advantages of renting uniforms rather than buying them for their employees. Companies can outsource the administrative and maintenance functions to Cintas, taking themselves out of the uniform business altogether. This is a great opportunity for our future growth.

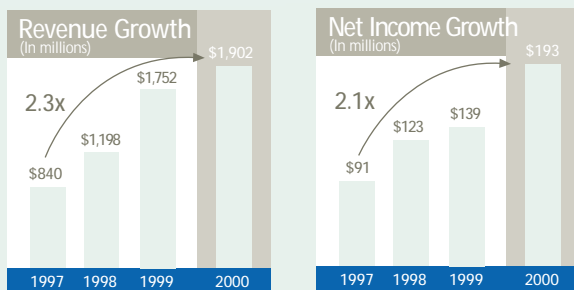
We are a broader-based company today than we were just three short years ago in other ways as well. Today, our customers also rely on us for many other important products and services—entrance mats, hygiene services and first aid and safety products — that help make their workplaces cleaner, safer and more pleasant for employees and customers. Our growth in all areas of the Company demonstrates the value of the services we deliver.

Cintas now serves a broader uniform market...

And, broadened its product line at the same time

Revenue increased 2.3 times since 1997

Profits increased 2.1 times since 1997



Source: Financial data is taken from the Cintas Annual Report for each of the respective years.

This Annual Report does not reflect those remarkable growth rates because the acquisitions of *Uniforms To You* in fiscal 1998 and *Unitog Company* in fiscal 1999 were accounted for as pooling transactions, requiring us to combine the historical results of those companies with ours as though we had always been one company. Therefore, the actual rates of growth are distorted because these companies were not growing at anything like the Cintas historical rate of growth. But it is important for you to understand what has happened to our Company.



Scott D. Farmer, President and Chief Operating Officer  
Richard T. Farmer, Chairman of the Board and Founder  
Robert J. Kohlhepp, Chief Executive Officer

## A Look at Fiscal 2000

Most of our focus was on the integration of the largest acquisition in the history of Cintas, *Unitog Company*, which we acquired in March 1999. Our intentions were to consolidate and integrate this company over a two to three year period. However, as we began the process, it became apparent that we should move more rapidly. We are very pleased to report that in a little over one year, we have, by and large, completed the integration effort.

The largest acquisition in the Company's history was integrated in record time

Unitog had 56 uniform rental locations, six manufacturing plants, two distribution centers and a Kansas City corporate headquarters staffed by approximately 175 people. Our partners worked weekends and holidays and did whatever it took to absorb this business in record time. We consolidated 28 of their uniform rental locations, eliminated four manufacturing plants and both distribution centers, absorbed all the corporate functions into our corporate headquarters in Cincinnati and sold Unitog's headquarters building in Kansas City. We restructured their business in many other ways by eliminating unprofitable businesses that did not fit into the Cintas system.

While this was a very successful consolidation and integration, it did not occur without heavy cost in the form of separation expense, outside temporary help and consultants, and significant additional spending to satisfy the former Unitog customers.

At the same time we were focusing on the integration of Unitog, we were able to increase total revenue by 9% from the prior year. This growth rate was not within the normal, historical growth pattern of the Company for several reasons. As we discussed in last year's Annual Report, revenue growth for fiscal 2000 was not as important as maximizing the value of the acquisition. Until we secured the customer base and installed our service systems, growth at Unitog was not practical. Our overall sales growth was also reduced by several other factors related to

Unitog. Unitog divested some of its linen business shortly before the Cintas acquisition. After the acquisition, Cintas sold some additional linen business and eliminated unprofitable and undesirable business at the same time. The refinement of the acquired business was necessary, but it distorts the comparability between years.

Excluding Unitog, Cintas' revenue increased 13% for the year. Most importantly, internal sales growth showed steady and sequential, quarter-over-quarter improvement throughout the fiscal year. In the fourth quarter, Cintas' rental business, excluding Unitog, grew organically by 15%, which is solidly in our targeted range of 14-16%. Similarly, our other service revenue increased 16% over the fourth quarter of last year. We expect this positive momentum to continue in fiscal 2001 in all areas of our business — Uniform Rental, Uniform Sales, Facility Services and First Aid and Safety.

Internal sales growth showed sequential, quarter-over-quarter improvement

Net income of \$193.4 million and earnings per share of \$1.14 (diluted) both increased 39% over that reported in fiscal 1999. Excluding one-time items related to the acquisition of Unitog last year, net income and earnings per share both increased 18%.

Net income and earnings per share increased 18%

## Moving Into the New World

The markets we serve provide ample opportunity for growth. The total potential of the markets served by Cintas stands at approximately \$31 billion, including approximately \$24 billion for uniforms. Approximately 58 million workers in the United States and Canada, or about 39% of the workforce, wear uniforms to enhance their company's image, boost team spirit and improve productivity. We believe there are an additional 26 million people who work in occupations where a uniform should be worn.

The markets we serve provide ample opportunity for growth

## Management and Organizational

With the tremendous growth in the service segment, more and more people are in direct contact with their customers. A clean and professional-looking uniform provides the proper identification, image and instant credibility. Regardless of the occupation, uniforms provide a tangible benefit to attract and retain employees — the most important asset in every business.

Cintas is now the largest, most diversified uniform company in North America, and perhaps the world

Cintas is now the largest, most diversified uniform company in North America, and perhaps the world. More companies than ever before recognize the power that uniforms can have in their business. It is our conviction that THE POWER OF THE UNIFORM CAN CHANGE THE IMAGE, PERFORMANCE AND DESTINY OF A COMPANY.

We are also expanding in new profitable business niches that offer outstanding growth and profit opportunities. Cintas now services over 400,000 companies on a regular schedule, usually weekly. Our distribution system and the close relationships we have developed with our customers provide a platform from which we can launch new businesses quickly and economically. We look for services we can provide that are important, yet are small details for our customers. We recently embarked on the entrance mat, the hygiene supply, and the first aid and safety businesses. All of these, which represent a combined market of approximately \$7 billion, are enjoying rapid rates of growth, and they are quite profitable. So, if you only think of uniforms when you think of Cintas, THINK AGAIN! The mat rental business, the hygiene supply business, and the first aid and safety business currently represent 25% of our revenue and are growing nicely.

If you only think of uniforms when you think of Cintas, THINK AGAIN

The potential for future growth at Cintas is very attractive. We are confident that we will continue to achieve our internal rate of growth goal of 14-16% per year in the future, as we have in the past. We will also continue to make strategic acquisitions when they become available.

John S. Kean III, Senior Vice President, recently announced his retirement. John joined Cintas in August 1986 upon the acquisition of Red Stick Services where he served as President. For the past 14 years, John has been a very valuable and loyal partner while broadening Cintas' presence in the Southcentral Region of the United States. We will miss John, but his high standards for executive excellence will remain a vital part of Cintas. On behalf of all of us at Cintas, we thank John for his years of service.

We also thank you, our shareholders, for your continued interest and support. We are excited to enter this **New World of Service**, and we are committed to providing the value you have come to expect from our Company.

Very truly yours,



Richard T. Farmer  
Chairman of the Board  
and Founder



Robert J. Kohlhepp  
Chief Executive Officer



Scott D. Farmer  
President and Chief Operating Officer

Cintas has the overriding conviction that THE POWER OF THE UNIFORM can change the image, performance and destiny of a company.



The uniform. It is one of the most powerful branding tools available. Uniforms build positive images; they build professionalism; they build morale.

More businesses than ever before – both old economy and new economy – are feeling that power. The Cintas label is

As the power of the uniform grows, so does the power of Cintas. No company is better prepared to meet the rising demand for corporate identity apparel. Cintas has every occupation covered – from the produce manager to the cashier at the grocery; from the mechanic to the pilot at the airline; from the bellman to the concierge at the hotel; from the chef to the maitre d' at the restaurant. Cintas has

# A New World of opportunity

in the boardroom and in the high-tech cleanroom; in the lab and in the grocery; in the service shop and in the cockpit; in the best hotels and in the finest restaurants.

More than 4 million people go to work every day wearing a Cintas uniform. And millions more should be wearing uniforms for the crisp, fresh, professional image that only a uniform can deliver.

the most creative marketing and merchandising teams developing the most fashionable and functional uniforms. Cintas stands alone as the full-service uniform leader in North America.





We help customers make their workplaces **CLEANER, SAFER** and **MORE PLEASANT**. And we do it with grace and style.



Cintas focuses on details that help make customers' workplaces cleaner, safer and more pleasant for employees and customers. Details that are small, but important. Details that businesses can easily overlook. Cintas deals with details like custom

Our network of 250 locations and 4,000 service sales representatives keeps us in regular contact with more than 400,000 business customers. The combination of our distribution system and our strong customer relationships is a core competence, which provides a platform from which we can launch additional businesses quickly and economically.

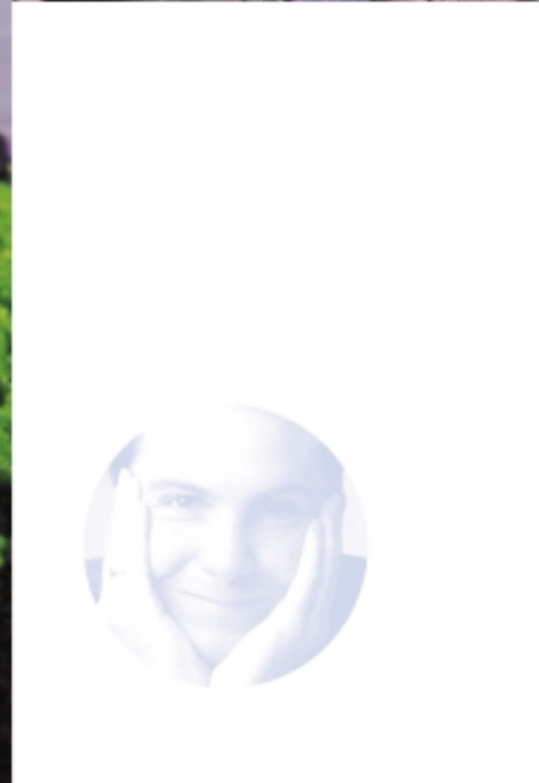
# A New World of productivity

entrance mats and hygiene supply services for restrooms, such as air fresheners, hand soaps and hand towels – services that are needed by just about every business. And, Cintas is there to mind those details so customers can mind their businesses.



If you only think of uniforms  
when you think of Cintas,

THINK AGAIN!



First aid and safety are important, both to employers and to employees. Yet keeping on track with OSHA's requirements for first aid response is one more detail that can easily slip through the cracks. Enter Cintas.

see continued growth ahead. Our newly launched flagship brand, *Xpect First Aid*, incorporates a unique, state-of-the-art product line and speaks directly to the needs of today's customer.

*Xpect*, like other members of the Cintas family, was created to meet our principal objective: To maximize the long-term

## A New World of **growth**

Cintas delivers first aid and safety supplies to each customer's door. We make sure first aid cabinets are fully stocked. We even provide training to help our customers comply with OSHA requirements.

value of Cintas for our shareholders and working partners by exceeding our customers' expectations. Expectations for products. Expectations for safety. Expectations for service.

Cintas entered the first aid market three years ago, and already we have grown to become the second largest provider of van-delivered first aid products. We





New technology and good, old-fashioned customer service are hallmarks of Cintas.

Better. Faster. Smarter. Work in the Information Age is nothing if not efficient. Companies need quicker, more convenient and more cost-effective ways to conduct their business, and Cintas delivers. Cintas invested millions of dollars in technological advancements this past year to exceed our customers' expectations. Our e-business strategy encompasses the

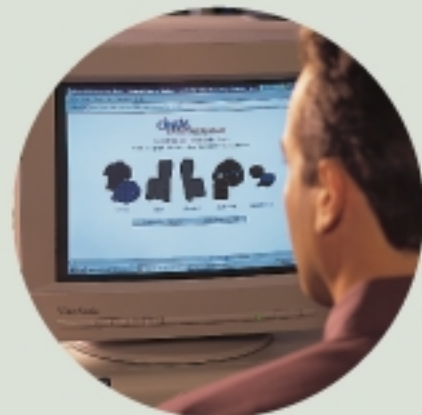
and ImproveMyBusiness.com, and with purchasing hubs such as Commerce One, to make ordering as convenient as possible. Out in the field, our service sales representatives in both the uniform rental and first aid and safety divisions use hand-held computers to conduct business. And through the installation of a wide area network, our Company is electronically connected to facilitate communication and information sharing.

# A New World of innovation

most innovative, state-of-the-art paperless initiatives available.

The Cintas web site was named one of "The Net Marketing Top 50" by *Advertising Age's Business Marketing* magazine. We have also developed more than one thousand secure web sites where, with just one click, customers such as Delta Air Lines and Sprint can place orders, download reports and track shipments. We have partnered with portals such as OrderZone.com

Cintas has developed a solid reputation as the leader in the uniform industry by demonstrating reliability, high standards and commitment to excellence. Using technology, we provide critical services, better, faster and smarter. We've got it covered.



# A New World of expansion

- 
- The map displays the United States with various colored dots indicating the locations of different types of facilities. The dots are concentrated in the eastern and central parts of the country, with a significant cluster in the Northeast and Midwest. The legend in the bottom left corner provides the following data:
- 201 Uniform Rental Operations
  - 38 First Aid Business Centers
  - 6 Cleanroom Facilities
  - 14 Garment Manufacturing Plants
  - 6 Distribution Centers

## Eleven Year Financial Summary

(In thousands except per share data)

Years Ended May 31

Restated to give effect to the 3-for-2 stock split effective March 2000.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	10 Year Compd Growth
Revenue	\$518,948	569,583	621,041	711,663	803,009	929,534	1,103,492	1,261,899	1,476,945	1,751,568	1,901,991	13.9%(3)
Net Income	\$33,716	35,261	45,744	54,956	67,141	85,413	98,956	118,557	133,654	138,939	193,387	19.1%
Pro Forma Net Income (1)	\$32,761	34,063	45,151	53,374	64,459	80,752	94,151	112,763	128,704	138,939	193,387	19.4%
Basic EPS	\$0.23	0.24	0.31	0.36	0.44	0.55	0.64	0.75	0.83	0.84	1.16	17.6%
Diluted EPS	\$0.23	0.24	0.31	0.35	0.43	0.55	0.63	0.75	0.82	0.82	1.14	17.4%
Pro Forma Basic EPS (1)	\$0.22	0.23	0.30	0.35	0.42	0.52	0.61	0.72	0.80	0.84	1.16	18.1%
Pro Forma Diluted EPS (1)	\$0.22	0.23	0.30	0.35	0.41	0.51	0.60	0.71	0.79	0.82	1.14	17.9%
Dividends Per Share	\$0.03	0.03	0.04	0.05	0.06	0.07	0.09	0.10	0.12	0.15	0.19	20.3%
Total Assets	\$410,628	467,608	501,769	634,197	700,872	816,508	996,046	1,101,182	1,305,400	1,407,818	1,581,342	14.4%
Shareholders' Equity	\$203,156	233,693	273,501	324,562	409,053	481,654	553,701	650,603	756,795	871,423	1,042,876	17.8%
Return on Average Equity	17.9%	15.6%	17.8%	17.8%	17.6%	18.1%	18.2%	18.7%	18.8%(2)	20.1%(2)	20.2%	
Long-Term Debt	\$116,148	130,967	122,372	158,311	132,929	164,332	237,550	227,799	307,633	283,581	254,378	

Note: Results prior to March 24, 1999, have been restated to include Unitog Company.

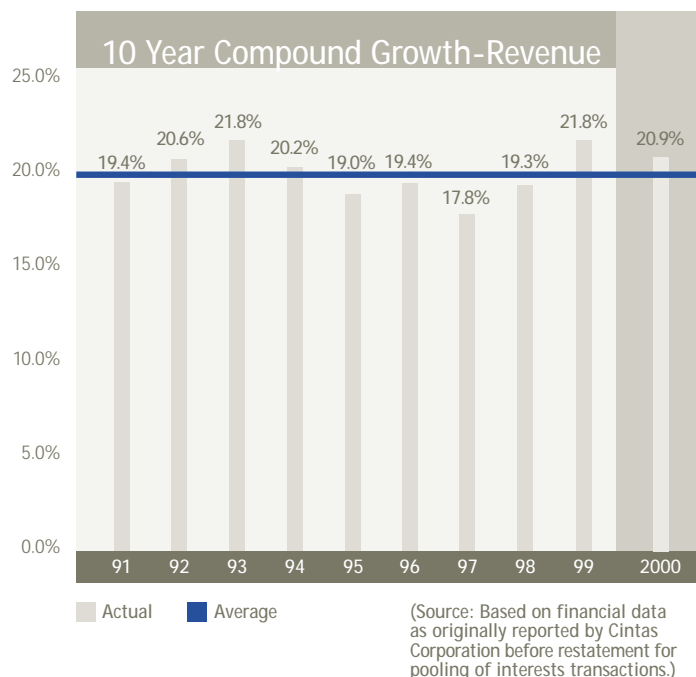
Results prior to April 8, 1998, have also been restated to include Uniforms To You Companies.

Results prior to October 1, 1991, have also been restated to include Rental Uniform Service of Greenville, S.C., Inc.

(1) Results for 1998 and prior years were adjusted on a pro forma basis to reflect the true tax impact of Uniforms To You as if it had been reported as a C Corporation prior to the merger with Cintas.

(2) Return on average equity before one-time items. Please refer to Management's Discussion and Analysis for additional information.

(3) Represents the 10 year compound annual growth rate based on revenue as restated for pooling of interests transactions noted above. Please refer to the graph below for the 10 year compound annual growth rates in revenue based on financial data, as originally reported by Cintas Corporation, before restatement for pooling of interests transactions.



Each bar represents the compound annual growth rate for the 10 years ended, for each year presented. For example, the compound annual growth rate for the 10 years ended May 31, 2000, is 20.9%.

## Consolidated Statements of Income

Years Ended May 31	(In thousands except per share data)	2000	1999	1998
<b>Revenue:</b>				
Rentals		<b>\$1,424,892</b>	\$1,297,248	\$1,090,577
Other services		<b>477,099</b>	454,320	386,368
		<b>1,901,991</b>	1,751,568	1,476,945
<b>Costs and expenses (income):</b>				
Cost of rentals		<b>807,301</b>	745,142	631,474
Cost of other services		<b>315,138</b>	305,657	260,246
Selling and administrative expenses		<b>455,794</b>	419,487	360,254
Acquisition-related expenses		<b>834</b>	12,088	17,116
Special charge		<b>—</b>	28,429	—
Environmental charge		<b>—</b>	5,000	—
Interest income		<b>(4,742)</b>	(4,671)	(4,825)
Interest expense		<b>15,907</b>	16,442	15,824
		<b>1,590,232</b>	1,527,574	1,280,089
Income before income taxes		<b>311,759</b>	223,994	196,856
Income taxes		<b>118,372</b>	85,055	63,202
Net income		<b>\$ 193,387</b>	\$ 138,939	\$ 133,654
Basic earnings per share		<b>\$ 1.16</b>	\$ .84	\$ .83
Diluted earnings per share		<b>\$ 1.14</b>	\$ .82	\$ .82
Dividends declared and paid per share		<b>\$ .19</b>	\$ .15	\$ .12
Net income as reported		<b>\$ 193,387</b>	\$ 138,939	\$ 133,654
Pro forma adjustment for income taxes		<b>—</b>	—	4,950
Pro forma net income		<b>\$ 193,387</b>	\$ 138,939	\$ 128,704
Pro forma basic earnings per share		<b>\$ 1.16</b>	\$ .84	\$ .80
Pro forma diluted earnings per share		<b>\$ 1.14</b>	\$ .82	\$ .79

See accompanying notes.

## Consolidated Balance Sheets

As of May 31	(In thousands except share data)	2000	1999
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 52,182	\$ 15,803
Marketable securities		57,640	72,315
Accounts receivable, principally trade, less allowance of \$7,364 and \$8,754, respectively		225,735	202,079
Inventories		164,906	137,983
Uniforms and other rental items in service		213,770	200,154
Prepaid expenses		7,237	6,151
Total current assets		721,470	634,485
Property and equipment, at cost, net		642,507	573,087
Other assets		217,365	200,246
		<b>\$1,581,342</b>	<b>\$ 1,407,818</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable		\$ 50,976	\$ 46,783
Accrued compensation and related liabilities		28,140	25,521
Accrued liabilities		90,058	83,209
Deferred income taxes		49,614	40,214
Long-term debt due within one year		16,604	16,370
Total current liabilities		235,392	212,097
Long-term debt due after one year		254,378	283,581
Deferred income taxes		48,696	40,717
Shareholders' equity:			
Preferred stock, no par value:			
100,000 shares authorized, none outstanding		—	—
Common stock, no par value:			
300,000,000 shares authorized, 168,281,506 and 166,423,911 shares issued and outstanding, respectively		54,738	49,974
Retained earnings		992,450	825,268
Other accumulated comprehensive income (loss)		(4,312)	(3,819)
Total shareholders' equity		1,042,876	871,423
		<b>\$1,581,342</b>	<b>\$ 1,407,818</b>

See accompanying notes.

## Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock		Retained Earnings	Other	Total Shareholders' Equity
	Shares	Amount		Accumulated Comprehensive Income (Loss)	
Balance at May 31, 1997	158,723	\$45,395	\$606,233	\$ (1,025)	\$ 650,603
Net income	—	—	133,654	—	133,654
Equity adjustment for foreign currency translation	—	—	—	(1,491)	(1,491)
Comprehensive income					132,163
Dividends	—	—	(19,082)	—	(19,082)
Distributions to S Corporation shareholders	—	—	(12,423)	—	(12,423)
Effects of acquisitions	5,775	13	11,657	—	11,670
Repurchase of common stock	(221)	—	(7,971)	—	(7,971)
Stock options exercised net of shares surrendered	414	897	181	—	1,078
Tax benefit resulting from exercise of employee stock options	—	757	—	—	757
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	<b>168,282</b>	<b>\$54,738</b>	<b>\$992,450</b>	<b>\$(4,312)</b>	<b>\$1,042,876</b>

See accompanying notes.

## Consolidated Statements of Cash Flows

Years Ended May 31	(In thousands)	2000	1999	1998
Cash flows from operating activities:				
Net income		\$ 193,387	\$ 138,939	\$ 133,654
Adjustment to conform Unitog Company's fiscal year		—	689	—
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		78,516	68,779	56,791
Amortization of deferred charges		20,997	21,449	18,542
Write down of assets		—	12,609	—
Deferred income taxes		17,379	(1,356)	13,443
Change in current assets and liabilities, net of acquisitions of businesses:				
Accounts receivable		(19,259)	(14,484)	(24,227)
Inventories		(22,976)	(5,897)	(23,461)
Uniforms and other rental items in service		(14,425)	(17,898)	(25,632)
Prepaid expenses		(938)	(537)	(5,447)
Accounts payable		(600)	(15,089)	(5,132)
Accrued compensation and related liabilities		2,270	3,559	5,730
Accrued liabilities		3,681	12,299	(1,586)
Net cash provided by operating activities		258,032	203,062	142,675
Cash flows from investing activities:				
Capital expenditures		(161,432)	(171,248)	(128,566)
Proceeds from sale or redemption of marketable securities		112,908	235,400	117,342
Purchase of marketable securities		(98,233)	(225,189)	(116,841)
Acquisitions of businesses, net of cash acquired		(24,982)	(15,588)	(27,456)
Proceeds from divestiture of certain facilities		25,722	19,911	—
Other		(10,921)	(2,785)	(899)
Net cash used in investing activities		(156,938)	(159,499)	(156,420)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt		140,739	65,778	73,483
Repayment of long-term debt		(177,651)	(85,502)	(25,662)
Stock options exercised		3,399	2,309	1,078
Dividends paid		(31,249)	(24,942)	(19,082)
Distribution to S Corporation shareholders		—	—	(12,423)
Other common stock activity		—	(562)	(5,793)
Other		47	1,736	(2,065)
Net cash (used in) provided by financing activities		(64,715)	(41,183)	9,536
Net increase (decrease) in cash and cash equivalents		36,379	2,380	(4,209)
Cash and cash equivalents at beginning of year		15,803	13,423	17,632
Cash and cash equivalents at end of year		\$ 52,182	\$ 15,803	\$ 13,423

See accompanying notes.

# Notes to Consolidated Financial Statements

(Amounts in thousands except per share and share data)

## 1. Significant Accounting Policies

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**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.** The Company 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 generally over periods of eight to thirty-six 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.** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

**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.

**Stock options.** The Company 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 the Company's common stock on the date of grant. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 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. The Company also establishes an estimate of allowances for uncollectible accounts when revenue is recorded.

**Pro forma adjustment for income taxes.** During fiscal 1998, the Company acquired Uniforms To You Companies (UTY) in a merger transaction accounted for as a pooling of interests. Prior to the merger, UTY had elected S Corporation status for income tax purposes. As a result of the merger, UTY terminated its S Corporation election. The pro forma adjustment for income taxes presents the pro forma tax expense of UTY as if UTY had been a C Corporation during the financial statement periods presented.

**Fair value of financial instruments.** The following methods and assumptions were used by the Company 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 approximate market value. Market values are based on quoted market prices.

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

**Other accounting pronouncements.** The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This pronouncement which becomes effective in fiscal 2001 is presently being reviewed by the Company and is not expected to have a material effect on the Company's financial position or results of operations, although it may result in additional disclosures in the future.

**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. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. 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:

	2000		1999	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Obligations of state and political subdivisions	\$ 44,828	\$ 44,346	\$ 42,579	\$ 42,616
U.S. Treasury securities and obligations of U.S. government agencies	900	836	3,414	3,383
Other debt securities	11,912	11,858	26,322	26,299
	\$ 57,640	\$ 57,040	\$ 72,315	\$ 72,298

The gross realized gains on sales of available-for-sale securities totaled \$54, \$241 and \$84 for the years ended May 31, 2000, 1999 and 1998, and the gross realized losses totaled \$130, \$25 and \$25, respectively. Net unrealized losses are \$600 and \$17 at May 31, 2000 and 1999, respectively.

The amortized cost and estimated fair value of debt securities at May 31, 2000, 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	\$ 27,022	\$ 26,924
Due after one year through three years	23,765	23,437
Due after three years	6,853	6,679
	<b>\$ 57,640</b>	<b>\$ 57,040</b>

### 3. Property and Equipment

	2000	1999
Land	\$ 49,829	\$ 48,868
Buildings and improvements	285,510	277,176
Equipment	528,467	473,839
Leasehold improvements	10,978	9,993
Construction in progress	73,217	45,480
	<b>948,001</b>	855,356
Less: accumulated depreciation	<b>305,494</b>	282,269
	<b>\$ 642,507</b>	\$ 573,087

### 4. Other Assets

	2000	1999
Goodwill	\$ 129,626	\$ 115,936
Service contracts	107,598	109,447
Noncompete and consulting agreements	56,872	57,203
	<b>294,096</b>	282,586
Less: accumulated amortization	<b>103,607</b>	96,734
	<b>190,489</b>	185,852
Other	26,876	14,394
	<b>\$ 217,365</b>	\$ 200,246

### 5. Long-Term Debt

	2000	1999
Secured and unsecured term notes due through 2003 at an average rate of 9.98%	\$ 9,500	\$ 11,741
Unsecured revolving note at a rate of 5.20%	—	10,000
Unsecured term notes due through 2026 at an average rate of 6.40%	66,846	99,299
Unsecured notes due through 2009 at an average rate of 6.57%	172,946	160,010
Industrial development revenue bonds due through 2026 at an average rate of 5.40%	15,168	15,705
Other	6,522	3,196
	<b>270,982</b>	299,951
Less: amounts due within one year	<b>16,604</b>	16,370
	<b>\$ 254,378</b>	\$ 283,581

Debt in the amount of \$31,190 is secured by assets with a carrying value of \$34,490 at May 31, 2000. The Company has letters of credit outstanding at May 31, 2000 approximating \$28,158. Maturities of long-term debt during each of the next five years are \$16,604, \$185,456, \$18,412, \$16,264 and \$10,308, respectively.

The Company also has \$60 million available on a credit facility that supports its unsecured notes.

The Company has entered into two interest rate swap agreements to manage its exposure to changes in short-term interest rates. The first agreement totals \$10 million, expires in March 2001 and allows the Company to pay an effective interest rate of approximately 6.16%. The second agreement totals \$35 million, expires in October 2000 and allows the Company to pay an effective interest rate of approximately 4.60%.

Interest expense is net of capitalized interest of \$1,257, \$2,081 and \$1,808 for the years ended May 31, 2000, 1999 and 1998, respectively. Interest paid, net of amount capitalized, was \$16,773, \$16,586 and \$15,189 for the years ended May 31, 2000, 1999 and 1998, respectively.

## 6. Leases

The Company 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 leases that expire will be renewed or replaced. The minimum rental payments under noncancelable lease arrangements for each of the next five years and thereafter are: \$11,422, \$8,751, \$7,112, \$5,356, \$4,303 and \$11,795, respectively. Rent expense under operating leases during the years ended May 31, 2000, 1999 and 1998 was \$17,527, \$14,018 and \$11,390, respectively.

## 7. Income Taxes

	2000	1999	1998
Income taxes consist of the following components:			
Current:			
Federal	\$ 88,842	\$ 75,304	\$ 53,856
State and local	12,151	11,177	7,061
	100,993	86,481	60,917
Deferred	17,379	(1,426)	2,285
	\$ 118,372	\$ 85,055	\$ 63,202

	2000	1999	1998
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	\$ 109,109	\$ 78,398	\$ 68,900
State and local income taxes, net of federal benefit	9,727	8,156	7,073
Nontaxable income earned	(832)	(793)	(1,201)
Tax credits	(309)	(500)	(288)
Nontaxable items of the company acquired			
in pooling of interests	—	—	(5,050)
Deferred tax benefit arising from pooling of interests	—	(961)	(8,280)
Other	677	755	2,048
	\$ 118,372	\$ 85,055	\$ 63,202

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

	2000	1999
Deferred tax assets:		
Employee benefits	\$ 9,240	\$ 9,179
Restructuring and other acquisition-related items	—	7,275
Allowance for bad debts and other	30,017	23,316
	<b>39,257</b>	39,770
Deferred tax liabilities:		
In service inventory	77,501	71,276
Depreciation	50,481	40,686
State taxes	7,468	6,648
Other	2,117	2,091
	<b>137,567</b>	120,701
Net deferred tax liability	<b>\$ 98,310</b>	\$ 80,931

Income taxes paid were \$85,509, \$77,381 and \$59,599 for the years ended May 31, 2000, 1999 and 1998, respectively.

## 8. Acquisitions

During the years ended May 31, 2000, 1999 and 1998, the Company completed several acquisitions. In fiscal years ended 1999 and 1998, there was one acquisition in each year that was significant and required restatement.

### Pooling of Interests

In March 1999, the Company acquired Unitog Company (Unitog), a rental and direct sale uniform provider. The Company 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 accompanying 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 the Company and Unitog had different year ends at the time of the acquisition, the consolidated statements combine the consolidated financial position of the Company at May 31, 1999, and the consolidated results of its operations and its cash flows for the fiscal years ended May 31, 1999 and 1998 with the financial position of Unitog at May 31, 1999 and the recasted results of its operations for the fiscal years ended April 30, 1999 and April 26, 1998 and its cash flows for the periods ended May 31, 1999 and April 26, 1998.

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.

A reconciliation of revenue, pro forma net income and pro forma basic and diluted earnings per share of Cintas (as previously reported), Unitog, and combined is as follows:

	1998
Revenue:	
Cintas (as previously reported)	\$ 1,198,307
Unitog	278,638
Combined	\$ 1,476,945
Pro forma net income:	
Cintas (as previously reported)	\$ 117,907
Unitog	10,797
Combined	\$ 128,704
Pro forma basic earnings per share:	
Cintas (as previously reported)	\$ .77
Combined	\$ .80
Pro forma diluted earnings per share:	
Cintas (as previously reported)	\$ .76
Combined	\$ .79

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.

In April 1998, the Company acquired Uniforms To You (UTY), a direct sale uniform provider. The acquisition was accounted for using the pooling of interests method of accounting. The Company exchanged 5,938,893 shares of its common stock for all the outstanding stock of UTY. In accordance with the pooling of interests method of accounting, no adjustment was made to the historical carrying amount of assets and liabilities of UTY. The accompanying consolidated financial statements were restated for the year ended May 31, 1998 to include the financial position and operating results of UTY for all periods prior to the merger.

In accordance with accounting rules for pooling of interests transactions, charges to operating income for acquisition-related expenses were recorded upon completion of the pooling acquisitions. These acquisition-related expenses totaled \$16,000 (\$11,000 after tax) for the UTY transaction and primarily consisted of a pre-established compensation program for UTY's senior executives. The remaining acquisition-related expenses were for other acquisition activity during the year.

## 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:

	2000	1999
Fair value of assets acquired	\$ 32,577	\$ 18,941
Liabilities assumed and incurred	1,969	3,756
Total cash paid for acquisitions	\$ 30,608	\$ 15,185

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

The Company's Partners' Plan (the Plan) is a non-contributory profit sharing plan and ESOP for the benefit of certain Company 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 the Company. Total contributions, including the Company's matching contributions, were \$15,600, \$12,100 and \$8,820 for the years ended May 31, 2000, 1999 and 1998, respectively.

As a result of previous mergers and acquisitions, the Company 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 the Company makes matching contributions of 25% to 50%. Employees may make additional unmatched contributions to the plan of up to 9% of their earnings. The Company's contributions to these thrift plans were \$596, \$1,191 and \$1,200 for the fiscal years ended May 31, 2000, 1999 and 1998, respectively.

## 10. Earnings Per Share

Earnings per share and pro forma 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 the Company.

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

	2000	1999	1998
Numerator:			
Net income	\$ 193,387	\$ 138,939	\$ 133,654
Denominator:			
Denominator for basic earnings per share – weighted average shares (000's)	167,067	165,603	160,538
Effect of dilutive securities - employee stock options (000's)	2,920	3,738	2,866
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions (000's)	169,987	169,341	163,404
Basic earnings per share	\$ 1.16	\$ .84	\$ .83
Diluted earnings per share	\$ 1.14	\$ .82	\$ .82

On January 18, 2000, the Board of Directors approved a three-for-two common stock split effective March 7, 2000. On October 22, 1997, the Board of Directors approved a two-for-one common stock split effective November 18, 1997. All share and per share information have been adjusted to retroactively reflect the effect of these stock splits for all periods presented.

## 11. Stock Based Compensation

Under the stock option plan adopted by the Company in fiscal 2000, the Company 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 the Company's common stock. Options are granted at the fair market value of the underlying common stock on the date of grant and generally become exercisable at the rate of 20% per year commencing five years after grant, so long as the holder remains an employee of the Company.

As a result of the Unitog acquisition in March 1999, the Company 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 require 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.

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, 1997 (757,923 shares exercisable)	5,133,242	\$ 11.62
Granted	1,744,604	24.30
Cancelled	(237,008)	15.26
Exercised	(446,978)	5.33
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)	<b>5,938,691</b>	<b>\$ 20.74</b>

The following table summarizes the information related to stock options outstanding at May 31, 2000:

Range of Exercise Price	Number Outstanding	Outstanding Options		Exercisable Options	
		Average Remaining Option Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 4.44 – \$12.79	1,458,358	3.02	\$ 9.22	495,508	\$ 8.23
12.92 – 16.83	1,526,163	5.60	14.90	28,113	15.32
17.25 – 23.54	1,490,918	7.04	22.43	112,643	18.31
24.37 – 50.71	1,463,252	8.65	36.60	35,127	27.75
\$ 4.44 – \$50.71	5,938,691	6.08	\$ 20.74	671,391	\$11.24

At May 31, 2000, 8,950,375 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 Statement No. 123 and has been determined as if the Company 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 2000, 1999 and 1998 was \$21.29, \$14.09 and \$10.06, 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:

	2000	1999	1998
Risk free interest rate	6.25%	5.50%	5.50%
Dividend yield	.50%	.32%	.45%
Expected volatility of the Company's common stock	32%	27%	24%
Expected life of the option in years	9	9	8

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 the Company's 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 the Company's 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. The Company's pro forma information is as follows:

	2000	1999	1998
Net income:			
As reported	\$ 193,387	\$ 138,939	\$ 133,654
Pro forma for Statement No. 123	\$ 188,578	\$ 135,506	\$ 130,797
Earnings per share:			
Pro forma basic earnings per share for Statement No. 123	\$ 1.13	\$ .82	\$ .81
Pro forma diluted earnings per share for Statement No. 123	\$ 1.11	\$ .80	\$ .80

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

## 12. Litigation and Environmental Matters

The Company 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 the Company.

In acquiring Unitog in March 1999, the Company 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 Federal Superfund (SIBW) site, has been tested for soil and groundwater contamination. Soil testing at the Company's facility detected volatile organic compounds, and the Company promptly took steps to remediate the contamination. Groundwater testing in the area of the Company's 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 the Company's plant does not warrant remediation at this time. Instead, the low levels of groundwater contamination near the Company's facility will be monitored and allowed to attenuate naturally. The Record of Decision requires active groundwater remediation in other parts of the SIBW site, which are believed to be unrelated to the Company. 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 Company and the Company, the Company 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, the Company 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, 2000, the Company has an undiscounted liability of \$5,200 for environmental matters.

### 13. Special Charge

As a result of the acquisition of Unitog in March 1999, the Company developed a plan during the fourth quarter of fiscal 1999 to integrate Unitog into the Company and close duplicate facilities. The intention of the plan was to position the Company 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, the Company 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 the Company 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 the Company's headquarters in Cincinnati, Ohio.

### 14. Segment Information

The Company 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.

Information as to the operations of the Company's different business segments is set forth below based on the distribution of products and services offered. The Company evaluates performance based on several factors of which the primary financial measures are business segment revenue and income before income taxes. As a result of this Statement, certain prior year amounts have been reclassified to conform to the current year presentation. 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
<b>May 31, 2000</b>				
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
<b>May 31, 1999</b>				
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
<b>May 31, 1998</b>				
Revenue	\$ 1,090,577	\$ 386,368	\$ —	\$ 1,476,945
Gross margin	\$ 459,103	\$ 126,122	\$ —	\$ 585,225
Selling and administrative expenses	266,872	93,382	—	360,254
Acquisition-related expenses	—	—	17,116	17,116
Interest income	—	—	(4,825)	(4,825)
Interest expense	—	—	15,824	15,824
Income before income taxes	\$ 192,231	\$ 32,740	\$ (28,115)	\$ 196,856
Depreciation and amortization	\$ 67,550	\$ 7,783	\$ —	\$ 75,333
Capital expenditures	\$ 107,293	\$ 21,273	\$ —	\$ 128,566
Total assets	\$ 994,969	\$ 208,854	\$ 101,577	\$ 1,305,400

## 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, 2000 and 1999.

May 31, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 457,375	\$ 465,849	\$ 473,929	\$ 504,838
Gross profits	\$ 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

May 31, 1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 426,430	\$ 436,498	\$ 433,669	\$ 454,971
Gross profits	\$ 167,675	\$ 174,440	\$ 176,678	\$ 181,976
Net income	\$ 36,251	\$ 44,378*	\$ 38,631**	\$ 19,679
Basic earnings per share	\$ .22	\$ .27	\$ .23	\$ .12
Diluted earnings per share	\$ .22	\$ .26	\$ .22	\$ .12
Weighted average number of shares outstanding (000's)	164,894	165,537	166,224	166,287

\* Includes a \$2,100 gain from the sale of certain facilities and a \$2,000 legal recovery on a breach of contract settlement.

\*\*Includes a \$5,000 charge relating to environmental matters.

## Report of Audit Committee

The Audit Committee (the Committee) of the Board of Directors is composed of three independent directors. The Committee, which held two meetings during fiscal 2000, oversees the Company's financial reporting process on behalf of the Board of Directors.

In fulfilling its responsibilities, the Committee recommended to the Board of Directors the selection of the Company's independent auditors. The Committee discussed with the independent auditors the overall scope and specific plan for their audits. The Committee also discussed the Company's consolidated financial statements and the adequacy of the Company's system of internal control.

The Committee meets with the Company's independent auditors, without management present, to discuss the results of their evaluation of the system of internal control and the overall quality of the Company's financial reporting. The meetings are designed to facilitate any private communications with the Committee desired by the independent auditors.



Roger L. Howe, Chairman  
Audit Committee  
July 6, 2000

## Report of Ernst & Young LLP, Independent Auditors

The Board of Directors  
Cintas Corporation

We have audited the accompanying consolidated balance sheets of Cintas Corporation as of May 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended May 31, 2000. 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, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2000, in conformity with accounting principles generally accepted in the United States.

Cincinnati, Ohio  
July 6, 2000



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Fiscal 2000 Compared to Fiscal 1999

Fiscal 2000 marked the 31st year of uninterrupted growth for Cintas. Total revenue was \$1.9 billion, an increase of 9% over fiscal 1999. Because the merger with Unitog on March 24, 1999 was treated as a pooling of interests, the Company's historical financial results have been restated as if Cintas and Unitog had always been one company. Revenue from the Rentals segment increased 10% and Other Services revenue increased 5%, primarily due to growth in the customer base. Revenue contributed by Unitog was lower when compared to the prior year, while Cintas revenue increased 13%. The decline in the Unitog growth rate was caused by several reasons. Unitog divested some of its linen business shortly before the Cintas acquisition. After the acquisition, Cintas sold some additional linen volume. Internal growth in the Rentals segment, excluding Unitog volume, reached the Cintas targeted range of 14%-16% by year end.

Pre-tax income was \$312 million, a 39% increase over 1999. Excluding one-time items related to Unitog in fiscal 1999 (refer to Notes 8, 12, 13 and 15 for additional information), pre-tax income increased 18% in fiscal 2000 over the prior year. Pre-tax income from the Rentals and Other Services segments increased 17% and 4%, respectively, over the prior year.

One-time items for fiscal 1999 relate primarily to the merger with Unitog. These items include a one-time charge of \$39 million related to transaction fees and integration costs, a \$5 million Unitog environmental charge and one-time income of \$4 million generated by Unitog. The one-time charge of \$39 million included \$11 million for transaction fees (investment banking, legal and accounting fees and retention bonuses) and a special charge of \$28 million related to integration costs (severance and asset write downs).

As a result of the integration of Unitog and Cintas, redundant operating facilities were identified based on an evaluation of operating capacity by location. These redundant facilities were merged into existing operations during fiscal 2000. In addition, Unitog corporate functions were consolidated and the Unitog corporate office building was sold in December 1999. The cost to exit all corporate and operating facilities included severance payments to affected employees and the write-off of assets. Severance costs included a pre-established severance plan for corporate executives and the cash settlement of stock options for terminated employees. These actions have improved service to customers, while enabling Cintas to reduce future operating costs.

Net interest expense decreased \$1 million over the prior year, despite higher interest rates, due to a lower level of average debt in fiscal 2000. The Company's effective tax rate was 38% for fiscal 2000 and fiscal 1999.

Excluding one-time items impacting fiscal 1999, net income for fiscal 2000 of \$193 million and basic earnings per share of \$1.16 represent an increase of 18% and 17%, respectively, over fiscal 1999. Including these one-time items, net income and basic earnings per share represent a 39% and 38% increase, respectively, over the 1999 fiscal year. Return on average equity is 20% compared to 17% for the prior year; however, excluding one-time items, return on average equity is 20% for both fiscal 2000 and the prior year.

Cash, cash equivalents and marketable securities increased by \$22 million in 2000, or 25%, primarily due to strong operating results. The cash, cash equivalents and marketable securities will be used to finance future acquisitions and capital expenditures. Marketable securities consist primarily of municipal bonds and federal government securities.

Accounts receivable increased \$24 million due to sales growth and acquisitions made during the year. Inventories increased \$27 million due to acquisitions and sales growth in both business segments, as well as to support new product roll-outs in the Other Services segment.

Net property and equipment increased by \$69 million. In fiscal 2000, the Company completed construction of eleven new uniform rental facilities and had another six uniform rental facilities in various stages of construction to accommodate growth in rental operations.

### **Fiscal 1999 Compared to Fiscal 1998**

Fiscal 1999 total revenue was \$1.8 billion, an increase of 19% over fiscal 1998. Revenue from the Rentals segment increased 19% and Other Services increased 18%, primarily due to growth in the customer base. Revenue contributed by Unitog was flat when compared to the prior year, while Cintas revenue increased 23%.

Pre-tax income was \$224 million, an increase of 14% over fiscal 1998. Pre-tax income from the Rentals and Other Services segments increased 24% and 32%, respectively, over the prior year. Excluding one-time charges related to the mergers with Unitog in fiscal 1999 (refer to Notes 8, 12, 13 and 15 for additional information) and UTY in fiscal 1998, pre-tax income was \$264 million, an increase of 24% over the prior year.

Results for 1998 were adjusted on a pro forma basis to reflect the true tax impact of UTY as if they had been reported as a C Corporation prior to the merger with Cintas. These adjustments include a one-time tax credit of \$8 million to establish a deferred tax asset and acquisition-related expenses of \$16 million, primarily related to a pre-established compensation program for UTY executives.

Net interest expense increased \$1 million over the prior year due to a higher level of average debt in 1999. The Company's effective tax rate was 38% and 35% pro forma, respectively, for fiscal years 1999 and 1998. Fiscal year 1998 income taxes were offset by the \$8 million credit related to the conversion of UTY from an S Corporation to a C Corporation.

Excluding one-time items impacting both 1999 and 1998, pro forma net income of \$164 million and pro forma basic earnings per share of \$.99 represent an increase of 25% and 21%, respectively, over fiscal 1998. Including these one-time items, pro forma net income of \$139 million and pro forma basic earnings per share of \$.84 represent an 8% and 5% increase, respectively, over the 1998 fiscal year. Pro forma return on average equity is 17% compared to 18% for the prior year; however, excluding one-time items, pro forma return on average equity is 20% compared to 19% for the prior year.

Cash, cash equivalents and marketable securities decreased by \$13 million in 1999, primarily due to capital expenditures for new facilities and equipment to accommodate growth. The cash, cash equivalents and marketable securities will be used to finance future acquisitions and capital expenditures. Marketable securities consist primarily of municipal bonds and federal government securities.

Accounts receivable increased \$16 million, primarily due to sales growth. Inventories increased \$8 million, reflecting growth in both the Rentals and Other Services segments of the business.

Net property and equipment increased by \$84 million. In fiscal 1999, the Company completed construction of fifteen new uniform rental facilities and had another twelve in various stages of construction to accommodate growth in rental operations.

### **Liquidity and Capital Resources**

At May 31, 2000, the Company had \$110 million in cash, cash equivalents and marketable securities. The Company's investment policy pertaining to marketable securities is conservative. Preservation of principal while earning an attractive yield are the criteria used in making investments. Working capital for fiscal 2000 increased \$64 million, to \$486 million in fiscal 2000. This increase is primarily due to the increase in accounts receivable and inventories related to acquisitions and sales growth in both the Rentals and Other Services segments.

Capital expenditures for fiscal 2000 totaled \$161 million, including \$130 million for the Rentals segment and \$31 million for Other Services. The Company continues to reinvest in land, buildings and equipment in an effort to expand capacity for future growth. The Company anticipates that capital expenditures for fiscal 2001 will approximate \$175-\$180 million.

The Company's percentage of debt to total capitalization was 21% at May 31, 2000, versus 26% at May 31, 1999. In fiscal 2000, the Company initiated a \$200 million commercial paper program, which received credit ratings of "A-1" from Standard & Poor's and "Prime-1" from Moody's. These ratings reflect the Company's commitment to conservative financial policies, strong financial measures and a disciplined integration strategy for acquisitions. This commercial paper program replaced bank loans and reduced interest rates on outstanding debt. The program is fully supported by a long-term credit facility and matures in 2002. The Company expects to extend the facility prior to maturity. As of May 31, 2000, \$140 million in commercial paper was outstanding and \$60 million was available under the commercial paper or committed credit facility. The \$140 million outstanding is included in the \$172 million of unsecured notes detailed in Note 5.

During the year, the Company paid dividends of \$31 million, or \$.19 per share. This dividend is an increase of 27% over that paid in fiscal 1999.

### Market Risk

The Company manages interest rate risk by using a combination of variable and fixed rate debt, marketable securities and interest rate swap agreements. The Company's earnings are affected by changes in short-term interest rates due to the use of variable rate notes and revolving credit facilities amounting to approximately \$169 million, with an average interest rate of 6.36%. This exposure is limited by the purchase of marketable securities and interest rate swap agreements as a hedge against variability in short-term rates. If short-term rates increase by one-half percent (or 50 basis points), the Company's interest expense would increase, and income before taxes would decrease, by approximately \$.5 million. Conversely, if short-term rates decrease by one-half percent (or 50 basis points), the Company's interest expense would decrease, and income before taxes would increase, by approximately \$.5 million. This estimated exposure considers the mitigating effects of marketable securities and swap agreements on the change in the cost of variable rate debt. This analysis does not consider the effects of a change in economic activity or a change in the Company's capital structure.

### Inflation and Changing Prices

Management believes inflation has not had a material impact on the Company's financial condition or a negative impact on operations.

## Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements. This Annual Report contains forward-looking statements that reflect the Company's current views as to future events and financial performance with respect to its operations. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in this Annual Report. Factors that might cause such a difference include the possibility of greater than anticipated operating costs, lower sales volumes, the performance and costs of integration of acquisitions, fluctuations in costs of materials and labor, the outcome of pending environmental matters and the reactions of competitors in terms of price and service. Forward-looking statements speak only as of the date made. Cintas undertakes no obligation to update any forward-looking statements to reflect the events or circumstances arising after the date of which they are made.

## Directors and Officers

### Board of Directors

**Gerald V. Dirvin**

*Retired Executive Vice President  
and Director of The Procter & Gamble  
Company*

**Richard T. Farmer**

*Chairman of the Board  
of the Corporation*

**Scott D. Farmer**

*President & Chief Operating Officer  
of the Corporation*

**James J. Gardner**

*Retired Vice President  
of the Corporation*

**Roger L. Howe**

*Retired Chairman of the Board  
of U.S. Precision Lens, Inc.*

**Donald P. Klekamp**

*Senior Partner  
of Keating, Muething & Klekamp*

**Robert J. Kohlhepp**

*Chief Executive Officer  
of the Corporation*

**John S. Lillard**

*Chairman of the Board  
of Wintrust Financial Corporation*

### Corporate Officers

**Richard T. Farmer**

*Chairman of the Board*

**Robert J. Kohlhepp**

*Chief Executive Officer*

**Scott D. Farmer**

*President & Chief Operating Officer*

**Robert R. Buck**

*Senior Vice President &  
President - Uniform Rental Division*

**David T. Jeanmougin**

*Senior Vice President & Secretary*

**William C. Gale**

*Vice President & Chief Financial Officer*

**Karen L. Carnahan**

*Vice President & Treasurer*

### Operating, Staff, and Subsidiary Officers

**James J. Case**

*Vice President  
Southwest Rental Group*

**James V. Critchfield**

*Vice President  
Northcentral Rental Group*

**William L. Cronin**

*Vice President  
Northeast Rental Group*

**Michael P. DiMino**

*President & Chief Operating Officer  
Uniforms To You*

**Gregory J. Eling**

*Vice President  
Central Rental Group*

**Michael P. Gaburo**

*Vice President  
Cleanroom Division*

**Arnold Gedmintas**

*Vice President  
Northern Rental Group*

**William W. Goetz**

*Vice President  
Marketing & Merchandising*

**J. Todd Gregory**

*Vice President  
Southcentral Rental Group*

**Larry A. Harmon**

*Vice President  
Great Lakes Rental Group*

**J. Phillip Holloman**

*Vice President  
Research & Development*

**Jeffrey E. Jones**

*Vice President  
Northwest Rental Group*

**John S. Kean III**

*Senior Vice President*

**James J. Krupansky**

*Vice President  
Western Rental Group*

**Glenn W. Larsen**

*Vice President  
Logistics & Manufacturing*

**John W. Milligan**

*Vice President  
Midwest Rental Group*

**Robert A. Oswald**

*Vice President*

**David Pollak, Jr.**

*Vice President  
First Aid & Safety Division*

**Rodger V. Reed**

*Vice President  
National Account Division*

**Bruce E. Rotte**

*Vice President  
Southeast Rental Group*

**G. Thomas Thornley**

*Vice President &  
Chief Information Officer*

## Shareholder Information

### Executive Offices

Cintas Corporation  
6800 Cintas Boulevard  
P.O. Box 625737  
Cincinnati, Ohio 45262-5737

### Auditors

Ernst & Young LLP  
1300 Chiquita Center  
250 East Fifth Street  
Cincinnati, Ohio 45202

### Market for Registrant's Common Stock

Cintas Corporation Common Stock is traded on the NASDAQ National Market System. The symbol is CTAS.

### Registrar and Transfer Agent

The Fifth Third Bank  
Shareholder Services  
Mail Drop 10AT66  
38 Fountain Square Plaza  
Cincinnati, Ohio 45263  
(513) 579-5320  
(800) 837-2755

### Annual Meeting

October 25, 2000  
Cintas Corporation  
Corporate Headquarters  
6800 Cintas Boulevard  
Cincinnati, Ohio  
10:00 a.m.

### 10-K Report

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for the year ended May 31, 2000, is available at no charge to shareholders. Direct requests in writing for this report or other information to:

William C. Gale  
Vice President & Chief Financial Officer  
Cintas Corporation  
6800 Cintas Boulevard  
P.O. Box 625737  
Cincinnati, Ohio 45262-5737  
(513) 459-1200

### Financial Information

For financial information visit us on the internet at <http://www.nasdaq.com> or <http://www.cintas-corp.com>

### Information Internet Address

Visit us at our web site at <http://www.cintas-corp.com>

### Security Holder Information

At May 31, 2000, there were approximately 2,300 shareholders of record of the Corporation's Common Stock. The Company believes that this represents approximately 26,000 beneficial owners.

The following table shows the high and low closing prices by quarter during the last two fiscal years. Closing prices have been adjusted to reflect a 3-for-2 stock split effective March 2000.

Fiscal 2000			Fiscal 1999		
Quarter ended	High	Low	Quarter ended	High	Low
May 2000	\$47.38	\$25.25	May 1999	\$48.79	\$40.00
February 2000	37.08	23.17	February 1999	52.25	35.33
November 1999	41.17	30.50	November 1998	38.25	28.33
August 1999	45.33	32.25	August 1998	36.58	26.58



A New World  
of Service

Cintas Corporation  
6800 Cintas Boulevard  
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Cincinnati, Ohio 45262-5737