CINTAS CORP
Form 10-Q
October 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2017

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from   to

Commission file number 0-11399

CINTAS CORPORATION
(Exact name of Registrant as specified in its charter)

WASHINGTON	31-1188630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6800 CINTAS BOULEVARD
P.O. BOX 625737
CINCINNATI, OHIO 45262-5737
(Address of principal executive offices)(Zip Code)

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

Indicate by checkmark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ü No _

Indicate by checkmark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ü No _

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer ü Accelerated Filer _ Non-Accelerated Filer _
Smaller Reporting Company _ Emerging Growth Company _ (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. _

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No ü

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding September 30, 2017
Common Stock, no par value	106,304,385

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

	Three Months Ended	
	August 31, 2017	August 31, 2016
Revenue:		
Uniform rental and facility services	$1,311,784	$994,282
Other	299,719	272,368
	1,611,503	1,266,650
Costs and expenses:		
Cost of uniform rental and facility services	706,863	537,097
Cost of other	165,287	153,126
Selling and administrative expenses	486,283	369,703
G&K Services, Inc. transaction and integration expenses	3,971	2,787
Operating income	249,099	203,937
Interest income	(297)	(65)
Interest expense	30,317	14,172
Income before income taxes	219,079	189,830
Income taxes	57,971	53,622
Income from continuing operations	161,108	136,208
Income from discontinued operations, net of tax expense of $41,727 and $1,141, respectively	56,103	1,883
Net income	$217,211	$138,091
Basic earnings per share:		
Continuing operations	$1.50	$1.27
Discontinued operations	0.52	0.02
Basic earnings per share	$2.02	$1.29
Diluted earnings per share:		
Continuing operations	$1.45	$1.24
Discontinued operations	0.51	0.02
Diluted earnings per share	$1.96	$1.26

See accompanying notes.

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

	Three Months Ended	
	August 31, 2017	August 31, 2016
Net income	$217,211	$138,091
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	35,184	115
Change in fair value of cash flow hedges	—	(12,037)
Amortization of interest rate lock agreements	(172)	385
Change in fair value of available-for-sale securities	20	(1)
Other comprehensive income (loss)	35,032	(11,538)
Comprehensive income	$252,243	$126,553

See accompanying notes.

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

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	August 31, 2017 (Unaudited)	May 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$191,414	$169,266
Marketable securities	21,626	22,219
Accounts receivable, net	731,577	736,008
Inventories, net	283,197	278,218
Uniforms and other rental items in service	654,249	635,702
Income taxes, current	—	44,320
Prepaid expenses and other current assets	42,490	30,132
Assets held for sale	—	38,613
Total current assets	1,924,553	1,954,478
Property and equipment, net	1,340,660	1,323,501
Investments	163,631	164,788
Goodwill	2,810,504	2,782,335
Service contracts, net	581,631	586,988
Other assets, net	30,627	31,967
	$6,851,606	$6,844,057
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$189,571	$177,051
Accrued compensation and related liabilities	119,252	149,635
Accrued liabilities	402,970	429,809
Income taxes, current	25,552	—
Debt due within one year	307,450	362,900
Liabilities held for sale	—	11,457
Total current liabilities	1,044,795	1,130,852
Long-term liabilities:		
Debt due after one year	2,533,672	2,770,624
Deferred income taxes	521,774	469,328
Accrued liabilities	185,484	170,460
Total long-term liabilities	3,240,930	3,410,412
Shareholders’ equity:		
Preferred stock, no par value:	—	—
100,000 shares authorized, none outstanding		
Common stock, no par value:	586,364	485,068
425,000,000 shares authorized		
FY 2018: 182,043,803 issued and 106,179,574 outstanding		
FY 2017: 180,992,605 issued and 105,400,629 outstanding		
Paid-in capital	168,514	223,924
Retained earnings	5,388,040	5,170,830
Treasury stock:	(3,609,040)	(3,574,000)

FY 2018: 75,864,229 shares		
FY 2017: 75,591,976 shares		
Accumulated other comprehensive income (loss)	32,003	(3,029)
Total shareholders' equity	2,565,881	2,302,793
	$6,851,606	$6,844,057

See accompanying notes.

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

	Three Months Ended August 31, 2017		August 31, 2016	
Cash flows from operating activities:				
Net income	$ 217,211		$ 138,091	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	53,568		39,679	
Amortization of intangible assets	14,941		3,489	
Stock-based compensation	28,630		20,779	
Gain on sale of business	(100,269	)	—	
Deferred income taxes	24,938		1,970	
Change in current assets and liabilities, net of acquisitions of businesses:				
Accounts receivable, net	8,955		(22,946	)
Inventories, net	(5,827	)	(13,017	)
Uniforms and other rental items in service	(13,058	)	(1,872	)
Prepaid expenses and other current assets	(16,011	)	(5,655	)
Accounts payable	17,684		17,480	
Accrued compensation and related liabilities	(30,306	)	(37,276	)
Accrued liabilities and other	(16,218	)	(23,676	)
Income taxes, current	70,128		40,542	
Net cash provided by operating activities	254,366		157,588	
Cash flows from investing activities:				
Capital expenditures	(62,517	)	(78,580	)
Proceeds from redemption of marketable securities	65,256		109,612	
	(58,022	)	(119,729	)

Purchase of marketable securities and investments				
Proceeds from sale of business	128,511		—	
Acquisitions of businesses	(302	)	(10,991	)
Other, net	(304	)	(918	)
Net cash provided by (used in) investing activities	72,622		(100,606	)
Cash flows from financing activities:				
(Payment) issuance of commercial paper, net	(43,000	)	163,800	
Repayment of debt	(250,000	)	(250,000	)
Prepaid short-term debt financing fees	—		(8,625	)
Proceeds from exercise of stock-based compensation awards	17,256		16,282	
Repurchase of common stock	(35,040	)	(18,870	)
Other, net	(649	)	385	
Net cash used in financing activities	(311,433	)	(97,028	)
Effect of exchange rate changes on cash and cash equivalents	6,593		(102	)
Net increase (decrease) in cash and cash equivalents	22,148		(40,148	)
Cash and cash equivalents at beginning of period	169,266		139,357	
Cash and cash equivalents at end of period	$ 191,414		$ 99,209	

See accompanying notes.

CINTAS CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The consolidated condensed financial statements of Cintas Corporation (Cintas, the Company, we, us or our) included herein have been prepared by Cintas, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequately presented, we suggest that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017. A summary of our significant accounting policies is presented beginning on page 38 of that report. There have been no material changes in the accounting policies followed by Cintas during the current fiscal year other than the adoption of new accounting pronouncements discussed in Note 2.

Interim results are subject to variations and are not necessarily indicative of the results of operations for a full fiscal year. In the opinion of management, adjustments (which include only normal recurring adjustments) necessary for a fair statement of the consolidated results of the interim periods shown have been made.

On March 21, 2017, Cintas completed the acquisition of G&K Services, Inc. (G&K) for consideration of approximately $2.1 billion. G&K is now a wholly-owned subsidiary of Cintas that operates within the Uniform Rental and Facility Services operating segment. To finance the G&K acquisition, Cintas used a combination of new senior notes, a term loan, other borrowings under its existing credit facility and cash on hand. G&K's results of operations are included in Cintas' consolidated financial statements as of and from the date of acquisition.

During the three months ended August 31, 2017, Cintas sold a significant business, referred to as "Discontinued Services" and, as a result, its operations are classified as discontinued operations for all periods presented. See Note 13 entitled Discontinued Operations for more information.

As disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2017, inventories are valued at the lower of cost (first-in, first-out) or market. Inventory is comprised of the following amounts at:

(In thousands)	August 31, 2017	May 31, 2017
Raw materials	$ 16,801	$ 17,528
Work in process	20,261	17,951
Finished goods	246,135	242,739
	$ 283,197	$ 278,218

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)," to clarify revenue recognition principles. This guidance is intended to improve disclosure requirements and enhance the comparability of revenue recognition practices. Improved disclosures under the amended guidance relate to the nature, amount, timing and uncertainty of revenue that is recognized from contracts with customers. This guidance will be effective for reporting periods beginning after December 15, 2017. A cross-functional implementation team has been established consisting of representatives from all of our operating segments. The implementation team is working to analyze the impact of the standard on Cintas' contract portfolio by reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to revenue contracts. In addition, we are in the process of identifying and implementing the appropriate changes to business processes and controls to support recognition and disclosure under the new standard. Cintas plans to adopt the standard as of the first quarter of fiscal year 2019 using the modified retrospective adoption alternative under this standard and therefore it is anticipated we will record a cumulative adjustment to retained earnings as of June 1, 2018. Cintas is continuing to evaluate the impact of ASU 2014-09 and an estimate of the impact to the consolidated condensed financial statements cannot be made at this time.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. Topic 842 supersedes the previous leases standard, ASC 840, "Leases." This guidance is effective for reporting periods beginning after December 15, 2018, however early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Cintas is currently evaluating the impact that ASU 2016-02 will have on its consolidated condensed financial statements.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates the two-step process that required identification of potential impairment and a separate measure of the actual impairment. Goodwill impairment charges, if any, would be determined by the difference between a reporting unit's carrying value and its fair value (impairment loss is limited to the carrying value). This standard is effective for annual or any interim goodwill impairment tests beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on the consolidated condensed financial statements.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs.” ASU 2017-07 requires the service component of pension and other postretirement benefit costs to be presented in the same line item as other employee compensation costs on the consolidated condensed statement of income; however, the other components of net benefit costs are required to be presented outside of operating income within the consolidated condensed statements of income. Cintas retrospectively adopted ASU 2017-07 on June 1, 2017.

No other new accounting pronouncement recently issued or newly effective had or is expected to have a material impact on Cintas' consolidated condensed financial statements.

3. Fair Value Measurements

All financial instruments that are measured at fair value on a recurring basis have been classified within the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the consolidated condensed balance sheet date. These financial instruments measured at fair value on a recurring basis are summarized below:

	As of August 31, 2017			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$191,414	$—	$ —	$191,414
Marketable securities:				
Canadian treasury securities	—	21,626	—	21,626
Total assets at fair value	$191,414	$21,626	$ —	$213,040

	As of May 31, 2017			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$169,266	$—	$ —	$169,266

Marketable securities:				
Canadian treasury securities	—	22,219	—	22,219
Total assets at fair value	$169,266	$22,219	$ —	$191,485

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

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

The funds invested in Canadian treasury securities are not presently expected to be repatriated, but instead are expected to be invested indefinitely in foreign subsidiaries. Interest, realized gains and losses and declines in value determined to be other than temporary on available-for-sale securities are included in interest income or expense. The cost of the securities sold is based on the specific identification method. The amortized cost basis of marketable securities as of August 31, 2017 and May 31, 2017 was $21.6 million and $22.2 million, respectively. All outstanding marketable securities as of August 31, 2017 and May 31, 2017 had contractual maturities due within one year.
The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Cintas believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the consolidated balance sheet dates.
In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a nonrecurring basis as required under GAAP. The Company's acquisition of G&K in the fourth quarter of fiscal 2017 was recorded at fair value. See Note 9 entitled Acquisitions for additional information on the measurement of the G&K assets acquired and liabilities assumed. There were no material acquisitions during the three months ended August 31, 2017.

4. Investments

Investments at August 31, 2017 of $163.6 million include the cash surrender value of insurance policies of $143.4 million, equity method investments of $15.2 million and cost method investments of $5.0 million. Investments at May 31, 2017 of $164.8 million include the cash surrender value of insurance policies of $144.0 million, equity method investments of $15.8 million and cost method investments of $5.0 million.

Investments are generally evaluated for impairment on an annual basis or when indicators of impairment exist. For the three months ended August 31, 2017 and 2016, no impairment losses were recorded.

5. Earnings Per Share

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

(In thousands except per share data)	Three Months Ended August 31, 2017	Three Months Ended August 31, 2016
Basic Earnings per Share from Continuing Operations		
Income from continuing operations	$161,108	$136,208
Less: income from continuing operations allocated to participating securities	3,187	2,852
Income from continuing operations available to common shareholders	$157,921	$133,356
Basic weighted average common shares outstanding	105,740	104,483
Basic earnings per share from continuing operations	$1.50	$1.27

(In thousands except per share data)	Three Months Ended August 31, 2017	Three Months Ended August 31, 2016
Diluted Earnings per Share from Continuing Operations		
Income from continuing operations	$161,108	$136,208
Less: income from continuing operations allocated to participating securities	3,187	2,852
Income from continuing operations available to common shareholders	$157,921	$133,356
Basic weighted average common shares outstanding	105,740	104,483
Effect of dilutive securities – employee stock options	2,797	2,631
Diluted weighted average common shares outstanding	108,537	107,114
Diluted earnings per share from continuing operations	$1.45	$1.24

For the three months ended August 31, 2017, basic and diluted earnings per share from discontinued operations were $0.52 and $0.51, respectively. Both basic and diluted earnings per share from discontinued operations were $0.02 for the three months ended August 31, 2016.

For the three months ended August 31, 2017 and August 31, 2016, options granted to purchase 0.6 million and 0.7 million shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common stock (anti-dilutive).

On August 2, 2016, Cintas announced that the Board of Directors authorized a $500.0 million share buyback program, which does not have an expiration date. As of August 31, 2017, no share buybacks have occurred under the August 2, 2016 program and there were no share buybacks under this program subsequent to August 31, 2017 through October 6, 2017.

For the three months ended August 31, 2017, Cintas acquired 0.3 million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the three months ended August 31, 2017. These shares were acquired at an average price of $128.70 per share for a total purchase price of $35.0 million.

6. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the three months ended August 31, 2017, by reportable operating segment and All Other, are as follows:

Goodwill (in thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Total
Balance as of June 1, 2017	$2,448,070	$243,112	$91,153	$2,782,335
Goodwill acquired[1]	24,837	72	—	24,909
Foreign currency translation	1,646	1,552	62	3,260
Balance as of August 31, 2017	$2,474,553	$244,736	$91,215	$2,810,504

[1] Adjustments to the G&K preliminary purchase price allocation represent $24.8 million of the acquired goodwill in the Uniform Rental and Facility Services reportable operating segment. See Note 9 entitled Acquisitions for more information.

Service Contracts (in thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Total
Balance as of June 1, 2017	$529,923	$30,062	$27,003	$586,988
Service contracts acquired	32	411	12	455
Service contracts amortization	(10,334)	(958)	(1,179)	(12,471)
Foreign currency translation	6,486	173	—	6,659
Balance as of August 31, 2017	$526,107	$29,688	$25,836	$581,631

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

(In thousands)	As of August 31, 2017 Carrying Amount	Accumulated Amortization	Net
Service contracts	$920,101	$ 338,470	$581,631
Noncompete and consulting agreements	$40,918	$ 39,516	$1,402
Other	35,419	6,194	29,225
Total other assets	$76,337	$ 45,710	$30,627

(In thousands)	As of May 31, 2017 Carrying Amount	Accumulated Amortization	Net
Service contracts	$911,273	$ 324,285	$586,988
Noncompete and consulting agreements	$40,743	$ 39,244	$1,499
Other	34,890	4,422	30,468
Total other assets	$75,633	$ 43,666	$31,967

Amortization expense for service contracts and other assets for continuing operations was $14.1 million and $3.2 million for the three months ended August 31, 2017 and 2016, respectively. Estimated amortization expense for service contracts and other assets excluding any future acquisitions, for each of the next five full fiscal years is $61.4 million, $60.9 million, $59.5 million, $53.7 million and $51.7 million, respectively. The increase in amortization expense in the current year and for the next five years over past fiscal years is the result of the G&K acquisition.

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7. Debt, Derivatives and Hedging Activities

Cintas' debt is summarized as follows:

(In thousands)	Interest Rate	Fiscal Year Issued	Fiscal Year Maturity	August 31, 2017	May 31, 2017
Debt due within one year					
Senior notes	6.13 %	2008	2018	$300,000	$300,000
Commercial paper	1.40 % (1)	Various	Various	7,500	50,500
Current portion of term loan	2.00 % (2)	2017	2018	—	12,500
Debt issuance costs				(50)	(100)
Total debt due within one year				$307,450	$362,900
Debt due after one year					
Senior notes	4.30 %	2012	2022	250,000	250,000
Senior notes	2.90 %	2017	2022	650,000	650,000
Senior notes	3.25 %	2013	2023	300,000	300,000
Senior notes (3)	2.78 %	2013	2023	52,446	52,554
Senior notes (4)	3.11 %	2015	2025	52,560	52,645
Senior notes	3.70 %	2017	2027	1,000,000	1,000,000
Senior notes	6.15 %	2007	2037	250,000	250,000
Long-term portion of term loan	2.00 % (2)	2017	2022	—	237,500
Debt issuance costs				(21,334)	(22,075)
Total debt due after one year				$2,533,672	$2,770,624

(1) Variable rate debt instrument. The rate presented is the variable borrowing rate at August 31, 2017.
(2) Variable rate debt instrument. The rate presented is the variable borrowing rate at May 31, 2017.
(3) Cintas assumed these senior notes with the acquisition of G&K in the fourth quarter of fiscal 2017, and they were recorded at fair value. The interest rate shown above is the effective interest rate. The principal amount of these notes is $50.0 million with a stated interest rate of 3.73%.
(4) Cintas assumed these senior notes with the acquisition of G&K in the fourth quarter of fiscal 2017, and they were recorded at fair value. The interest rate shown above is the effective interest rate. The principal amount of these notes is $50.0 million with a stated interest rate of 3.88%.

Cintas' senior notes, excluding the G&K senior notes assumed with the acquisition of G&K in fiscal 2017, and term loan are recorded at cost, net of debt issuance costs. The fair value of the long-term debt is estimated using Level 2 inputs based on general market prices. The carrying value and fair value of Cintas' debt as of August 31, 2017 were $2,862.5 million and $3,025.9 million, respectively, and as of May 31, 2017 were $3,156.0 million and $3,296.8 million, respectively. During the three months ended August 31, 2017, Cintas made payments of $43.0 million, net on commercial paper borrowings and paid off the term loan balance of $250.0 million with cash on hand.

The credit agreement that supports our commercial paper program was amended on September 16, 2016. The amendment increased the capacity of the revolving credit facility from $450.0 million to $600.0 million and added a $250.0 million term loan facility. The existing term loan facility was paid in full as of August 31, 2017. The credit agreement has an accordion feature that provides Cintas the ability to request increases to the borrowing commitments under either the revolving credit facility or a new term loan of up to $250.0 million in the aggregate, subject to customary conditions. The maturity date of the agreement is September 15, 2021. As of August 31, 2017, there was $7.5 million of commercial paper outstanding with a weighted average interest rate of 1.40% and maturity dates less than 30 days and no borrowings on our revolving credit facility. As of May 31, 2017, there was $50.5 million of commercial paper

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outstanding with a weighted average interest rate of 1.24% and maturity dates less than 30 days and no borrowings on our revolving credit facility. The fair value of the commercial paper is estimated using Level 2 inputs based on general market prices. Given its short-term nature, the carrying value of the outstanding commercial paper approximates fair value.

Cintas uses interest rate locks to manage our overall interest expense as interest rate locks effectively change the interest rate of specific debt issuances. The interest rate locks are entered into to protect against unfavorable movements in the benchmark treasury rate related to forecasted debt issuances. Cintas used interest rate lock agreements to hedge against movements in the treasury rates at the time Cintas issued its senior notes in fiscal 2007, fiscal 2008, fiscal 2012, fiscal 2013 and fiscal 2017. The amortization of the cash flow hedges resulted in a decrease to other comprehensive income of $0.2 million for the three months ended August 31, 2017 and an increase to other comprehensive income of $0.4 million for the three months ended August 31, 2016.

Cintas has certain covenants related to debt agreements. These covenants limit Cintas’ ability to incur certain liens, to engage in sale-leaseback transactions and to merge, consolidate or sell all or substantially all of Cintas’ assets. These covenants also require Cintas to maintain certain debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) and interest coverage ratios. Cross-default provisions exist between certain debt instruments. If a default of a significant covenant were to occur, the default could result in an acceleration of the maturity of the indebtedness, impair liquidity and limit the ability to raise future capital. Cintas was in compliance with all debt covenants for all periods presented.

8. Income Taxes

In the normal course of business, Cintas provides for uncertain tax positions and the related interest and adjusts its unrecognized tax benefits and accrued interest accordingly. As of August 31, 2017 and May 31, 2017, recorded unrecognized tax benefits were $13.7 million and $12.6 million, respectively, and are included in long-term accrued liabilities on the consolidated condensed balance sheet. The increase in the liability for the three months ended August 31, 2017 is primarily related to accrued interest on unrecognized tax benefits.

All U.S. federal income tax returns are closed to audit through fiscal 2013. Cintas is currently in various audits in certain foreign jurisdictions and certain domestic states. The years under foreign and domestic state audits cover fiscal years back to 2013. Based on the resolution of the various audits and other potential regulatory developments, it is reasonably possible that the balance of unrecognized tax benefits would not change for the fiscal year ending May 31, 2018.

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

Cintas’ effective tax rate for continuing operations was 26.5% and 28.2% for the three months ended August 31, 2017 and 2016, respectively. The effective tax rate for both periods was largely impacted by certain discrete items (primarily the tax accounting for stock-based compensation).

9. Acquisitions

On March 21, 2017, Cintas acquired G&K for consideration of approximately $2.1 billion. Pursuant to the merger agreement among Cintas, G&K and Bravo Merger Sub, Inc., a wholly-owned subsidiary of Cintas, each share of common stock of G&K issued and outstanding immediately prior to the effective time of the G&K acquisition was canceled and converted into the right to receive $97.50 in cash. The total purchase price was $2,078.4 million, which was funded using a combination of new senior notes, a term loan, other borrowings under our existing credit facility and cash on hand. The net consideration transferred for G&K consisted of the following items:
(In thousands)

Cash consideration for common stock	$1,901,845	(1)
Cash consideration for share-based awards	62,257	(2)
Cash consideration for G&K revolving debt	124,180	(3)
Cash consideration for transaction expenses	24,529	(4)
Total consideration	2,112,811	
Cash acquired	(34,393)	(5)
Net consideration transferred	$2,078,418	

(1) The cash consideration for outstanding shares of G&K common stock is the product of the agreed-upon cash per share price of $97.50 and total G&K outstanding shares of approximately 19.5 million.
(2) The cash consideration for share-based awards is the product of the agreed-upon cash per share price of $97.50 and the total number of restricted stock outstanding and the "in the money" stock options net of the weighted average exercise price.
(3) The cash consideration for G&K revolving debt reflects the repayment of the outstanding obligation.
(4) Represents G&K legal and professional fees that were incurred prior to acquisition and were due upon the closing of the transaction.
(5) Represents the G&K cash balance acquired at acquisition.

Cintas accounted for the G&K acquisition using the acquisition method. The preliminary allocation of the purchase price was determined by management with the assistance of third-party valuation specialists and was based on estimates of the fair value of assets acquired and liabilities assumed as of March 21, 2017. In the three months ended August 31, 2017, $24.1 million of adjustments related to deferred taxes were made to the preliminary purchase price allocation. Cintas is continuing to evaluate information to determine the fair value of acquired assets and liabilities. As of August 31, 2017, the purchase price allocation for the acquisition was preliminary and subject to completion. The components of the preliminary purchase price allocation, at fair value, are as follows:

Assets:	
Accounts receivable	$95,846
Inventories	30,254
Uniforms and other rental items in service	93,659
Income taxes, current	14,626
Prepaid expenses and other current assets	43,235
Property and equipment	254,035
Goodwill	1,517,340
Service contracts	519,000
Trade names	17,000
Other assets	15,585
Liabilities:	
Accounts payable	(53,220)
Accrued compensation and related liabilities	(9,594)
Accrued liabilities	(115,109)
Long-term accrued liabilities	(28,380)

G&K senior notes	(105,359)
Deferred income taxes	(210,500)
Total consideration	$2,078,418

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The preliminary fair value of the intangible assets has been estimated using the income approach through a discounted cash flow analysis (except as noted below with respect to the trade names) with the cash flow projections discounted using a rate of 9.5%. The cash flows are based on estimates used to price the G&K acquisition, and the discount rates applied were benchmarked with reference to the implied rate of return from Cintas' pricing model and the weighted average cost of capital.

The G&K service contract intangible asset will be amortized over a period of 15 years, which represents the estimated useful life of the economic benefit and the asset amortization is based on the annual economic value of the underlying asset which generally decreases over the 15-year term. The trade names represent the G&K corporate trade name and all of the branded variations thereof. Cintas applied the income approach through a relief from royalty method analysis to determine the preliminary fair value of the trade name assets.

The table below sets forth the preliminary valuation and amortization period of identifiable intangible assets:

Identifiable intangible assets:	Preliminary Valuation	Amortization Period
Service contracts	$ 519,000	15 years
Trade names	17,000	3 years
Total	$ 536,000	

Cintas estimated the preliminary fair value of the acquired property, plant and equipment using a combination of the cost and market approaches, depending on the type of asset. The preliminary fair value of property, plant and equipment consisted of real property of $141.8 million and personal property of $112.2 million.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. None of the goodwill is expected to be deductible for income tax purposes. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the G&K acquisition. These benefits include improved service capabilities, an enhanced footprint in the markets that we serve, attractive synergy opportunities and value creation. The goodwill is entirely allocated to the Uniform Rental and Facility Services reportable operating segment.

The following unaudited pro forma information presents the combined financial results for Cintas and G&K as if the G&K acquisition had been completed at the beginning of Cintas' prior fiscal year, June 1, 2016. Prior to the acquisition, G&K used a 52-week or 53-week fiscal year ending on the Saturday nearest June 30. The pro forma financial information set forth below for the three months ended August 31, 2016 includes G&K's quarterly results for the period of July 2, 2016 through October 1, 2016 adjusted for number of working days in Cintas' first quarter of fiscal 2017.

In thousands except per share data	August 31, 2016
Net sales	$1,511,378
Net income	$146,413
Earnings per common share - diluted	$1.34

The information above does not include the pro forma adjustments that would be required under Regulation S-X for pro forma financial information, and does not reflect future events that may occur after August 31, 2017 or any operating efficiencies or inefficiencies that may result from the G&K acquisition and related financing. Therefore, the information is not necessarily indicative of results that would have been achieved had the businesses been combined during the periods presented or the results that Cintas will experience going forward.

Cintas is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a nonrecurring basis (including business acquisitions). The working capital assets and liabilities, as well as the property and equipment acquired, were valued using Level 2 inputs which included data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets (market approach). Goodwill, service contracts and other intangibles were valued using Level 3 inputs, which are unobservable by nature, and included internal estimates of future cash flow using a discount rate of 9.5% (income approach). Significant increases (decreases) in any of those unobservable inputs in isolation would result in a significantly lower (higher) fair value measurement. Management utilizes third-party valuation firms to assist in the determination of purchase accounting fair values, and specifically those considered Level 3 measurements. Management ultimately oversees the third-party valuation firms to ensure that the transaction-specific assumptions are appropriate for Cintas.

10. Pension Plans

In conjunction with the acquisition of G&K, Cintas assumed G&K's noncontributory frozen defined benefit pension plan (the Pension Plan) that covers substantially all G&K employees who were employed as of July 1, 2005, except certain employees who were covered by union-administered plans. Benefits are based on the number of years of service and each employee’s compensation near retirement. We will make annual contributions to the Pension Plan consistent with federal funding requirements. The Pension Plan was frozen by G&K effective December 31, 2006. Future growth in benefits will not occur beyond this date. Applicable accounting standards require that the Consolidated Condensed Balance Sheet reflect the funded status of the Pension Plan. The funded status of the Pension Plan is measured as the difference between the plan assets at fair value and the projected benefit obligation. The net pension liability at August 31, 2017 is included in Long-Term Accrued Liabilities on the consolidated condensed balance sheet. Unrecognized differences between actual amounts and estimates based on actuarial assumptions are included in Accumulated Other Comprehensive Income in our consolidated condensed balance sheet. The difference between actual amounts and estimates based on actuarial assumptions are recognized in other comprehensive income in the period in which they occur. The Pension Plan assumptions are evaluated annually and are updated as deemed necessary.

The components of net periodic pension cost recognized in other comprehensive income for the Pension Plan for the three months ended August 31, 2017 are as follows:

(in thousands)	August 31, 2017
Interest cost	$ 711
Expected return on assets	(716)
Amortization of net loss	—
Total net periodic benefit cost	$ (5)

11. Accumulated Other Comprehensive Income (Loss)

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

(In thousands)	Foreign Currency	Unrealized Income on Cash Flow Hedges	Other	Total
Balance at June 1, 2017	$(12,726)	$ 11,382	$(1,685)	$(3,029)
Other comprehensive income before reclassifications	35,184	—	20	35,204
Amounts reclassified from accumulated other comprehensive income (loss)	—	(172)	—	(172)
Net current period other comprehensive income (loss)	35,184	(172)	20	35,032
Balance at August 31, 2017	$22,458	$ 11,210	$(1,665)	$32,003

(In thousands)	Foreign Currency	Unrealized Loss on Cash Flow Hedges	Other	Total
Balance at June 1, 2016	$(2,474)	$(20,830)	$(1,570)	$(24,874)
Other comprehensive income (loss) before reclassifications	115	(12,037)	(1)	(11,923)
Amounts reclassified from accumulated other comprehensive income (loss)	—	385	—	385
Net current period other comprehensive income (loss)	115	(11,652)	(1)	(11,538)
Balance at August 31, 2016	$(2,359)	$(32,482)	$(1,571)	$(36,412)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line in the Consolidated Condensed Statements of Income
	Three Months Ended		
(In thousands)	August 31, 2017	August 31, 2016	
Amortization of interest rate locks	$ 278	$(615)	Interest expense
Tax (expense) benefit	(106)	230	Income taxes
Amortization of interest rate locks, net of tax	$ 172	$(385)	Net income

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12. Segment Information

Cintas classifies its business into two reportable operating segments and places the remainder of its operating segments in an All Other category. Cintas' two reportable operating segments are Uniform Rental and Facility Services and First Aid and Safety Services. The Uniform Rental and Facility Services reportable operating segment, consists of the rental and servicing of uniforms and other garments including flame resistant clothing, mats, mops and shop towels and other ancillary items. In addition to these rental items, restroom cleaning services and supplies, carpet and tile cleaning services and the sale of items from our catalogs to our customers on route are included within this reportable operating segment. The First Aid and Safety Services reportable operating segment consists of first aid and safety products and services. The remainder of Cintas' business, which consists of Fire Protection Services and its Uniform Direct Sale business, is included in All Other.

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

(In thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Corporate [1]	Total
As of and for the three months ended August 31, 2017					
Revenue	$1,311,784	$140,582	$159,137	$ —	$1,611,503
Income (loss) before income taxes	$218,910	$19,411	$10,778	$ (30,020)	$219,079
Total assets	$5,844,718	$456,391	$337,457	$ 213,040	$6,851,606
As of and for the three months ended August 31, 2016					
Revenue	$994,282	$124,839	$147,529	$ —	$1,266,650
Income (loss) before income taxes	$184,788	$11,511	$7,638	$ (14,107)	$189,830
Total assets	$3,191,835	$436,920	$328,687	$ 209,703	$4,167,145

[1] Corporate assets include cash and marketable securities in all periods. Corporate assets as of August 31, 2016 include the assets of Discontinued Services, which were classified as held for sale at May 31, 2017 and sold during the three months ended August 31, 2017.

13. Discontinued Operations

During the three months ended August 31, 2017, Cintas sold a significant business, referred to as Discontinued Services, and received proceeds from the sale of $128.5 million. Cintas has the opportunity to receive additional consideration in the future, subject to certain holdback provisions. Because of the uncertainty surrounding the holdback provisions, this amount represents a gain contingency that has not been recorded. The results of Discontinued Services are included in discontinued operations for all periods presented. In accordance with the applicable accounting guidance for the disposal of long-lived assets and discontinued operations, the results of Discontinued Services have been excluded from both continuing operations and operating segment results for all periods presented.

Following is selected financial information included in net income from discontinued operations for Discontinued Services:

	Three Months Ended	
(In thousands)	August 31, 2017	August 31, 2016[(1)]
Revenue	$10,773	$27,481
(Loss) income before income taxes	(2,439)	3,024
Income tax benefit (expense)	902	(1,141)
Gain on sale of business	100,269	—
Income tax expense on gain	(42,629)	—
Net income from discontinued operations	$56,103	$1,883

(1) Results for the three months ended August 31, 2016 were previously included in continuing operations.

14. G&K Services, Inc. Transaction and Integration Expenses

As a result of the acquisition of G&K in fiscal 2017, the Company incurred $4.0 million and $2.8 million in transaction and integration expenses during the three months ended August 31, 2017 and 2016, respectively. The costs incurred in the three months ended August 31, 2017 relate to $3.0 million of integration expenses directly related to the acquisition and $1.0 million of employee termination expenses recognized under ASC Topic 712, "Compensation - Nonretirement Postemployment Benefits". The costs incurred in the three months ended August 31, 2016 related to legal and professional fees directly related to the acquisition. As of August 31, 2017 and May 31, 2017, employee termination benefits included in accrued compensation and related liabilities was $20.1 million and $24.1 million, respectively. The amount of employee termination benefits paid during the three months ended August 31, 2017 was $5.2 million.

15. Supplemental Guarantor Information

Cintas Corporation No. 2 (Corp. 2) is the indirectly, wholly-owned principal operating subsidiary of Cintas. Corp. 2 is the issuer of the $7.5 million aggregate principal amount of commercial paper and the $2,857.5 million aggregate principal amount of senior notes outstanding as of August 31, 2017, which are unconditionally guaranteed, jointly and severally, by Cintas Corporation and certain wholly-owned, direct and indirect domestic subsidiaries.

As allowed by SEC rules, the following consolidating condensed financial statements are provided as an alternative to filing separate financial statements of the guarantors. Each of the subsidiaries presented in the following consolidating condensed financial statements has been fully consolidated in Cintas' consolidated condensed financial statements. The following consolidating condensed financial statements should be read in conjunction with the consolidated condensed financial statements of Cintas and notes thereto of which this note is an integral part. Consolidating condensed financial statements for Cintas, Corp. 2, the subsidiary guarantors and non-guarantors are presented on the following pages:

Consolidating Condensed Income Statement
Three Months Ended August 31, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$ —	$ 1,099,869	$ 164,895	$ 96,595	$ (49,575)	$ 1,311,784
Other	—	427,302	307	20,308	(148,198)	299,719
Equity in net income of affiliates	161,108	—	—	—	(161,108)	—
	161,108	1,527,171	165,202	116,903	(358,881)	1,611,503
Costs and expenses (income):						
Cost of uniform rental and facility services	—	622,148	99,019	60,517	(74,821)	706,863
Cost of other	—	288,919	(19,669)	14,735	(118,698)	165,287
Selling and administrative expenses	—	510,955	(47,538)	29,906	(7,040)	486,283
G&K Services, Inc. transaction and integration expenses	—	1,521	2,435	15	—	3,971
Operating income	161,108	103,628	130,955	11,730	(158,322)	249,099
Interest income	—	(31)	(99)	(167)	—	(297)
Interest expense (income)	—	30,561	(139)	(105)	—	30,317
Income before income taxes	161,108	73,098	131,193	12,002	(158,322)	219,079
Income taxes	—	19,570	35,123	3,297	(19)	57,971
Income from continuing operations	161,108	53,528	96,070	8,705	(158,303)	161,108
Income (loss) from discontinued operations, net of tax	56,103	65,002	(8,899)	—	(56,103)	56,103
Net income	$ 217,211	$ 118,530	$ 87,171	$ 8,705	$ (214,406)	$ 217,211

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Consolidating Condensed Income Statement
Three Months Ended August 31, 2016
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$ —	$ 831,960	$ 149,148	$ 57,663	$ (44,489)	$ 994,282
Other	—	388,082	968	18,875	(135,557)	272,368
Equity in net income of affiliates	136,208	—	—	—	(136,208)	—
	136,208	1,220,042	150,116	76,538	(316,254)	1,266,650
Costs and expenses (income):						
Cost of uniform rental and facility services	—	475,221	90,672	37,114	(65,910)	537,097
Cost of other	—	263,726	(14,931)	13,828	(109,497)	153,126
Selling and administrative expenses	—	407,611	(50,734)	20,265	(7,439)	369,703
G&K Services, Inc. transaction and integration expenses	—	—	2,787	—	—	2,787
Operating income	136,208	73,484	122,322	5,331	(133,408)	203,937
Interest income	—	—	(17)	(48)	—	(65)
Interest expense (income)	—	14,827	(702)	47	—	14,172
Income before income taxes	136,208	58,657	123,041	5,332	(133,408)	189,830
Income taxes	—	16,669	35,526	1,453	(26)	53,622
Income from continuing operations	136,208	41,988	87,515	3,879	(133,382)	136,208
Income from discontinued operations, net of tax	1,883	1,883	—	—	(1,883)	1,883
Net income	$ 138,091	$ 43,871	$ 87,515	$ 3,879	$ (135,265)	$ 138,091

Consolidating Condensed Statement of Comprehensive Income
Three Months Ended August 31, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$ 217,211	$ 118,530	$ 87,171	$ 8,705	$ (214,406)	$ 217,211
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	35,184	—	—	35,184	(35,184)	35,184
Amortization of interest rate lock agreements	(172)	(172)	—	—	172	(172)
Change in fair value of available-for-sale securities	20	—	—	20	(20)	20
Other comprehensive income (loss)	35,032	(172)	—	35,204	(35,032)	35,032
Comprehensive income	$ 252,243	$ 118,358	$ 87,171	$ 43,909	$ (249,438)	$ 252,243

Consolidating Condensed Statement of Comprehensive Income
Three Months Ended August 31, 2016
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$ 138,091	$43,871	$ 87,515	$ 3,879	$ (135,265)	$ 138,091
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	115	—	—	115	(115)	115
Change in fair value of cash flow hedges	(12,037)	(12,037)	—	—	12,037	(12,037)
Amortization of interest rate lock agreements	385	385	—	—	(385)	385
Change in fair value of available-for-sale securities	(1)	—	—	(1)	1	(1)
Other comprehensive (loss) income	(11,538)	(11,652)	—	114	11,538	(11,538)
Comprehensive income	$ 126,553	$32,219	$ 87,515	$ 3,993	$ (123,727)	$ 126,553

Consolidating Condensed Balance Sheet
As of August 31, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$—	$47,909	$39,477	$104,028	$—	$191,414
Marketable securities	—	—	—	21,626	—	21,626
Accounts receivable, net	—	576,958	96,287	58,332	—	731,577
Inventories, net	—	234,683	30,643	17,872	(1)	283,197
Uniforms and other rental items in service	—	549,281	75,379	48,303	(18,714)	654,249
Prepaid expenses and other current assets	—	8,419	32,879	1,192	—	42,490
Total current assets	—	1,417,250	274,665	251,353	(18,715)	1,924,553
Property and equipment, net	—	854,619	370,259	115,782	—	1,340,660
Investments [1]	321,083	3,594,123	939,833	1,713,071	(6,404,479)	163,631
Goodwill	—	—	2,757,258	53,358	(112)	2,810,504
Service contracts, net	—	495,409	—	86,222	—	581,631
Other assets, net	1,779,551	15,201	3,459,273	25,610	(5,249,008)	30,627
	$2,100,634	$6,376,602	$7,801,288	$2,245,396	$(11,672,314)	$6,851,606
Liabilities and Shareholders' Equity						
Current liabilities:						
Accounts payable	$(465,247)	$(1,426,249)	$2,142,404	$(99,292)	$37,955	$189,571
Accrued compensation and related liabilities	—	78,664	33,872	6,716	—	119,252
Accrued liabilities	—	200,410	176,720	25,840	—	402,970
Income taxes, current	—	3,745	24,661	(2,854)	—	25,552
Debt due within one year	—	307,450	—	—	—	307,450
Total current liabilities	(465,247)	(835,980)	2,377,657	(69,590)	37,955	1,044,795
Long-term liabilities:						
Debt due after one year	—	2,533,282	—	390	—	2,533,672
Deferred income taxes	—	—	475,622	46,152	—	521,774
Accrued liabilities	—	28,861	155,462	1,161	—	185,484
Total long-term liabilities	—	2,562,143	631,084	47,703	—	3,240,930
Total shareholders' equity	2,565,881	4,650,439	4,792,547	2,267,283	(11,710,269)	2,565,881
	$2,100,634	$6,376,602	$7,801,288	$2,245,396	$(11,672,314)	$6,851,606

[1] Investments include inter company investment activity. Corp 2 and Subsidiary Guarantors hold $16.1 million and $147.5 million, respectively, of the $163.6 million consolidated net investments.

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Consolidating Condensed Balance Sheet
As of May 31, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$—	$48,658	$17,302	$103,306	$—	$169,266
Marketable securities	—	—	—	22,219	—	22,219
Accounts receivable, net	—	543,769	137,881	54,358	—	736,008
Inventories, net	—	243,677	21,466	14,461	(1,386)	278,218
Uniforms and other rental items in service	—	531,295	78,012	45,388	(18,993)	635,702
Income taxes, current	—	16,173	25,138	3,009	—	44,320
Prepaid expenses and other current assets	—	13,234	16,188	710	—	30,132
Assets held for sale	—	23,095	15,518	—	—	38,613
Total current assets	—	1,419,901	311,505	243,451	(20,379)	1,954,478
Property and equipment, net	—	851,018	364,724	107,759	—	1,323,501
Investments [1]	321,083	3,605,457	929,657	1,711,070	(6,402,479)	164,788
Goodwill	—	—	2,742,898	39,549	(112)	2,782,335
Service contracts, net	—	505,698	—	81,290	—	586,988
Other assets, net	1,516,463	14,705	3,489,653	11,983	(5,000,837)	31,967
	$1,837,546	$6,396,779	$7,838,437	$2,195,102	$(11,423,807)	$6,844,057
Liabilities and Shareholders' Equity						
Current liabilities:						
Accounts payable	$(465,247)	$(1,596,731)	$2,292,388	$(91,467)	$38,108	$177,051
Accrued compensation and related liabilities	—	94,505	42,866	12,264	—	149,635
Accrued liabilities	—	191,819	219,303	18,687	—	429,809
Debt due within one year	—	362,900	—	—	—	362,900
Liabilities held for sale	—	11,457	—	—	—	11,457
Total current liabilities	(465,247)	(936,050)	2,554,557	(60,516)	38,108	1,130,852
Long-term liabilities:						
Debt due after one year	—	2,770,234	—	390	—	2,770,624
Deferred income taxes	—	—	436,613	32,715	—	469,328
Accrued liabilities	—	28,384	140,923	1,153	—	170,460
Total long-term liabilities	—	2,798,618	577,536	34,258	—	3,410,412
Total shareholders' equity	2,302,793	4,534,211	4,706,344	2,221,360	(11,461,915)	2,302,793
	$1,837,546	$6,396,779	$7,838,437	$2,195,102	$(11,423,807)	$6,844,057

[1)] Investments include inter company investment activity. Corp 2 and Subsidiary Guarantors hold \$29.0 million and \$135.8 million, respectively, of the \$164.8 million consolidated net investments.

Consolidating Condensed Statement of Cash Flows
Three Months Ended August 31, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Cash flows from operating activities:						
Net income	$ 217,211	$ 118,530	$ 87,171	$ 8,705	$ (214,406)	$ 217,211
Adjustments to reconcile net income to net cash provided by (used in) operating activities						
Depreciation	—	32,658	17,613	3,297	—	53,568
Amortization of intangible assets	—	11,722	1,273	1,946	—	14,941
Stock-based compensation	28,630	—	—	—	—	28,630
Gain on sale of business	—	(115,787)	15,518	—	—	(100,269)
Deferred income taxes	—	—	27,468	(2,530)	—	24,938
Changes in current assets and liabilities, net of acquisitions of businesses:						
Accounts receivable, net	—	(32,847)	37,443	4,359	—	8,955
Inventories, net	—	7,262	(11,826)	122	(1,385)	(5,827)
Uniforms and other rental items in service	—	(16,077)	818	2,480	(279)	(13,058)
Prepaid expenses and other current assets	—	966	(17,353)	376	—	(16,011)
Accounts payable	—	137,191	(110,445)	(8,909)	(153)	17,684
Accrued compensation and related liabilities	—	(15,841)	(14,403)	(62)	—	(30,306)
Accrued liabilities and other	—	(19,869)	6,704	(3,053)	—	(16,218)
Income taxes, current	—	20,069	49,407	652	—	70,128
Net cash provided by operating activities	245,841	127,977	89,388	7,383	(216,223)	254,366
Cash flows from investing activities:						
Capital expenditures	—	(36,267)	(31,327)	5,077	—	(62,517)
Proceeds from redemption of marketable securities and investments	—	12,400	—	52,856	—	65,256
Purchase of marketable securities and investments	—	2,724	(12,223)	(50,523)	2,000	(58,022)
Proceeds from sale of business	—	128,511	—	—	—	128,511
Acquisitions of businesses	—	(302)	—	—	—	(302)
Other, net	(228,057)	57,686	(23,492)	(20,664)	214,223	(304)
Net cash (used in) provided by investing activities	(228,057)	164,752	(67,042)	(13,254)	216,223	72,622
Cash flows from financing activities:						
Payments on commercial paper, net	—	(43,000)	—	—	—	(43,000)
Repayment of debt	—	(250,000)	—	—	—	(250,000)
Proceeds from exercise of stock-based compensation awards	17,256	—	—	—	—	17,256

Repurchase of common stock	(35,040)	—	—	—