CINTAS CORP
Form 10-Q
April 06, 2018

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 February 28, 2018

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 March 31, 2018
Common Stock, no par value	106,720,902

CINTAS CORPORATION
TABLE OF CONTENTS

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

	Three Months Ended February 28, 2018	Three Months Ended February 28, 2017	Nine Months Ended February 28, 2018	Nine Months Ended February 28, 2017
Revenue:				
Uniform rental and facility services	$1,284,516	$ 988,178	$3,904,338	$2,982,475
Other	304,622	267,189	902,744	810,619
	1,589,138	1,255,367	4,807,082	3,793,094
Costs and expenses:				
Cost of uniform rental and facility services	718,138	542,790	2,148,961	1,631,385
Cost of other	170,537	152,653	501,936	460,140
Selling and administrative expenses	490,618	358,589	1,444,985	1,089,707
G&K Services, Inc. transaction and integration expenses	9,821	9,344	26,866	15,478
Operating income	200,024	191,991	684,334	596,384
Interest income	(384)	(11)	(972)	(107)
Interest expense	25,901	13,696	85,347	41,135
Income before income taxes	174,507	178,306	599,959	555,356
Income tax (benefit) expense	(121,282)	61,352	5,325	180,244
Income from continuing operations	295,789	116,954	594,634	375,112
Income from discontinued operations, net of tax (benefit) expense of $(6,157), $2,109, $34,946 and $13,101, respectively	6,306	1,051	61,781	21,361
Net income	$302,095	$ 118,005	$656,415	$396,473
Basic earnings per share:				
Continuing operations	$2.73	$ 1.09	$5.50	$3.51
Discontinued operations	0.06	0.01	0.57	0.20
Basic earnings per share	$2.79	$ 1.10	$6.07	$3.71
Diluted earnings per share:				
Continuing operations	$2.66	$ 1.06	$5.35	$3.42
Discontinued operations	0.05	0.01	0.55	0.20
Diluted earnings per share	$2.71	$ 1.07	$5.90	$3.62
Dividends declared per share	$1.62	$ 1.33	$1.62	$1.33

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Net income	$302,095	$118,005	$656,415	$396,473
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	2,374	2,400	26,184	(5,135)
Change in fair value of cash flow hedges	—	2,560	—	16,913
Amortization of interest rate lock agreements	(294)	385	(638)	1,155
Other comprehensive income	2,080	5,345	25,546	12,933
Comprehensive income	$304,175	$123,350	$681,961	$409,406

See accompanying notes.

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

	February 28, 2018 (Unaudited)	May 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$152,563	$169,266
Marketable securities	33,693	22,219
Accounts receivable, net	779,220	736,008
Inventories, net	274,819	278,218
Uniforms and other rental items in service	682,438	635,702
Income taxes, current	21,651	44,320
Prepaid expenses and other current assets	35,192	30,132
Assets held for sale	—	38,613
Total current assets	1,979,576	1,954,478
Property and equipment, net	1,367,580	1,323,501
Investments	178,527	164,788
Goodwill	2,819,867	2,782,335
Service contracts, net	557,477	586,988
Other assets, net	25,566	31,967
	$6,928,593	$6,844,057
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$172,181	$177,051
Accrued compensation and related liabilities	145,066	149,635
Accrued liabilities	412,826	429,809
Debt due within one year	187,500	362,900
Liabilities held for sale	—	11,457
Total current liabilities	917,573	1,130,852
Long-term liabilities:		
Debt due after one year	2,534,760	2,770,624
Deferred income taxes	376,665	469,328
Accrued liabilities	205,598	170,460
Total long-term liabilities	3,117,023	3,410,412
Shareholders' equity:		
Preferred stock, no par value:	—	—
100,000 shares authorized, none outstanding		
Common stock, no par value:	611,485	485,068
425,000,000 shares authorized		
FY 2018: 182,558,025 issued and 106,681,417 outstanding		
FY 2017: 180,992,605 issued and 105,400,629 outstanding		
Paid-in capital	219,389	223,924

Retained earnings	5,651,656	5,170,830
Treasury stock:	(3,611,050)	(3,574,000)
FY 2018: 75,876,608 shares		
FY 2017: 75,591,976 shares		
Accumulated other comprehensive income (loss)	22,517	(3,029)
Total shareholders' equity	2,893,997	2,302,793
	$6,928,593	$6,844,057

See accompanying notes.

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

	Nine Months Ended February 28, 2018	February 28, 2017
Cash flows from operating activities:		
Net income	$ 656,415	$ 396,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	157,319	120,493
Amortization of intangible assets	47,583	11,221
Stock-based compensation	86,044	63,578
Gain on sale of business	(99,060)	—
Gain on Shred-it	—	(25,876)
Deferred income taxes	(120,428)	(3,472)
Change in current assets and liabilities, net of acquisitions of businesses:		
Accounts receivable, net	(40,046)	(28,646)
Inventories, net	4,011	(23,364)
Uniforms and other rental items in service	(44,050)	(53)
Prepaid expenses and other current assets	(17,925)	(11,387)
Accounts payable	(580)	15,538
Accrued compensation and related liabilities	(2,209)	(5,812)
Accrued liabilities and other	10,997	(6,079)
Income taxes, current	22,793	(18,856)
Net cash provided by operating activities	660,864	483,758
Cash flows from investing activities:		
Capital expenditures	(196,040)	(218,621)
Proceeds from redemption of marketable securities	146,302	172,506

Purchase of marketable securities and investments	(157,528)	(125,634)
Proceeds from sale of business	127,835	—
Proceeds from sale of investment in Shred-it	—	25,876
Acquisitions of businesses, net of cash acquired	(12,298)	(19,630)
Other, net	1,746	28
Net cash used in investing activities	(89,983)	(165,475)
Cash flows from financing activities:		
Issuance of commercial paper, net	137,000	99,500
Repayment of debt	(550,000)	(250,000)
Prepaid short-term debt financing fees	—	(13,949)
Proceeds from exercise of stock-based compensation awards	35,838	25,114
Dividends paid	(175,589)	(142,444)
Repurchase of common stock	(37,050)	(20,054)
Other, net	(2,489)	(5,801)
Net cash used in financing activities	(592,290)	(307,634)
Effect of exchange rate changes on cash and cash equivalents	4,706	(2,762)
Net (decrease) increase in cash and cash equivalents	(16,703)	7,887
Cash and cash equivalents at beginning of period	169,266	139,357
Cash and cash equivalents at end of period	$ 152,563	$ 147,244

See accompanying notes.

6

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.

Inventories, net are measured at the lower of cost (first-in, first-out) or net realizable value. Inventory is comprised of the following amounts at:

(In thousands)	February 28, 2018	May 31, 2017
Raw materials	$ 18,821	$17,528
Work in process	25,135	17,951
Finished goods	230,863	242,739
	$ 274,819	$278,218

Inventories are recorded net of reserves for obsolete inventory of $38.5 million and $38.3 million at February 28, 2018 and May 31, 2017, respectively.

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.

Based on our preliminary analysis, we currently do not believe the adoption of this guidance will have a material impact on our consolidated condensed financial statements. Based on our evaluation of each revenue stream, we believe that most revenue transactions will be accounted for in a manner substantially consistent with existing guidance. The majority of our business services revenue transactions represent a series of distinct services over the term of the contract where performance obligations are the same each day. Our implementation activities related to this standard are aligned to meeting the required adoption date. The largest impacts to the Company’s financial statements will result from the new qualitative and quantitative disclosures that will be required upon adoption of the new standard, and the capitalization of certain direct and incremental contract costs that will be required to be capitalized and amortized over the life of the corresponding period of benefit. We have concluded that we will apply the modified retrospective adoption alternative for this standard. Processes and controls are currently being implemented to identify and quantify the cumulative effect adjustment to retained earnings as of June 1, 2018.

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, Accounting Standards Codification (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:

(In thousands)	As of February 28, 2018 Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	$152,563	$—	$ —	$152,563
Marketable securities:				
Canadian treasury securities	—	33,693	—	33,693
Total assets at fair value	$152,563	$33,693	$ —	$186,256

8

	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.

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 February 28, 2018 and May 31, 2017 was $33.7 million and $22.2 million, respectively. All outstanding marketable securities as of February 28, 2018 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 condensed 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 nine months ended February 28, 2018.

4. Investments

Investments at February 28, 2018 of $178.5 million include the cash surrender value of insurance policies of $153.5 million, equity method investments of $20.0 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 nine months ended February 28, 2018 and 2017, 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:

Basic Earnings per Share from Continuing Operations (in thousands except per share data)	Three Months Ended February 28, 2018	Three Months Ended February 28, 2017	Nine Months Ended February 28, 2018	Nine Months Ended February 28, 2017
Income from continuing operations	$295,789	$ 116,954	$594,634	$ 375,112
Less: income from continuing operations allocated to participating securities	5,248	2,573	10,546	7,348
Income from continuing operations available to common shareholders	$290,541	$ 114,381	$584,088	$ 367,764
Basic weighted average common shares outstanding	106,558	105,093	106,210	104,842
Basic earnings per share from continuing operations	$2.73	$ 1.09	$5.50	$ 3.51

Diluted Earnings per Share from Continuing Operations (in thousands except per share data)	Three Months Ended February 28, 2018	Three Months Ended February 28, 2017	Nine Months Ended February 28, 2018	Nine Months Ended February 28, 2017
Income from continuing operations	$295,789	$ 116,954	$594,634	$ 375,112
Less: income from continuing operations allocated to participating securities	5,248	2,573	10,546	7,348
Income from continuing operations available to common shareholders	$290,541	$ 114,381	$584,088	$ 367,764
Basic weighted average common shares outstanding	106,558	105,093	106,210	104,842
Effect of dilutive securities – employee stock options	3,617	2,799	3,044	2,666
Diluted weighted average common shares outstanding	110,175	107,892	109,254	107,508
Diluted earnings per share from continuing operations	$2.66	$ 1.06	$5.35	$ 3.42

For the three months ended February 28, 2018, basic and diluted earnings per share from discontinued operations were $0.06 and $0.05, respectively. Both basic and diluted earnings per share from discontinued operations were $0.01 for the three months ended February 28, 2017. For the nine months ended February 28, 2018, basic and diluted earnings per share from discontinued operations were $0.57 and $0.55, respectively. Both basic and diluted earnings per share from discontinued operations were $0.20 for the nine months ended February 28, 2017.

For the three months ended February 28, 2018 and 2017, options granted to purchase 1.0 million and 0.3 million shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. For the nine months ended February 28, 2018 and 2017, options granted to purchase 0.8 million and 0.5 million shares of Cintas common stock were excluded from the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common stock (anti-dilutive).

On 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 February 28, 2018, no share buybacks have occurred under the August 2, 2016 program and there were no share buybacks under this program subsequent to February 28, 2018 through April 6, 2018.

For the nine months ended February 28, 2018, Cintas acquired 0.3 million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the nine months ended February 28, 2018. These shares were acquired at an average price of $130.00 per share for a total purchase price of $37.0 million.

10

6. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the nine months ended February 28, 2018, 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]	29,444	81	5,939	35,464
Foreign currency translation	1,032	992	44	2,068
Balance as of February 28, 2018	$2,478,546	$244,185	$97,136	$2,819,867

[1] Adjustments to the G&K preliminary purchase price allocation represent $27.1 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	1,635	440	4,309	6,384
Service contracts amortization	(33,701)	(2,910)	(3,658)	(40,269)
Foreign currency translation	4,243	131	—	4,374
Balance as of February 28, 2018	$502,100	$27,723	$27,654	$557,477

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

(In thousands)	As of February 28, 2018 Carrying Amount	Accumulated Amortization	Net
Service contracts	$923,020	$ 365,543	$557,477
Noncompete and consulting agreements	$41,358	$ 39,740	$1,618
Other	33,562	9,614	23,948
Total other assets	$74,920	$ 49,354	$25,566

(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 $15.7 million and $3.3 million for the three months ended February 28, 2018 and 2017, respectively. Amortization expense for service contracts and other assets for continuing operations was $45.5 million and $9.6 million for the nine months ended February 28, 2018 and 2017, respectively. Estimated amortization expense for service contracts and other assets, excluding any future acquisitions, for each of the next five full fiscal years and thereafter is $61.6 million, $60.2 million, $54.4 million, $52.4 million, $44.2 million and $284.5 million, respectively. The increase in amortization expense in the current year and for the next five years, in comparison to the prior fiscal years, is the result of the G&K acquisition.

7. Debt, Derivatives and Hedging Activities

Cintas' debt is summarized as follows:

(In thousands)	Interest Rate	Fiscal Year Issued	Fiscal Year Maturity	February 28, 2018	May 31, 2017
Debt due within one year					
Commercial paper	1.93 % (1)	Various	Various	$187,500	$50,500
Senior notes	6.13 %	2008	2018	—	300,000
Current portion of term loan	2.00 % (2)	2017	2018	—	12,500
Debt issuance costs				—	(100)
Total debt due within one year				$187,500	$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	52,228	52,554
Senior notes (4)	3.11 %	2015	2025	52,393	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				(19,861)	(22,075)
Total debt due after one year				$2,534,760	$2,770,624

(1) Variable rate debt instrument. The rate presented is the variable borrowing rate at February 28, 2018.
(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 February 28, 2018 were $2,742.1 million and $2,789.6 million, respectively, and as of May 31, 2017 were $3,156.0 million and $3,296.8 million, respectively. In the first quarter of fiscal 2018, Cintas paid off the term loan balance of $250.0 million with cash on hand. On December 1, 2017, in accordance with the terms of the notes, Cintas paid the $300.0 million aggregate principal amount of its 6.13% 10-year senior notes that matured on that date with cash on hand and $265.0 million in proceeds from the issuance of commercial paper. During nine months ended February 28, 2018, Cintas issued $137.0 million, net of commercial paper.

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 the first quarter of fiscal 2018. 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 credit agreement is September 15, 2021. As of February 28, 2018, there was $187.5 million of commercial paper outstanding with a weighted average interest rate of 1.93% 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 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 $0.3 million for the three months ended February 28, 2018 and an increase to other comprehensive income of $0.4 million for the three months ended February 28, 2017. For the nine months ended February 28, 2018 and 2017, the amortization of the cash flow hedges resulted in a decrease to other comprehensive income of $0.6 million and an increase to other comprehensive income of $1.2 million, respectively.

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 February 28, 2018 and May 31, 2017, recorded unrecognized tax benefits were $18.5 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 nine months ended February 28, 2018 is primarily related to an adjustment to the preliminary purchase price allocation for the G&K acquisition.

All U.S. federal income tax returns are closed to audit through fiscal 2014. 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.

On December 22, 2017, the President signed into legislation the Tax Cuts and Jobs Act (the Tax Act). Among other changes, the Tax Act reduces the U.S. corporate tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of foreign subsidiaries. The Tax Act also includes provisions that are expected to offset some of the benefit of the U.S. corporate tax rate reduction, including the repeal of the deduction for domestic production activities and the expansion of the limitation on the deduction of certain executive compensation. In addition, the Tax Act alters the landscape of taxation of non-U.S. operations and provides immediate deductions for certain new investments, among other provisions.

Cintas’ effective tax rate for continuing operations was (69.5)% and 34.4% for the three months ended February 28, 2018 and 2017, respectively. For the nine months ended February 28, 2018 and 2017, Cintas' effective tax rate for continuing operations was 0.9% and 32.5%, respectively. The effective tax rate for the three and nine month periods ended February 28, 2018 were primarily impacted by the reduced U.S. corporate tax rate, which was partially offset by other provisions of the Tax Act, and resulted in a net favorable discrete provisional adjustment of $150.5 million related to the Tax Act. The net favorable discrete provisional adjustment is discussed in more detail in the following paragraphs. The three and nine month periods ended February 28, 2017 were also impacted by certain discrete items (primarily the tax accounting for stock-based compensation).

In acknowledgment of the substantial changes incorporated in the U.S. Tax Reform, in conjunction with the timing of the enactment being just weeks before the majority of the provisions became effective, the SEC staff issued Staff Accounting Bulletin ("SAB") 118 to provide certain guidance in determining the accounting for income tax effects of the legislation in the accounting period of enactment as well as provide a measurement period within which to finalize and reflect such final effects associated with U.S. Tax Reform. During the three months ended February 28, 2018, enactment of the Tax Act resulted in the following provisional impacts on income tax expense:

Provisional Deferred Tax Revaluation
Cintas' net deferred income taxes represent benefits that will be used to reduce corporate taxes expected to be paid as well as differences between the tax bases and carrying amounts of assets and liabilities that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates occur, deferred tax assets and liabilities are adjusted through income tax expense in the period changes are enacted.

Upon enactment of the Tax Act, Cintas revalued its deferred tax assets and liabilities based on the rates at which they are expected to reverse in future periods (primarily at the newly enacted 21% U.S. corporate tax rate). Cintas will continue to revise certain aspects of the calculation, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. The provisional amount related to the revaluation of the net deferred tax liability balance was a benefit of $163.8 million, which was recognized as a component of income tax expense for the three months ended February 28, 2018.

Provisional Transition Tax
The one-time transition tax is based on Cintas' post 1986 earnings and profits (E&P) of foreign subsidiaries that were previously deferred for U.S. Income tax purposes. Cintas recorded a provisional transition tax liability, net of foreign tax credits, of $9.5 million that was recognized as additional income tax expense during the three months ended February 28, 2018. Cintas is still revising the transition tax calculation, and this amount is subject to change based on computation of final fiscal 2018 E&P and the amounts held in cash and cash equivalents at the end of fiscal 2018.

Provisional Foreign Withholding Tax
Foreign withholding taxes of $3.8 million have been recognized on certain non-U.S. earnings subject to repatriation that were previously tax deferred. This is a provisional estimate and may change based on final E&P computations through fiscal 2018. We will continue to monitor those earnings we believe to be permanently reinvested in foreign operations, if any.

As of February 28, 2018, the estimated impacts of the Tax Act recorded during the three months ended February 28, 2018 are provisional in nature. Cintas will continue to assess the impact of the Tax Act and will record adjustments through the income tax provision in the relevant period as amounts are known and reasonably estimable during the measurement period. As Cintas has not completed the final analysis of the tax impact of the Tax Act, the impact of the Tax Act may differ from Cintas' quarterly provisional estimates due to information currently unavailable, changes in interpretations, the issuance of additional guidance and changes in assumptions, including actions Cintas may take in future periods as a result of the Tax Act. However, Cintas has recognized a reasonable estimate of the effects of the Tax Act on its deferred tax balances, the one-time transition tax and the withholding taxes related to foreign cash distributions within the consolidated condensed financial statements for the three months ending February 28, 2018.

Given the effective date of the U.S. corporate tax rate reduction in the Tax Act, Cintas' statutory federal corporate tax rate for fiscal 2018 will be a blended rate of 29.17% and will decline to 21% for fiscal 2019 and beyond.

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. During the nine months ended February 28, 2018, $28.3 million of adjustments related to deferred taxes and $1.2 million of adjustments related to income taxes, current 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 February 28, 2018, 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	15,873
Prepaid expenses and other current assets	43,235
Property and equipment	254,035
Goodwill	1,520,295
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	(214,702)
Total consideration	$2,078,418

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 and nine months ended February 28, 2017 includes G&K's publicly reported results for the period of July 2, 2016 through December 31, 2016 annualized and adjusted for number of working days in Cintas' first, second and third quarters of fiscal 2017.

(In thousands except per share data)	Three Months Ended February 28, 2017	Nine Months Ended February 28, 2017
Net sales	$1,494,918	$4,521,542
Net income from continuing operations	$126,490	$404,110
Earnings from continuing operations per common share - diluted	$1.15	$3.69

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 February 28, 2018 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 February 28, 2018 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 are as follows:

(In thousands)	Three Months Ended February 28, 2018	Nine Months Ended February 28, 2018
Interest cost	$ 711	$ 2,132
Expected return on assets	(716)	(2,148)
Amortization of net loss	—	—
Total net periodic benefit cost	$ (5)	$ (16)

17

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
Other comprehensive loss before reclassifications	(11,374)	—	(20)	(11,394)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(172)	—	(172)
Net current period other comprehensive loss	(11,374)	(172)	(20)	(11,566)
Balance at November 30, 2017	11,084	11,038	(1,685)	20,437
Other comprehensive income before reclassifications	2,374	—	—	2,374
Amounts reclassified from accumulated other comprehensive income (loss)	—	(294)	—	(294)
Net current period other comprehensive income (loss)	2,374	(294)	—	2,080
Balance at February 28, 2018	$13,458	$ 10,744	$(1,685)	$22,517

(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)
Other comprehensive (loss) income before reclassifications	(7,650)	26,390	1	18,741
Amounts reclassified from accumulated other comprehensive income (loss)	—	385	—	385
Net current period other comprehensive (loss) income	(7,650)	26,775	1	19,126
Balance at November 30, 2016	(10,009)	(5,707)	(1,570)	(17,286)
Other comprehensive income before reclassifications	2,400	2,560	—	4,960
Amounts reclassified from accumulated other comprehensive income (loss)	—	385	—	385
Net current period other comprehensive income	2,400	2,945	—	5,345
Balance at February 28, 2017	$(7,609)	$(2,762)	$(1,570)	$(11,941)

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		Nine Months Ended		
(In thousands)	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017	
Amortization of interest rate locks	$474	$ (615)	$1,030	$(1,845)	Interest expense
Tax (expense) benefit	(180)	230	(392)	690	Income taxes
Amortization of interest rate locks, net of tax	$294	$ (385)	$638	$(1,155)	Net income

19

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
For the three months ended February 28, 2018					
Revenue	$1,284,516	$137,327	$167,295	$ —	$1,589,138
Income (loss) before income taxes	$173,287	$16,705	$10,032	$ (25,517)	$174,507
For the three months ended February 28, 2017					
Revenue	$988,178	$124,239	$142,950	$ —	$1,255,367
Income (loss) before income taxes	$171,933	$12,235	$7,823	$ (13,685)	$178,306
As of and for the nine months ended February 28, 2018					
Revenue	$3,904,338	$416,999	$485,745	$ —	$4,807,082
Income (loss) before income taxes	$596,011	$54,091	$34,232	$ (84,375)	$599,959
Total assets	$5,900,987	$472,982	$368,368	$ 186,256	$6,928,593
As of and for the nine months ended February 28, 2017					
Revenue	$2,982,475	$373,875	$436,744	$ —	$3,793,094
Income (loss) before income taxes	$533,668	$38,525	$24,191	$ (41,028)	$555,356
Total assets	$3,283,382	$452,397	$348,703	$ 186,682	$4,271,164

[1] Corporate assets include cash and marketable securities in all periods. Corporate assets as of February 28, 2017 include the assets of Discontinued Services, which were classified as held for sale at May 31, 2017 and sold during the nine months ended February 28, 2018.

13. Discontinued Operations

In fiscal 2018, Cintas sold a significant business referred to as Discontinued Services and received proceeds from the sale of $127.8 million. 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.

During the nine months ended February 28, 2017, we received additional proceeds related to contingent consideration on the sale of Shred-it. Cintas realized a pre-tax gain of $25.9 million as a result of the additional consideration received. As of February 28, 2018, Cintas still has the opportunity to receive additional consideration, subject to certain holdback provisions. Because of the uncertainty surrounding the holdback provision, this opportunity represents a gain contingency that has not been recorded.

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

	Three Months Ended		Nine Months Ended	
(In thousands)	February 28, 2018	February 28, 2017 [1]	February 28, 2018	February 28, 2017 [1]
Revenue	$—	$25,768	$10,773	$79,094
Income (loss) before income taxes	149	3,160	(2,333)	8,586
Income tax (expense) benefit	(242)	(2,109)	678	(4,148)
Gain on sale of business	—	—	99,060	—
Gain on Shred-it	—	—	—	25,876
Income tax benefit (expense) on net gain	6,399	—	(35,624)	(8,953)
Net income from discontinued operations	$6,306	$1,051	$61,781	$21,361

[1] The results of Discontinued Services for the three and nine months ended February 28, 2017 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 $9.8 million and $9.3 million in transaction and integration expenses during the three months ended February 28, 2018 and 2017, respectively, and $26.9 million and $15.5 million during the nine months ended February 28, 2018 and 2017, respectively. The $9.8 million of costs incurred in the three months ended February 28, 2018 related to integration expenses directly related to the acquisition. During the nine months ended February 28, 2018, the costs incurred related to $25.9 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 and nine months ended February 28, 2017 related primarily to legal and professional fees directly related to the acquisition. As of February 28, 2018 and May 31, 2017, employee termination benefits included in accrued compensation and related liabilities on the consolidated condensed balance sheet was $13.4 million and $24.3 million, respectively. The amount of employee termination benefits paid during the three and nine months ended February 28, 2018 was $2.3 million and $11.9 million, respectively. We anticipate the remaining accrued employee termination benefits will generally be paid over the next 12 months.

21

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 $187.5 million aggregate principal amount of commercial paper and the $2,555.0 million aggregate principal amount of senior notes outstanding as of February 28, 2018, 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. During fiscal 2018, the Company sold Discontinued Services (see Note 13) previously included in Cintas Corporation and Corp. 2. The sale of Discontinued Services has been reflected as discontinued operations as of the beginning of the earliest period presented herein. 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 February 28, 2018
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$ —	$ 1,059,184	$ 169,308	$ 100,941	$ (44,917)	$ 1,284,516
Other	—	437,042	56	21,396	(153,872)	304,622
Equity in net income of affiliates	295,789	—	—	—	(295,789)	—
	295,789	1,496,226	169,364	122,337	(494,578)	1,589,138
Costs and expenses (income):						
Cost of uniform rental and facility services	—	617,276	106,066	64,952	(70,156)	718,138
Cost of other	—	301,217	(24,654)	14,888	(120,914)	170,537
Selling and administrative expenses	—	491,924	(28,110)	33,959	(7,155)	490,618
G&K Services, Inc. transaction and integration expenses	—	5,101	3,968	752	—	9,821
Operating income	295,789	80,708	112,094	7,786	(296,353)	200,024
Interest income	—	(103)	(24)	(259)	2	(384)
Interest expense (income)	—	26,105	(207)	3	—	25,901
Income before income taxes	295,789	54,706	112,325	8,042	(296,355)	174,507
Income tax (benefit) expense	—	(88,275)	(38,777)	5,820	(50)	(121,282)
Income from continuing operations	295,789	142,981	151,102	2,222	(296,305)	295,789
Income (loss) from discontinued operations, net of tax	6,306	7,269	(1,012)	—	(6,257)	6,306
Net income	$ 302,095	$ 150,250	$ 150,090	$ 2,222	$ (302,562)	$ 302,095

Consolidating Condensed Income Statement
Three Months Ended February 28, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$ —	$ 821,386	$ 147,293	$ 57,082	$ (37,583)	$ 988,178
Other	—	383,043	297	16,672	(132,823)	267,189
Equity in net income of affiliates	116,954	—	—	—	(116,954)	—
	116,954	1,204,429	147,590	73,754	(287,360)	1,255,367
Costs and expenses (income):						
Cost of uniform rental and facility services	—	472,256	92,273	36,877	(58,616)	542,790
Cost of other	—	264,965	(19,449)	12,462	(105,325)	152,653
Selling and administrative expenses	—	396,225	(51,465)	20,883	(7,054)	358,589
G&K Services, Inc. transaction and integration expenses	—	—	9,344	—	—	9,344
Operating income	116,954	70,983	116,887	3,532	(116,365)	191,991
Interest income	—	(2)	(6)	(4)	1	(11)
Interest expense (income)	—	14,981	(1,193)	(92)	—	13,696
Income before income taxes	116,954	56,004	118,086	3,628	(116,366)	178,306
Income taxes	—	19,186	40,474	1,712	(20)	61,352
Income from continuing operations	116,954	36,818	77,612	1,916	(116,346)	116,954
Income from discontinued operations, net of tax	1,051	791	447	9	(1,247)	1,051
Net income	$ 118,005	$ 37,609	$ 78,059	$ 1,925	$ (117,593)	$ 118,005

Consolidating Condensed Income Statement
Nine Months Ended February 28, 2018
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$ —	$ 3,245,720	$ 504,523	$ 298,469	$ (144,374)	$ 3,904,338
Other	—	1,299,883	50	63,686	(460,875)	902,744
Equity in net income of affiliates	594,634	—	—	—	(594,634)	—
	594,634	4,545,603	504,573	362,155	(1,199,883)	4,807,082
Costs and expenses (income):						
Cost of uniform rental and facility services	—	1,867,547	311,039	190,689	(220,314)	2,148,961
Cost of other	—	892,201	(69,369)	45,061	(365,957)	501,936
Selling and administrative expenses	—	1,531,248	(161,065)	95,076	(20,274)	1,444,985
G&K Services, Inc. transaction and integration expenses	—	10,814	14,722	1,330	—	26,866
Operating income	594,634	243,793	409,246	29,999	(593,338)	684,334
Interest income	—	(179)	(182)	(613)	2	(972)
Interest expense (income)	—	86,110	(659)	(104)	—	85,347
Income before income taxes	594,634	157,862	410,087	30,716	(593,340)	599,959
Income tax (benefit) expense	—	(57,256)	50,760	11,915	(94)	5,325
Income from continuing operations	594,634	215,118	359,327	18,801	(593,246)	594,634
Income (loss) from discontinued operations, net of tax	61,781	71,643	(9,911)	—	(61,732)	61,781
Net income	$ 656,415	$ 286,761	$ 349,416	$ 18,801	$ (654,978)	$ 656,415

25

Consolidating Condensed Income Statement
Nine Months Ended February 28, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	$ —	$ 2,489,238	$ 446,327	$ 172,355	$ (125,445)	$ 2,982,475
Other	—	1,162,088	1,898	53,709	(407,076)	810,619
Equity in net income of affiliates	375,112	—	—	—	(375,112)	—
	375,112	3,651,326	448,225	226,064	(907,633)	3,793,094
Costs and expenses (income):						
Cost of uniform rental and facility services	—	1,430,876	277,268	111,594	(188,353)	1,631,385
Cost of other	—	800,503	(53,929)	39,926	(326,360)	460,140
Selling and administrative expenses	—	1,202,428	(150,455)	59,851	(22,117)	1,089,707
G&K Services, Inc. transaction and integration expenses	—	—	15,478	—	—	15,478
Operating income	375,112	217,519	359,863	14,693	(370,803)	596,384
Interest income	—	(2)	(30)	(77)	2	(107)
Interest expense (income)	—	44,336	(3,071)	(130)	—	41,135
Income before income taxes	375,112	173,185	362,964	14,900	(370,805)	555,356
Income taxes	—	56,490	118,652	5,176	(74)	180,244
Income from continuing operations	375,112	116,695	244,312	9,724	(370,731)	375,112
Income from discontinued operations, net of tax	21,361	19,789	447	1,950	(22,186)	21,361
Net income	$ 396,473	$ 136,484	$ 244,759	$ 11,674	$ (392,917)	$ 396,473

Consolidating Condensed Statement of Comprehensive Income
Three Months Ended February 28, 2018
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$ 302,095	$ 150,250	$ 150,090	$ 2,222	$ (302,562)	$ 302,095
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	2,374	—	—	2,374	(2,374)	2,374
Amortization of interest rate lock agreements	(294)	(294)	—	—	294	(294)
Other comprehensive income (loss)	2,080	(294)	—	2,374	(2,080)	2,080
Comprehensive income	$ 304,175	$ 149,956	$ 150,090	$ 4,596	$ (304,642)	$ 304,175

Consolidating Condensed Statement of Comprehensive Income
Three Months Ended February 28, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$ 118,005	$37,609	$ 78,059	$ 1,925	$(117,593)	$ 118,005
Other comprehensive income, net of tax:						
Foreign currency translation adjustments	2,400	—	—	2,400	(2,400)	2,400
Change in fair value of cash flow hedges	2,560	2,560	—	—	(2,560)	2,560
Amortization of interest rate lock agreements	385	385	—	—	(385)	385
Other comprehensive income	5,345	2,945	—	2,400	(5,345)	5,345
Comprehensive income	$ 123,350	$40,554	$ 78,059	$ 4,325	$(122,938)	$ 123,350

28

Consolidating Condensed Statement of Comprehensive Income
Nine Months Ended February 28, 2018
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$ 656,415	$ 286,761	$ 349,416	$ 18,801	$ (654,978)	$ 656,415
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	26,184	—	—	26,184	(26,184)	26,184
Amortization of interest rate lock agreements	(638)	(638)	—	—	638	(638)
Other comprehensive income (loss)	25,546	(638)	—	26,184	(25,546)	25,546
Comprehensive income	$ 681,961	$ 286,123	$ 349,416	$ 44,985	$ (680,524)	$ 681,961

Consolidating Condensed Statement of Comprehensive Income
Nine Months Ended February 28, 2017
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Net income	$ 396,473	$ 136,484	$ 244,759	$ 11,674	$ (392,917)	$ 396,473
Other comprehensive (loss) income, net of tax:						
Foreign currency translation adjustments	(5,135)	—	—	(5,135)	5,135	(5,135)
Change in fair value of cash flow hedges	16,913	16,913	—	—	(16,913)	16,913
Amortization of interest rate lock agreements	1,155	1,155	—	—	(1,155)	1,155
Other comprehensive income (loss)	12,933	18,068	—	(5,135)	(12,933)	12,933
Comprehensive income	$ 409,406	$ 154,552	$ 244,759	$ 6,539	$ (405,850)	$ 409,406

Consolidating Condensed Balance Sheet
As of February 28, 2018
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$—	$45,105	$15,109	$92,349	$—	$152,563
Marketable securities	—	—	—	33,693	—	33,693
Accounts receivable, net	—	601,742	117,281	60,197	—	779,220
Inventories, net	—	224,418	36,861	13,540	—	274,819
Uniforms and other rental items in service	—	566,950	80,852	53,738	(19,102)	682,438
Income taxes, current	—	(9,604)	26,083	5,172	—	21,651
Prepaid expenses and other current assets	—	11,877	22,147	1,168	—	35,192
Total current assets	—	1,440,488	298,333	259,857	(19,102)	1,979,576
Property and equipment, net	—	883,749	370,764	113,067	—	1,367,580
Investments [1]	321,083	3,599,114	949,739	1,714,070	(6,405,479)	178,527
Goodwill	—	—	2,778,361	41,618	(112)	2,819,867
Service contracts, net	—	477,353	—	80,124	—	557,477
Other assets, net	2,107,667	515	3,637,566	15,932	(5,736,114)	25,566
	$2,428,750	$6,401,219	$8,034,763	$2,224,668	$(12,160,807)	$6,928,593
Liabilities and Shareholders' Equity						
Current liabilities:						
Accounts payable	$(465,247)	$(1,610,462)	$2,334,145	$(124,204)	$37,949	$172,181
Accrued compensation and related liabilities	—	82,519	56,234	6,313	—	145,066
Accrued liabilities	—	124,021	260,301	28,504	—	412,826
Debt due within one year	—	187,500	—	—	—	187,500
Total current liabilities	(465,247)	(1,216,422)	2,650,680	(89,387)	37,949	917,573
Long-term liabilities:						
Debt due after one year	—	2,534,370	—	390	—	2,534,760
Deferred income taxes	—	222,968	107,306	46,391	—	376,665
Accrued liabilities	—	40,006	164,312	1,280	—	205,598
Total long-term liabilities	—	2,797,344	271,618	48,061	—	3,117,023
Total shareholders' equity	2,893,997	4,820,297	5,112,465	2,265,994	(12,198,756)	2,893,997
	$2,428,750	$6,401,219	$8,034,763	$2,224,668	$(12,160,807)	$6,928,593

[1] Investments include inter-company investment activity. Corp 2 and Subsidiary Guarantors hold $21.1 million and $157.5 million , respectively, of the $178.5 million consolidated net investments.

31

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
Nine Months Ended February 28, 2018
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non-Guarantors	Eliminations	Cintas Corporation Consolidated
Cash flows from operating activities:						
Net income	$ 656,415	$ 286,761	$ 349,416	$ 18,801	$ (654,978)	$ 656,415
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation	—	94,846	52,162	10,311	—	157,319
Amortization of intangible assets	—	37,338	3,824	6,421	—	47,583
Stock-based compensation	86,044	—	—	—	—	86,044
Gain on sale of business	—	(114,581)	15,521	—	—	(99,060)
Deferred income taxes	—	(82,475)	(39,692)	1,739		(120,428)
Changes in current assets and liabilities, net of acquisitions of businesses:						
Accounts receivable, net	—	(57,631)	20,615	(3,030)	—	(40,046)
Inventories, net	—	17,558	(15,487)	3,326	(1,386)	4,011
Uniforms and other rental items in service	—	(33,728)	(2,748)	(7,683)	109	(44,050)
Prepaid expenses and other current assets	—	1,252	(19,495)	318	—	(17,925)
Accounts payable	—	3,657	23,201	(27,279)	(159)	(580)
Accrued compensation and related liabilities	—	(12,519)	13,106	(2,796)	—	(2,209)
Accrued liabilities and other	—	(85,980)	91,624	5,353	—	10,997
Income taxes, current	—	25,777	(930)	(2,054)	—	22,793
Net cash provided by operating activities	742,459	80,275	491,117	3,427	(656,414)	660,864
Cash flows from investing activities:						
Capital expenditures	—	(127,736)	(59,018)	(9,286)	—	(196,040)
Proceeds from redemption of marketable securities and investments	—	13,589	(1,189)	133,902	—	146,302
Purchase of marketable securities and investments	—	6,343	(22,521)	(144,350)	3,000	(157,528)
Proceeds from sale of business	—	127,835	—	—	—	127,835
Acquisitions of businesses	—	(12,298)	—	—	—	(12,298)
Other, net	(565,726)	323,643	(413,382)	3,797	653,414	1,746
Net cash (used in) provided by investing activities	(565,726)	331,376	(496,110)	(15,937)	656,414	(89,983)
Cash flows from financing activities:						
Payments of commercial paper, net	—	137,000	—	—	—	137,000
Proceeds from issuance of debt	—	—	2,810	(2,810)	—	—
Repayment of debt	—	(550,000)	—	—	—	(550,000)
Proceeds from exercise of stock-based compensation awards	35,838	—	—	—	—	35,838

Dividends paid	(175,521)	—	—	(68)	—	(175,589)
Repurchase of common stock	(37,050)	—	—	—	—	(37,050)
Other, net						