

CINTAS CORP
Form 10-Q
January 06, 2017

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

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

For the quarterly period ended November 30, 2016

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 (I.R.S. Employer
incorporation or organization) 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 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 No

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Smaller Reporting Company
Non-Accelerated Filer (Do not check if a smaller reporting company)

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Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding December 31, 2016
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Common Stock, no par value	105,039,128
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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		Six Months Ended	
	November 30,	November 30,	November 30,	November 30,
	2016	2015	2016	2015
Revenue:				
Uniform rental and facility services	\$1,005,565	\$ 937,704	\$2,005,161	\$ 1,876,112
Other	291,358	281,376	585,892	541,858
	1,296,923	1,219,080	2,591,053	2,417,970
Costs and expenses:				
Cost of uniform rental and facility services	555,752	526,091	1,096,684	1,044,594
Cost of other	169,744	165,589	339,168	321,832
Selling and administrative expenses	365,222	327,051	739,248	665,688
G&K Services, Inc. transaction expenses	3,347	—	6,134	—
Operating income	202,858	200,349	409,819	385,856
Interest income	(31	) (111	) (96	) (230
Interest expense	13,267	16,171	27,439	32,583
Income before income taxes	189,622	184,289	382,476	353,503
Income taxes	66,168	68,836	120,931	131,852
Income from continuing operations	123,454	115,453	261,545	221,651
Income from discontinued operations, net of tax expense of \$8,953, \$146,395, \$8,953 and \$142,976, respectively	16,923	229,647	16,923	223,630
Net income	\$140,377	\$ 345,100	\$278,468	\$ 445,281
Basic earnings per share:				
Continuing operations	\$1.16	\$ 1.05	\$2.45	\$ 1.99
Discontinued operations	0.16	2.06	0.16	2.01
Basic earnings per share	\$1.32	\$ 3.11	\$2.61	\$ 4.00
Diluted earnings per share:				
Continuing operations	\$1.13	\$ 1.03	\$2.39	\$ 1.96
Discontinued operations	0.16	2.03	0.16	1.98
Diluted earnings per share	\$1.29	\$ 3.06	\$2.55	\$ 3.94
Dividends declared per share	\$1.33	\$ 1.05	\$1.33	\$ 1.05

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	November	November	November	November
	30, 2016	30, 2015	30, 2016	30, 2015
Net income	\$140,377	\$345,100	\$278,468	\$445,281
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(7,650)	(4,626)	(7,535)	(16,639)
Cumulative translation adjustment on investment in Shred-it	—	6,472	—	6,472
Change in fair value of derivatives	26,390	—	14,353	—
Amortization of interest rate lock agreements	385	488	770	976
Change in fair value of available-for-sale securities	1	(10)	—	(18)
Other comprehensive income (loss)	19,126	2,324	7,588	(9,209)
Comprehensive income	\$159,503	\$347,424	\$286,056	\$436,072

See accompanying notes.

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

	November 30, 2016	May 31, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 143,573	\$ 139,357
Marketable securities	—	70,405
Accounts receivable, net	607,452	563,178
Inventories, net	263,301	249,362
Uniforms and other rental items in service	543,644	539,956
Income taxes, current	1,228	1,712
Prepaid expenses and other current assets	41,464	26,065
Total current assets	1,600,662	1,590,035
Property and equipment, at cost, net	1,067,214	994,237
Investments	140,530	124,952
Goodwill	1,301,391	1,291,593
Service contracts, net	85,517	83,715
Other assets, net	19,265	14,283
	\$ 4,214,579	\$ 4,098,815
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 127,815	\$ 114,514
Accrued compensation and related liabilities	85,857	101,976
Accrued liabilities	469,085	349,065
Debt due within one year	66,000	250,000
Total current liabilities	748,757	815,555
Long-term liabilities:		
Debt due after one year	1,044,834	1,044,422
Deferred income taxes	265,091	259,475
Accrued liabilities	130,192	136,704
Total long-term liabilities	1,440,117	1,440,601
Shareholders' equity:		
Preferred stock, no par value: 100,000 shares authorized, none outstanding	—	—
Common stock, no par value: 425,000,000 shares authorized FY 2017: 180,589,260 issued and 105,009,742 outstanding FY 2016: 179,598,516 issued and 104,213,479 outstanding	468,392	409,682
Paid-in capital	178,668	205,260
Retained earnings	4,968,437	4,805,867
Treasury stock:	(3,572,506)	(3,553,276)

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FY 2017: 75,579,518 shares

FY 2016: 75,385,037 shares

Accumulated other comprehensive loss	(17,286)	(24,874)
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Total shareholders' equity	2,025,705		1,842,659	
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	\$4,214,579		\$4,098,815	
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See accompanying notes.

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

	Six Months Ended November 30, 2016		November 30, 2015	
Cash flows from operating activities:				
Net income	\$ 278,468		\$ 445,281	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	79,590		73,130	
Amortization of intangible assets	7,460		7,764	
Stock-based compensation	39,582		40,241	
Gain on Storage transactions	—		(15,786)
Gain on Shred-it	(25,876	)	(349,738)
Deferred income taxes	(3,833	)	(98,423)
Change in current assets and liabilities, net of acquisitions of businesses:				
Accounts receivable, net	(44,920	)	(39,418)
Inventories, net	(14,616	)	(19,841)
Uniforms and other rental items in service	(4,315	)	(10,893)
Prepaid expenses and other current assets	(1,952	)	(2,369)
Accounts payable	15,451		19,368	
Accrued compensation and related liabilities	(18,936	)	(22,771)
Accrued liabilities and other	(4,866	)	1,041	
Income taxes, current	484		237,451	
Net cash provided by operating activities	301,721		265,037	
Cash flows from investing activities:				
Capital expenditures	(155,173)	(121,817)
	172,968		212,081	

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Proceeds from redemption of marketable securities				
Purchase of marketable securities and investments	(118,270))	(271,341)
Proceeds from Storage transactions	—		35,338	
Proceeds from sale of investment in Shred-it	25,876		578,257	
Acquisitions of businesses, net of cash acquired	(17,778)	)	(121,237)
Other, net	332		1,987	
Net cash (used in) provided by investing activities	(92,045)	)	313,268	
Cash flows from financing activities:				
Proceeds from issuance of commercial paper, net	66,000		—	
Repayment of debt	(250,000)	)	(16)
Prepaid short-term debt financing fees	(13,495))	—	
Proceeds from exercise of stock-based compensation awards	19,225		17,444	
Repurchase of common stock	(19,230)	)	(402,293)
Other, net	(5,572)	)	646	
Net cash used in financing activities	(203,072)	)	(384,219)
Effect of exchange rate changes on cash and cash equivalents	(2,388)	)	(4,374)
Net increase in cash and cash equivalents	4,216		189,712	
Cash and cash equivalents at beginning of period	139,357		417,073	
Cash and cash equivalents at end of period	\$ 143,573		\$ 606,785	

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, 2016. A summary of our significant accounting policies is presented beginning on page 36 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.

Cintas' investment in the Shred-it Partnership (Shred-it) and the shredding business (Shredding) are classified as discontinued operations for all periods presented as a result of the sale of Shred-it during fiscal 2016. During fiscal 2015, Cintas sold its document imaging and retention services (Storage) business and, as a result, its operations are also classified as discontinued operations for all periods presented. See Note 12 entitled Discontinued Operations for more information.

As disclosed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2016, inventories are valued at the lower of cost (first-in, first-out) or market. Inventory is comprised of the following amounts at:

(In thousands)	November 30, 2016	May 31, 2016
Raw materials	\$ 11,303	\$ 17,794
Work in process	16,772	14,731
Finished goods	235,226	216,837
	\$ 263,301	\$ 249,362

2. New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," to clarify revenue recognition principles. This guidance is intended to improve disclosure requirements and enhance the comparability of revenue recognition practices. Improved disclosures under the amended guidance relate to the nature, amount, timing and uncertainty of revenue that is recognized from contracts with customers. This guidance will be effective for reporting periods beginning after December 15, 2017 and will be required to be applied retrospectively. Early application of the amendments in this update is not permitted. Cintas is currently evaluating the impact that ASU 2014-09 will have on its consolidated condensed financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt

liability be presented in the consolidated condensed balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for annual and interim periods beginning after December 15, 2015. The guidance is applied retrospectively and early adoption is permitted. Cintas adopted ASU 2015-03 during the quarter ended August 31, 2016 and has applied this amended accounting guidance to its long-term debt and other assets for all periods presented. The impact of this change in accounting principle on balances previously reported as of May 31, 2016 was a reclassification of \$5.6 million from other assets to long-term liabilities.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments." This amendment eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. This amendment became effective for Cintas beginning June 1, 2016, and was adopted prospectively in accordance with the standard. The adoption of this amendment did not have an effect on our consolidated condensed financial statements for the six months ended November 30, 2016.

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 Standard Codification 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 March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 is intended to simplify accounting for share-based payments. Upon adoption, ASU 2016-09 requires that excess tax benefits for share-based payments be recorded as a reduction of income tax expense and reflected within operating cash flows rather than being recorded within equity and reflected within financing cash flows. The standard also permits the repurchase of more of an employee's shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity on our cash flows statement, and provides an accounting policy election to account for forfeitures as they occur. ASU 2016-09 is effective for interim and annual periods beginning after December 15, 2016, however early adoption is permitted. Cintas adopted ASU 2016-09 during the quarter ended August 31, 2016 and elected to make an accounting policy change to recognize forfeitures as they occur. The adoption impact on the consolidated condensed balance sheet was a cumulative-effect adjustment of \$26.7 million, increasing opening retained earnings and decreasing paid-in capital. The impact of the adoption on the consolidated condensed income statements for the three and six months ended November 30, 2016 was a decrease in income tax expense of \$2.4 million and \$19.6 million, respectively. The election to account for forfeitures as they occur resulted in increases of \$1.3 million and \$3.0 million in stock based compensation expense for the three and six months ended November 30, 2016.

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

		As of November 30, 2016			
(In thousands)	Level 1	Level 2	Level 3	Fair Value	
Cash and cash equivalents	\$ 143,573	\$—	\$	—	-\$ 143,573
Other assets, net:					
Interest rate lock agreements	—	3,264	—	3,264	
Total assets at fair value	\$ 143,573	\$ 3,264	\$	—	-\$ 146,837
		As of May 31, 2016			
(In thousands)	Level 1	Level 2	Level 3	Fair Value	
Cash and cash equivalents	\$ 139,357	\$—	\$	—	-\$ 139,357
Marketable securities:					
Canadian treasury securities	—	70,405	—	70,405	
Total assets at fair value	\$ 139,357	\$ 70,405	\$	—	-\$ 209,762
Long-term accrued liabilities:					
Interest rate lock agreements	\$—	\$ 19,628	\$	—	-\$ 19,628
Total liabilities at fair value	\$—	\$ 19,628	\$	—	-\$ 19,628

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 May 31, 2016 was \$70.4 million. All outstanding marketable securities as of May 31, 2016 had contractual maturities due within one year.

Interest rate lock agreements were included in other assets as of November 30, 2016 and in long-term accrued liabilities as of May 31, 2016. The fair value of Cintas' interest rate lock agreements are based on similar exchange

traded derivatives (market approach) and are, therefore, included within Level 2 of the fair value hierarchy. All other amounts included in other assets and long-term liabilities are not recorded at fair value.

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 date.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a nonrecurring basis as required under GAAP. The Company's acquisition of ZEE Medical Inc. (ZEE) in the first quarter of fiscal 2016 was recorded at fair value. See Note 9 entitled Acquisitions for additional information on the measurement of the ZEE assets acquired and liabilities assumed. There were no material acquisitions during the six months ended November 30, 2016.

4. Investments

Investments at November 30, 2016 of \$140.5 million include the cash surrender value of insurance policies of \$120.4 million, equity method investments of \$15.1 million, and cost method investments of \$5.0 million. Investments at May 31, 2016 of \$125.0 million include the cash surrender value of insurance policies of \$108.1 million, equity method investments of \$14.5 million and cost method investments of \$2.4 million.

Investments are evaluated for impairment on an annual basis or when indicators of impairment exist. For the six months ended November 30, 2016 and 2015, 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		Six Months Ended	
	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
Basic Earnings per Share from Continuing Operations				
Income from continuing operations	\$ 123,454	\$ 115,453	\$ 261,545	\$ 221,651
Less: income from continuing operations allocated to participating securities	2,228	1,887	4,955	3,629
Income from continuing operations available to common shareholders	\$ 121,226	\$ 113,566	\$ 256,590	\$ 218,022
Basic weighted average common shares outstanding	104,957	108,301	104,719	109,455
Basic earnings per share from continuing operations	\$ 1.16	\$ 1.05	\$ 2.45	\$ 1.99
(In thousands except per share data)	Three Months Ended		Six Months Ended	
	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
Diluted Earnings per Share from Continuing Operations				
Income from continuing operations	\$ 123,454	\$ 115,453	\$ 261,545	\$ 221,651
Less: income from continuing operations allocated to participating securities	2,228	1,887	4,955	3,629
Income from continuing operations available to common shareholders	\$ 121,226	\$ 113,566	\$ 256,590	\$ 218,022
Basic weighted average common shares outstanding	104,957	108,301	104,719	109,455
Effect of dilutive securities – employee stock options	2,690	1,812	2,559	1,685
Diluted weighted average common shares outstanding	107,647	110,113	107,278	111,140
Diluted earnings per share from continuing operations	\$ 1.13	\$ 1.03	\$ 2.39	\$ 1.96

Basic and diluted income per share from discontinued operations were \$0.16 for the three months ended November 30, 2016. Basic and diluted income per share from discontinued operations were \$2.06 and \$2.03, respectively, for the three months ended November 30, 2015. For the six months ended November 30, 2016, basic and diluted income per share from discontinued operations were \$0.16. For the six months ended November 30, 2015, basic and diluted income per share from discontinued operations were \$2.01 and \$1.98, respectively.

For the three months ended November 30, 2016 and 2015, options granted to purchase 0.7 million and 0.3 million shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. For the six months ended November 30, 2016 and 2015, options granted to purchase 0.6 million and 0.4 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 4, 2015, we announced that the Board of Directors authorized a \$500.0 million share buyback program. In June 2016, we purchased less than 0.1 million shares at an average price of \$94.09 per share for a total purchase price of \$3.7 million. This completed the August 4, 2015 program through which Cintas purchased a total of 5.7 million shares of Cintas common stock at an average price of \$87.89 per share for a total purchase price of \$500.0 million. On August 2, 2016, Cintas announced that the Board of Directors authorized a new \$500.0 million share buyback program, which does not have an expiration date.

For the six months ended November 30, 2016, Cintas acquired 0.2 million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the six months ended November 30, 2016. These shares were acquired at an average price of \$99.88 per share for a total purchase price of \$15.5 million.

6. Goodwill, Service Contracts and Other Assets

Changes in the carrying amount of goodwill and service contracts for the six months ended November 30, 2016, 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, 2016	\$953,216	\$241,448	\$96,929	\$1,291,593
Goodwill acquired	5,704	1,871	3,227	10,802
Foreign currency translation	(482)	(511)	(11)	(1,004)
Balance as of November 30, 2016	\$958,438	\$242,808	\$100,145	\$1,301,391

Service Contracts (in thousands)	Uniform Rental and Facility Services	First Aid and Safety Services	All Other	Total
Balance as of June 1, 2016	\$21,191	\$32,252	\$30,272	\$83,715
Service contracts acquired	3,514	1,612	3,236	8,362
Service contracts amortization	(1,647)	(1,873)	(2,965)	(6,485)
Foreign currency translation	(48)	(27)	—	(75)
Balance as of November 30, 2016	\$23,010	\$31,964	\$30,543	\$85,517

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

(In thousands)	As of November 30, 2016		
	Carrying Amount	Accumulated Amortization	Net
Service contracts	\$403,234	\$ 317,717	\$85,517
Noncompete and consulting agreements	\$43,056	\$ 41,132	\$1,924
Other	20,266	2,925	17,341
Total other assets	\$63,322	\$ 44,057	\$19,265
(In thousands)	As of May 31, 2016		
	Carrying Amount	Accumulated Amortization	Net
Service contracts	\$395,482	\$ 311,767	\$83,715
Noncompete and consulting agreements	\$42,378	\$ 40,928	\$1,450
Other	15,275	2,442	12,833
Total other assets	\$57,653	\$ 43,370	\$14,283

Amortization expense for service contracts and other assets was \$3.6 million and \$4.2 million for the three months ended November 30, 2016 and 2015, respectively. Amortization expense for service contracts and other assets was \$7.0 million and \$7.8 million for the six months ended November 30, 2016 and 2015, respectively. Estimated amortization expense for service contracts and other assets excluding any future acquisitions, for each of the next five full fiscal years is \$14.7 million, \$13.1 million, \$12.5 million, \$12.1 million and \$10.2 million, respectively.

7. Debt, Derivatives and Hedging Activities

Cintas' senior notes are recorded at cost, net of debt issuance costs. The fair value of the senior notes is estimated using Level 2 inputs based on general market prices. The carrying value and fair value of Cintas' senior notes as of November 30, 2016 were \$1,050.0 million and \$1,132.6 million, respectively, and as of May 31, 2016 were \$1,300.0 million and \$1,416.6 million, respectively. On June 1, 2016, Cintas paid the \$250.0 million five-year senior notes that matured on that date with cash on hand and proceeds from the issuance of commercial paper.

On August 15, 2016, the Company entered into the Agreement and Plan of Merger (Merger Agreement) pursuant to which the Company will acquire all outstanding shares of G&K Services, Inc. (G&K) for \$97.50 per share in cash, for a total enterprise value of approximately \$2.2 billion, including acquired net debt. It is expected that this acquisition will be financed with short-term and long-term debt. In connection with the Company's entry into the Merger Agreement, Cintas pre-paid \$13.5 million in fees to acquire the bridge loan financing. As of November 30, 2016, these fees are recorded in prepaid assets on the balance sheet and will be expensed over the life of the bridge loan. In addition, 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 \$150.0 million increase in the revolving credit facility will take effect on the earlier date of either the consummation of the merger (Merger) contemplated by the Merger Agreement among the Corporation, G&K and Bravo Merger Sub, Inc. (Merger Sub), a wholly-owned subsidiary of Cintas, or the date on which the Merger Agreement is validly terminated. The term loan facility shall be only funded upon the consummation of the Merger. 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 the term loan facility of up to \$250.0 million in the aggregate, subject to customary conditions. The amendment also extended the maturity date of

the agreement to September 15, 2021.

As of November 30, 2016, there was \$66.0 million of commercial paper outstanding with a weighted average interest rate of 0.84% and maturity dates less than 30 days. The fair value of the commercial paper is estimated using Level 2 inputs based on general market prices. The carrying value equals fair value. No commercial paper or borrowings on our revolving credit facility were outstanding as of May 31, 2016.

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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 treasury 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 2011 and fiscal 2013. The amortization of the cash flow hedges resulted in an increase to other comprehensive income of \$0.4 million and \$0.5 million for the three months ended November 30, 2016 and 2015, respectively. For the six months ended November 30, 2016 and 2015, the amortization of the cash flow hedges resulted in an increase to other comprehensive income of \$0.8 million and \$1.0 million, respectively. During the third quarter of fiscal 2016, Cintas entered into interest rate lock agreements with a notional value of \$550.0 million for a forecasted long-term debt issuance. As of November 30, 2016, the fair value of these treasury locks was \$3.3 million and are recorded in other assets as an increase to other comprehensive income, net of tax. As of May 31, 2016, the the fair value of these treasury locks was \$19.6 million and were recorded in long-term liabilities as a decrease to other comprehensive income, net of tax. The interest rate locks had no impact on net income or cash flows from continuing operations for the six months ended November 30, 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. During the three months ended November 30, 2016, unrecognized tax benefits decreased by approximately \$1.8 million and accrued interest decreased by approximately \$0.4 million. During the six months ended November 30, 2016, unrecognized tax benefits decreased by approximately \$1.7 million and accrued interest decreased by approximately \$0.2 million.

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 2009. Based on the resolution of the various audits and other potential regulatory developments, it is reasonably possible that the balance of unrecognized tax benefits would not change for the fiscal year ending May 31, 2017.

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.

9. Acquisitions

On August 15, 2016, the Company entered into the Merger Agreement pursuant to which the Company will acquire all outstanding shares of G&K for \$97.50 per share in cash, for a total enterprise value of approximately \$2.2 billion, including acquired net debt. It is expected that this acquisition will be financed with short and long-term debt. The completion of the Merger is subject to customary conditions, including, without limitation: the expiration or

termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act), as amended; the receipt of Canadian antitrust approvals; the absence of any order, law or other legal restraint or prohibition preventing or prohibiting completion of the Merger; subject to certain exceptions, the accuracy of representations and warranties of the Company, Merger Sub and G&K; and the performance or compliance by the Company, Merger Sub and G&K with their respective covenants and agreements. On November 15, 2016, G&K held its annual meeting of shareholders at which the shareholders voted on and approved the Merger. The Merger has not closed as of the date of the filing of this Form 10-Q.

On September 29, 2016, both the Company and G&K received a request for additional information and documentary material, commonly referred to as a "second request," from the Federal Trade Commission (FTC), pursuant to the HSR Act, in connection with the Merger. The FTC's second request has the effect of extending the waiting period applicable to the consummation of the Merger until the 30th day after substantial compliance by the Company and G&K with the second request, unless the waiting period is extended voluntarily by the parties or terminated sooner by the FTC.

On October 12, 2016, both the Company and G&K received a supplemental information request, commonly referred to as SIR, from the Competition Bureau of Canada, pursuant to the Canada Competition Act, in connection with the Merger. SIR is part of the prescribed process for review of proposed transactions in Canada and has the effect of extending the waiting period applicable to the consummation of the Merger until the 30th day after compliance by the Company and G&K with the SIR.

During the three and six months ended November 30, 2016, we incurred expenses of \$3.3 million and \$6.1 million, respectively, related to the pending Merger for legal and professional services and regulatory fees. Many of these expenses are non-deductible for income tax purposes once the Merger has been executed.

During the first quarter of fiscal 2016, the Company acquired all of the shares of ZEE for acquisition-date fair value consideration of \$134.0 million, consisting of cash of \$120.6 million and contingent consideration, subject to certain holdback provisions of \$13.4 million. To date, the Company has paid \$4.5 million of the contingent consideration. This payment occurred during the three months ended November 30, 2016 and is included within other financing activities on the statement of cash flows. ZEE operates within the First Aid and Safety Services reportable operating segment. This acquisition has expanded our footprint in van delivered first aid, safety, training and emergency products and will allow us to serve an even greater number of customers in North America.

The table below summarizes the final purchase price allocation of ZEE as determined by management with the assistance of third-party valuation specialists. 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 deductible for income tax purposes. The assets acquired and liabilities assumed are valued at the estimated fair value at the acquisition date as required by GAAP.

Assets:

Cash and cash equivalents	\$333
Accounts receivable	16,705
Inventory	5,987
Other current assets	1,443
Property, plant and equipment	849
Goodwill	87,442
Service contracts	34,000
Other intangibles	4,500

Liabilities:

Accounts payable	(7,195)
Accrued liabilities	(4,428)
Deferred income taxes	(5,636)
Total consideration	\$134,000

The estimated useful life of the acquired service contracts is 10 years.

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 11% (income approach).

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

10. Accumulated Other Comprehensive Income (Loss)

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

(In thousands)	Foreign Currency	Unrealized Loss on Derivatives	Other	Total
Balance at June 1, 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)
(In thousands)	Foreign Currency	Unrealized Loss on Derivatives	Other	Total
Balance at June 1, 2015	\$2,987	\$(10,626)	\$(832)	\$(8,471)
Other comprehensive loss before reclassifications	(12,013)	—	(8)	(12,021)
Amounts reclassified from accumulated other comprehensive income (loss)	—	488	—	488
Net current period other comprehensive (loss) income	(12,013)	488	(8)	(11,533)
Balance at August 31, 2015	(9,026)	(10,138)	(840)	(20,004)
Other comprehensive loss before reclassifications	(4,626)	—	(10)	(4,636)
Amounts reclassified from accumulated other comprehensive income (loss)	6,472	488	—	6,960
Net current period other comprehensive income (loss)	1,846	488	(10)	2,324
Balance at November 30, 2015	\$(7,180)	\$(9,650)	\$(850)	\$(17,680)

The following table summarizes the reclassifications out of accumulated other comprehensive loss:

Reclassifications out of Accumulated Other Comprehensive Loss

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss				Affected Line in the Consolidated Condensed Statements of Income
	Three Months Ended November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015	
(In thousands)					
Amortization of interest rate locks	\$ (615)	\$ (783)	\$ (1,229)	\$ (1,565)	Interest expense
Tax benefit	230	295	459	589	Income taxes
Amortization of interest rate locks, net of tax	\$ (385)	\$ (488)	\$ (770)	\$ (976)	Net of tax
(In thousands)					
Cumulative translation adjustment on Shred-it	\$—	\$ (10,381)	\$—	\$ (10,381)	Income from discontinued operations
Tax benefit	—	3,909	—	3,909	Income from discontinued operations
Cumulative translation adjustment on Shred-it, net of tax	\$—	\$ (6,472)	\$—	\$ (6,472)	Net of tax

11. 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 primarily of Fire Protection Services and its 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 November 30, 2016					
Revenue	\$1,005,565	\$124,797	\$166,561	\$—	\$1,296,923
Income (loss) before income taxes	\$177,361	\$14,779	\$10,718	\$(13,236)	\$189,622
For the three months ended November 30, 2015					
Revenue	\$937,704	\$120,438	\$160,938	\$—	\$1,219,080
Income (loss) before income taxes	\$169,295	\$14,847	\$16,207	\$(16,060)	\$184,289
As of and for the six months ended November 30, 2016					
Revenue	\$2,005,161	\$249,636	\$336,256	\$—	\$2,591,053
Income (loss) before income taxes	\$362,606	\$26,290	\$20,923	\$(27,343)	\$382,476
Total assets	\$3,266,422	\$443,151	\$361,433	\$143,573	\$4,214,579
As of and for the six months ended November 30, 2015					
Revenue	\$1,876,112	\$219,926	\$321,932	\$—	\$2,417,970
Income (loss) before income taxes	\$334,676	\$23,439	\$27,741	\$(32,353)	\$353,503
Total assets	\$2,990,828	\$426,089	\$355,082	\$672,611	\$4,444,610

⁽¹⁾ Corporate assets include cash and marketable securities in all periods.

12. Discontinued Operations

During fiscal 2016, Cintas sold its investment in Shred-it and, as a result, the operations of Shred-it are classified as discontinued operations for all periods presented. During fiscal 2015, Cintas sold Storage and, as a result, its operations are also classified as discontinued operations for all periods presented. Shredding and Storage were previously included in the former Document Management Services reportable operating segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of Shredding and Storage have been excluded from both continuing operations and operating segment results for all periods presented.

During the three months ended November 30, 2016, 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 November 30, 2016, Cintas still has the opportunity to receive additional consideration, subject to certain holdback provisions. Because of the uncertainty surrounding the holdback provisions, this opportunity represents a gain contingency that has not been recorded.

In the second quarter of fiscal 2016, we completed the transaction to sell our investment in Shred-it. We recorded a pre-tax gain on the sale of Shred-it of \$349.7 million. Cintas' share of the proceeds from the sale were \$578.3 million.

In the three and six months ended November 30, 2015, Cintas recorded a net loss on the investment in Shred-it of \$9.3 million and \$24.3 million, respectively. During the three months ended November 30, 2015, Cintas received additional proceeds related to contingent consideration on the sale of Storage. The Company realized a pre-tax gain of \$10.9 million as a result of the additional consideration received. In the first quarter of fiscal 2016, Cintas sold the remaining storage assets classified as held for sale. In connection with the sale of these assets, Cintas received proceeds of \$24.4 million and realized a pre-tax gain of \$4.8 million.

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

(In thousands)	Three Months Ended		Six Months Ended	
	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
Revenue	\$—	\$—	\$—	\$—
Income before income taxes	—	845	—	1,082
Gain on Storage transactions	—	10,943	—	15,786
Gain on Shred-it	25,876	364,254	25,876	349,738
Income tax expense on net gain	(8,953)	(146,395)	(8,953)	(142,976)
Net income from discontinued operations	\$16,923	\$229,647	\$16,923	\$223,630

13. 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 \$66.0 million aggregate principal amount of commercial paper and the \$1,050.0 million aggregate principal amount of senior notes, 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 condensed consolidating financial statements are provided as an alternative to filing separate financial statements of the guarantors. Each of the subsidiaries presented in the following condensed consolidating financial statements has been fully consolidated in Cintas' consolidated financial statements. The following condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of Cintas and notes thereto of which this note is an integral part. During fiscal 2017, the Company merged a legal entity previously included in subsidiary guarantors into Corp. 2. This restructuring has been reflected as of the beginning of the earliest period presented herein.

Condensed consolidating financial statements for Cintas, Corp. 2, the subsidiary guarantors and non-guarantors are presented on the following pages:

Condensed Consolidating Income Statement
 Three Months Ended November 30, 2016
 (In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	\$ —	\$841,442	\$149,886	\$57,610	\$(43,373)	\$1,005,565
Other	—	411,378	633	18,162	(138,815)	291,358
Equity in net income of affiliates	140,377	—	—	—	(140,377)	—
	140,377	1,252,820	150,519	75,772	(322,565)	1,296,923
Costs and expenses (income):						
Cost of uniform rental and facility services	—	487,653	94,323	37,603	(63,827)	555,752
Cost of other	—	287,368	(19,549)	13,636	(111,711)	169,744
Selling and administrative expenses	—	401,715	(48,256)	18,703	(6,940)	365,222
G&K Services, Inc. transaction expenses	—	—	3,347	—	—	3,347
Operating income	140,377	76,084	120,654	5,830	(140,087)	202,858
Interest income	—	—	(7)	(25)	1	(31)
Interest expense (income)	—	14,528	(1,176)	(85)	—	13,267
Income before income taxes	140,377	61,556	121,837	5,940	(140,088)	189,622
Income taxes	—	21,534	42,652	2,011	(29)	66,168
Income from continuing operations	140,377	40,022	79,185	3,929	(140,059)	123,454
Income from discontinued operations, net of tax	—	14,982	—	1,941	—	16,923
Net income from continuing operations	\$ 140,377	\$55,004	\$79,185	\$5,870	\$(140,059)	\$140,377

Condensed Consolidating Income Statement
 Three Months Ended November 30, 2015
 (In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	\$ —	\$786,386	\$136,707	\$53,674	\$(39,063)	\$937,704
Other	—	394,260	737	17,516	(131,137)	281,376
Equity in net income of affiliates	115,453	—	—	—	(115,453)	—
	115,453	1,180,646	137,444	71,190	(285,653)	1,219,080
Costs and expenses (income):						
Cost of uniform rental and facility services	—	461,843	86,702	35,935	(58,389)	526,091
Cost of other	—	277,841	(18,291)	12,317	(106,278)	165,589
Selling and administrative expenses	—	365,125	(49,482)	16,140	(4,732)	327,051
Operating income	115,453	75,837	118,515	6,798	(116,254)	200,349
Interest income	—	(12)	(68)	(31)	—	(111)
Interest expense (income)	—	16,427	(256)	—	—	16,171
Income before income taxes	115,453	59,422	118,839	6,829	(116,254)	184,289
Income taxes	—	20,496	42,108	6,260	(28)	68,836
Income from continuing operations	115,453	38,926	76,731	569	(116,226)	115,453
Income (loss) from discontinued operations, net of tax	229,647	234,604	—	(4,957)	(229,647)	229,647
Net income (loss)	\$345,100	\$273,530	\$76,731	\$(4,388)	\$(345,873)	\$345,100

Condensed Consolidating Income Statement
Six Months Ended November 30, 2016
(In thousands)

	Cintas Corporation	Corp. 2	Subsidiary Guarantors	Non- Guarantors	Eliminations	Cintas Corporation Consolidated
Revenue:						
Uniform rental and facility services	\$	—\$1,678,716	\$299,034	\$115,273	\$(87,862)	) \$2,005,161
Other	—	821,626	1,601	37,037	(274,372)	) 585,892
Equity in net income of affiliates	278,468	—	—	—	(278,468)) —
	278,468	2,500,342	300,635	152,310	(640,702)	) 2,591,053
Costs and expenses (income):						
Cost of uniform rental and facility services	—	966,709	184,995	74,717	(129,737)	) 1,096,684
Cost of other	—	567,392	(34,480)			