CINTAS CORP
Form 10-Q
January 08, 2019

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 November 30, 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 every Interactive Data File required to be submitted 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 such files). Yes ü No _

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 _

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 December 31, 2018 |
|---|---|
| Common Stock, no par value | 104,543,895 |

CINTAS CORPORATION
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Part I. Financial Information

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, 2018 | November 30, 2017 | November 30, 2018 | November 30, 2017 |
| Revenue: | | | | |
| Uniform rental and facility services | $1,390,778 | $1,308,038 | $2,765,716 | $2,619,822 |
| Other | 327,490 | 298,403 | 650,527 | 598,122 |
| Total revenue | 1,718,268 | 1,606,441 | 3,416,243 | 3,217,944 |
| | | | | |
| Costs and expenses: | | | | |
| Cost of uniform rental and facility services | 761,119 | 723,960 | 1,507,572 | 1,430,823 |
| Cost of other | 181,991 | 166,112 | 358,801 | 331,399 |
| Selling and administrative expenses | 491,671 | 468,084 | 996,305 | 954,367 |
| G&K Services, Inc. integration expenses | 7,847 | 13,074 | 12,697 | 17,045 |
| | | | | |
| Operating income | 275,640 | 235,211 | 540,868 | 484,310 |
| | | | | |
| Gain on sale of a cost method investment | 69,373 | — | 69,373 | — |
| | | | | |
| Interest income | (391) | (291) | (887) | (588) |
| Interest expense | 24,880 | 29,129 | 49,184 | 59,446 |
| | | | | |
| Income before income taxes | 320,524 | 206,373 | 561,944 | 425,452 |
| Income taxes | 77,530 | 68,636 | 106,403 | 126,607 |
| Income from continuing operations | 242,994 | 137,737 | 455,541 | 298,845 |
| Income (loss) from discontinued operations, net of tax expense of $6, tax benefit of $624, tax benefit of $4 and tax expense of $41,103, respectively | 19 | (628) | (13) | 55,475 |
| Net income | $243,013 | $137,109 | $455,528 | $354,320 |
| | | | | |
| Basic earnings (loss) per share: | | | | |
| Continuing operations | $2.25 | $1.27 | $4.21 | $2.77 |
| Discontinued operations | 0.00 | (0.01) | 0.00 | 0.51 |
| Basic earnings per share | $2.25 | $1.26 | $4.21 | $3.28 |
| | | | | |
| Diluted earnings (loss) per share: | | | | |
| Continuing operations | $2.18 | $1.24 | $4.07 | $2.69 |
| Discontinued operations | 0.00 | (0.01) | 0.00 | 0.50 |
| Diluted earnings per share | $2.18 | $1.23 | $4.07 | $3.19 |
| | | | | |
| Dividends declared per share | $2.05 | $1.62 | $2.05 | $1.62 |

See accompanying notes.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | November 30, 2018 | November 30, 2017 | November 30, 2018 | November 30, 2017 |
| Net income | $243,013 | $137,109 | $455,528 | $354,320 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Foreign currency translation adjustments | (10,623) | (11,374) | (13,642) | 23,810 |
| Change in fair value of interest rate lock agreements | 4,921 | — | 1,753 | — |
| Amortization of interest rate lock agreements | (294) | (172) | (589) | (344) |
| Change in fair value of available-for-sale securities | — | (20) | — | — |
| Other comprehensive (loss) income | (5,996) | (11,566) | (12,478) | 23,466 |
| Comprehensive income | $237,017 | $125,543 | $443,050 | $377,786 |

See accompanying notes.

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

| | November 30, 2018 (Unaudited) | May 31, 2018 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 88,479 | $ 138,724 |
| Accounts receivable, net | 904,062 | 804,583 |
| Inventories, net | 321,874 | 280,347 |
| Uniforms and other rental items in service | 758,246 | 702,261 |
| Income taxes, current | 36,595 | 19,634 |
| Prepaid expenses and other current assets | 106,614 | 32,383 |
| Total current assets | 2,215,870 | 1,977,932 |
| | | |
| Property and equipment, net | 1,410,530 | 1,382,730 |
| | | |
| Investments | 183,548 | 175,581 |
| Goodwill | 2,845,244 | 2,846,888 |
| Service contracts, net | 521,505 | 545,768 |
| Other assets, net | 228,386 | 29,315 |
| | $ 7,405,083 | $ 6,958,214 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 211,900 | $ 215,074 |
| Accrued compensation and related liabilities | 117,645 | 140,654 |
| Accrued liabilities | 611,641 | 420,129 |
| Debt due within one year | 173,500 | — |
| Total current liabilities | 1,114,686 | 775,857 |
| | | |
| Long-term liabilities: | | |
| Debt due after one year | 2,536,408 | 2,535,309 |
| Deferred income taxes | 435,461 | 352,581 |
| Accrued liabilities | 291,284 | 277,941 |
| Total long-term liabilities | 3,263,153 | 3,165,831 |
| | | |
| Shareholders' equity: | | |
| Preferred stock, no par value: | — | — |
| 100,000 shares authorized, none outstanding | | |
| Common stock, no par value: | 804,234 | 618,464 |
| 425,000,000 shares authorized | | |
| FY 2019: 184,152,836 shares issued and 105,123,513 shares outstanding | | |
| FY 2018: 182,723,471 shares issued and 106,326,383 shares outstanding | | |
| Paid-in capital | 166,837 | 245,211 |
| Retained earnings | 6,261,756 | 5,837,827 |
| Treasury stock: | (4,209,448 ) | (3,701,319 ) |
| FY 2019: 79,029,323 shares | | |

| | | |
|---|---|---|
| FY 2018: 76,397,088 shares | | |
| Accumulated other comprehensive income | 3,865 | 16,343 |
| Total shareholders’ equity | 3,027,244 | 3,016,526 |
| | $ 7,405,083 | $ 6,958,214 |

See accompanying notes.

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

| | Six Months Ended November 30, 2018 | November 30, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 455,528 | $ 354,320 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 107,112 | 107,578 |
| Amortization of intangible assets and capitalized contract costs | 67,559 | 31,261 |
| Stock-based compensation | 74,784 | 55,204 |
| Gain on sale of a cost method investment | (69,373) | — |
| Gain on sale of business | — | (99,060) |
| Deferred income taxes | 19,227 | 42,162 |
| Change in current assets and liabilities, net of acquisitions of businesses: | | |
| Accounts receivable, net | (85,748) | (24,800) |
| Inventories, net | (53,227) | 2,595 |
| Uniforms and other rental items in service | (57,684) | (33,294) |
| Prepaid expenses and other current assets and capitalized contract costs | (58,161) | (18,573) |
| Accounts payable | (1,955) | (8,706) |
| Accrued compensation and related liabilities | (20,969) | (36,480) |
| Accrued liabilities and other | (15,322) | (1,940) |
| Income taxes, current | (17,204) | 8,742 |
| Net cash provided by operating activities | 344,567 | 379,009 |

| | | | | |
|---|---|---|---|---|
| Cash flows from investing activities: | | | | |
| Capital expenditures | (137,614 | ) | (132,466 | ) |
| Proceeds from redemption of marketable securities | — | | 100,259 | |
| Purchase of marketable securities and investments | (14,071 | ) | (99,877 | ) |
| Proceeds from sale of a cost method investment | 73,342 | | — | |
| Proceeds from sale of business | — | | 127,835 | |
| Acquisitions of businesses, net of cash acquired | (6,580 | ) | (1,099 | ) |
| Other, net | (1,717 | ) | (870 | ) |
| Net cash used in investing activities | (86,640 | ) | (6,218 | ) |
| Cash flows from financing activities: | | | | |
| Issuance (payments) of commercial paper, net | 173,500 | | (50,500 | ) |
| Repayment of debt | — | | (250,000 | ) |
| Proceeds from exercise of stock-based compensation awards | 32,612 | | 28,558 | |
| Repurchase of common stock | (508,129 | ) | (35,697 | ) |
| Other, net | (5,362 | ) | (1,882 | ) |
| Net cash used in financing activities | (307,379 | ) | (309,521 | ) |
| Effect of exchange rate changes on cash and cash equivalents | (793 | ) | 3,466 | |
| Net (decrease) increase in cash and cash equivalents | (50,245 | ) | 66,736 | |
| Cash and cash equivalents at beginning of period | 138,724 | | 169,266 | |
| | $ 88,479 | | $ 236,002 | |

Cash and cash equivalents at end of period

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, 2018. A summary of our significant accounting policies is presented beginning on page 39 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 below.

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 (see Note 7 entitled Debt, Derivatives and Hedging Activities for additional discussion related to debt obligations) 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 12 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) | November 30, 2018 | May 31, 2018 |
|---|---|---|
| Raw materials | $ 14,005 | $ 17,042 |
| Work in process | 32,420 | 27,350 |
| Finished goods | 275,449 | 235,955 |
| | $ 321,874 | $ 280,347 |

Inventories are recorded net of reserves for obsolete inventory of $31.9 million and $37.0 million at November 30, 2018 and May 31, 2018, respectively.

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. We adopted ASU 2014-09, and all the related amendments, effective June 1, 2018 using the modified retrospective method. ASU 2014-09 requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Upon adoption of ASU 2014-09, we recorded an adjustment to the opening balance of retained earnings as of June 1, 2018. The adjustment to retained earnings primarily relates to the capitalization of certain direct and incremental contract costs required by the new guidance. Capitalized costs are amortized ratably over the anticipated period of benefit. We applied ASU 2014-09 only to contracts that were not completed prior to fiscal 2019. Results for reporting periods beginning after May 31, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.

There were two implementation adjustments upon adoption of ASU 2014-09: (1) capitalization of certain direct and incremental contract costs and (2) the timing of revenue recognition for certain contracts with customers that create an asset with no alternative use to the Company and an enforceable right of payment from the customer upon termination. Adoption of ASU 2014-09 impacted the Company's previously reported results as of May 31, 2018 as follows:

Capitalization of Contract Costs. The Company has elected to apply the guidance, as a practical expedient, to a portfolio of contracts (or performance obligations) with similar characteristics because the Company reasonably expects that the effects on the consolidated condensed financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts within the portfolio. The Company also continues to expense certain costs to obtain a contract if those costs do not meet the criteria of the new standard or the amortization period of the asset would have been one year or less.

Assets With No Alternative Use. For our Uniform Direct Sale business, our revenue, prior to the adoption of ASU 2014-09, was primarily generated from the sale of finished products to customers as products are shipped and title passes to the customers. For certain contracts with customers, the Company creates an asset with no alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date. For these contracts, we have moved from a point-in-time model to an over-time model in which our measure of progress is finished goods with no alternative use in accordance with the provisions of ASU 2014-09. We expect ASU 2014-09 will have no cash impact and will not affect the economics of our underlying customer contracts.

| | | Impacts of Adopting ASU 2014-09 | | |
|---|---|---|---|---|
| (In thousands) | May 31, 2018 | Capitalization of Contract Costs | Assets With No Alternative Use | June 1, 2018 |
| ASSETS | | | | |
| Accounts receivable, net | $804,583 | $— | $ 13,426 | $818,009 |
| Inventories, net | 280,347 | — | (11,265 ) | 269,082 |
| Prepaid expenses and other current assets | 32,383 | 63,463 | — | 95,846 |
| Total current assets | 1,977,932 | 63,463 | 2,161 | 2,043,556 |
| Other assets, net | 29,315 | 187,503 | — | 216,818 |

| | | | | |
|---|---|---|---|---|
| Total assets | $6,958,214 | $250,966 | $ 2,161 | $7,211,341 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Deferred income taxes | $352,581 | $63,389 | $ 546 | $416,516 |
| Total long-term liabilities | 3,165,831 | 63,389 | 546 | 3,229,766 |
| Retained earnings | 5,837,827 | 187,577 | 1,615 | 6,027,019 |
| Total shareholders' equity | 3,016,526 | 187,577 | 1,615 | 3,205,718 |
| Total liabilities and shareholders' equity | $6,958,214 | $250,966 | $ 2,161 | $7,211,341 |

The impacts of adopting ASU 2014-09 on our fiscal 2019 consolidated condensed financial statements are presented in the following tables:

| Consolidated Condensed Statement of Income (In thousands) | Six Months Ended November 30, 2018 As Reported | Under Historical Guidance | Impact of Adopting ASU 2014-09 |
|---|---|---|---|
| Revenue: | | | |
| Uniform rental and facility services | $2,765,716 | $2,767,884 | $(2,168) |
| Other | 650,527 | 649,802 | 725 |
| Total revenue | 3,416,243 | 3,417,686 | (1,443) |
| Costs and expenses: | | | |
| Cost of other | 358,801 | 357,902 | 899 |
| Selling and administrative expenses | 996,305 | 1,010,394 | (14,089) |
| Operating income | 540,868 | 529,121 | 11,747 |
| Income before income taxes | 561,944 | 550,197 | 11,747 |
| Income taxes | 106,403 | 103,537 | 2,866 |
| Income from continuing operations | 455,541 | 446,660 | 8,881 |
| Net income | $455,528 | $446,647 | $8,881 |
| Diluted earnings per share | $4.07 | $3.99 | $0.08 |

| Consolidated Condensed Balance Sheet (In thousands) | Balance at November 30, 2018 As Reported | Under Historical Guidance | Impact of Adopting ASU 2014-09 |
|---|---|---|---|
| ASSETS | | | |
| Accounts receivable, net | $904,062 | $889,716 | $14,346 |
| Inventories, net | 321,874 | 334,038 | (12,164) |
| Income taxes, current | 36,595 | 36,600 | (5) |
| Prepaid expenses and other current assets | 106,614 | 39,642 | 66,972 |
| Total current assets | 2,215,870 | 2,146,721 | 69,149 |
| Other assets, net | 228,386 | 32,666 | 195,720 |
| Total assets | $7,405,083 | $7,140,214 | $264,869 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Long-term liabilities: | | | |
| Deferred income taxes | $435,461 | $368,665 | $66,796 |
| Total long-term liabilities | 3,263,153 | 3,196,357 | 66,796 |

| | | | |
|---|---|---|---|
| Retained earnings | 6,261,756 | 6,063,683 | 198,073 |
| Total shareholders' equity | 3,027,244 | 2,829,171 | 198,073 |
| Total liabilities and shareholders' equity | $7,405,083 | $7,140,214 | $264,869 |

The adoption of ASU 2014-09 had no impact to the Company's fiscal 2019 operating cash flow, and the only impact of the adoption on our fiscal 2019 consolidated condensed statement of comprehensive income was the impact to net income as presented in the table above.

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. The guidance also requires disclosures that meet the objective of enabling financial statement users to assess the amount, timing, and uncertainty of cash flows arising from leases. 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 will adopt this ASU on June 1, 2019 and we expect to elect the practical expedient which will allow us to not apply the amended lease accounting guidance to comparative periods that will be presented. The Company is implementing new lease systems in connection with the adoption and is also evaluating the impact that ASU 2016-02 will have on its consolidated condensed financial statements. The majority of our lease spend relates to certain real estate with the remaining lease spend primarily related to equipment. We currently expect the adoption of this standard to result in a material increase to the assets and liabilities on the consolidated balance sheets, but we do not expect a material impact on the consolidated condensed statements of income or consolidated condensed statements of cash flows.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 makes eight targeted changes to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company’s adoption of this standard on June 1, 2018 did not have a material impact on its consolidated condensed statements of cash flows.

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 an impact on the consolidated condensed financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows entities to elect to reclassify the income tax effects resulting from the Tax Cuts and Jobs Act (the Tax Act) on items within accumulated other comprehensive income to retained earnings and requires additional related disclosures. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, however, early adoption is permitted. Cintas is currently evaluating the impact that ASU 2018-02 will have on its consolidated condensed financial statements.

In August 2017, the FASB issued ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities.” ASU 2017-12 better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. Among other amendments, the update allows entities to designate the variability in cash flows attributable to changes in a contractually specified component stated in the contract as the hedged risk in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. This standard is effective for annual periods beginning after December 15, 2018. We adopted the standard effective as of June 1, 2018, and the effect of adoption of this standard did not have a material impact to our consolidated condensed financial statements.

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.

2. Revenue Recognition

The following table presents Cintas' total revenue disaggregated by service type:

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | November 30, 2018 | | November 30, 2017 | | November 30, 2018 | | November 30, 2017 | |
| (In thousands) | Revenue | % | Revenue | % | Revenue | % | Revenue | % |
| Uniform Rental and Facility Services | $1,390,778 | 81.0 % | $1,308,038 | 81.4 % | $2,765,716 | 81.0 % | $2,619,822 | 81.4 % |
| First Aid and Safety Services | 153,348 | 8.9 % | 139,090 | 8.7 % | 306,765 | 9.0 % | 279,672 | 8.7 % |
| Fire Protection Services | 96,183 | 5.6 % | 80,949 | 5.0 % | 194,292 | 5.7 % | 167,496 | 5.2 % |
| Uniform Direct Sales | 77,959 | 4.5 % | 78,364 | 4.9 % | 149,470 | 4.3 % | 150,954 | 4.7 % |
| Total revenue | $1,718,268 | 100.0% | $1,606,441 | 100.0% | $3,416,243 | 100.0% | $3,217,944 | 100.0% |

For the three and six months ended November 30, 2018, the percentage of revenue recognized over time as the services are performed was 94.7% and 95.2%, respectively, of Uniform Rental and Facility Services revenue, 90.8% and 90.8%, respectively, of First Aid and Safety Services revenue and 100% and 100%, respectively, of Fire Protection Services revenue. During the same periods, the Uniform Direct Sales business unit recognized 96.7% and 96.4%, respectively, of revenue at a point in time, which generally occurs when the goods are transferred to the customer. Fire Protection Services and Uniform Direct Sales are recorded within the All Other reportable segment disclosed in Note 11 entitled Segment Information.

Revenue Recognition Policy

More than 95% of the Company's revenues are derived from fees for route servicing of Uniform Rental and Facility Services, First Aid and Safety Services and Fire Protection Services, performed by a Cintas employee-partner, at the customer's location of business. Revenues from our route servicing customer contracts represent a single-performance obligation. The Company recognizes these revenues over time as services are performed based on the nature of services provided and contractual rates (input method). The Company's remaining revenues, primarily within the Uniform Direct Sales operating segment, and representing less than 5% of the Company's total revenues, are recognized when the obligations under the terms of a contract with a customer are satisfied. This generally occurs when the goods are transferred to the customer.

Certain of our customer contracts, primarily within our Uniform Direct Sales business, include pricing terms and conditions that include components of variable consideration. The variable consideration is typically in the form of consideration paid to a customer based on performance metrics specified within the contract. Specifically, some contracts contain discounts or rebates that the customer can earn through the achievement of specified volume levels. Each component of variable consideration is earned based on the Company's actual performance during the measurement period specified within the contract. To determine the transaction price, the Company estimates the variable consideration using the most likely amount method, based on the specific contract provisions and known performance results during the relevant measurement period. When determining if variable consideration should be constrained, the Company considers whether factors outside its control could result in a significant reversal of revenue. In making these assessments, the Company considers the likelihood and magnitude of a potential reversal. The Company's performance period generally corresponds with the monthly invoice period. No constraints on our revenue recognition were applied during the three or six months ended November 30, 2018. The Company reassesses these estimates during each reporting period. Cintas maintains a liability for these discounts and rebates within accrued liabilities on the consolidated condensed balance sheets. Variable consideration also includes consideration paid to a customer at the beginning of a contract. Cintas capitalizes this consideration and amortizes it over the life of the contract as a reduction to revenue in accordance with ASC 606. These assets are included in Other Assets, net on the consolidated condensed balance sheet.

Additionally, in accordance with ASC 606, certain Uniform Direct Sales customer contracts contain a provision with an enforceable right of payment and the underlying product has no alternative use to Cintas. Consequently, when both aforementioned provisions are prevalent in a customer contract, the revenue is recorded for finished goods that the customer is obligated to purchase under the termination terms of the contract.

Costs to Obtain a Contract
The Company capitalizes commission expenses paid to our employee-partners when the commissions are deemed to be incremental for obtaining the route servicing customer contract. The deferred commissions are amortized on a straight-line basis over the expected period of benefit. We review the deferred commission balances for impairment on an ongoing basis. Deferred commissions are classified as current or noncurrent based on the timing of when we expect to recognize the expense. The current portion is included in prepaid expenses and other current assets and the noncurrent portion is included in other assets, net on the Company's consolidated condensed balance sheets. As of November 30, 2018, the current and noncurrent assets related to deferred commissions totaled $67.0 million and $199.7 million, respectively. We recorded amortization expense related to deferred commissions of $17.6 million and $34.7 million during the three and six months ended November 30, 2018, respectively. These expenses are classified in selling and administrative expense on the consolidated condensed statements of income.

3. Fair Value Measurements

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

| | As of November 30, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
| Cash and cash equivalents | $88,479 | $— | $ — | $88,479 |
| Other assets, net: | | | | |
| Interest rate lock agreements | — | 2,307 | — | 2,307 |
| Total assets at fair value | $88,479 | $2,307 | $ — | $90,786 |

| | As of May 31, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
| Cash and cash equivalents | $138,724 | $ — | $ — | $138,724 |
| Total assets at fair value | $138,724 | $ — | $ — | $138,724 |

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.

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. There were no outstanding marketable securities as of November 30, 2018 or May 31, 2018.

As of November 30, 2018, other assets included the fair value of outstanding interest rate lock agreements. The fair values 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. The fair value was determined by comparing the locked rates against the benchmarked treasury rate.

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.

4. Investments

Investments at November 30, 2018 of $183.5 million include the cash surrender value of insurance policies of $165.4 million, equity method investments of $16.9 million and cost method investments of $1.2 million. Investments at May 31, 2018 of $175.6 million include the cash surrender value of insurance policies of $154.0 million, equity method investments of $16.4 million and cost method investments of $5.2 million. Investments are generally evaluated for impairment on an annual basis or when indicators of impairment exist. For the six months ended November 30, 2018 and 2017, no impairment losses were recorded.

During the three months ended November 30, 2018, Cintas sold a cost method investment to a third party. Proceeds from the sale were $73.3 million, which resulted in a pre-tax gain of $69.4 million.

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 November 30, 2018 | Three Months Ended November 30, 2017 | Six Months Ended November 30, 2018 | Six Months Ended November 30, 2017 |
|---|---|---|---|---|
| Income from continuing operations | $242,994 | $ 137,737 | $455,541 | $ 298,845 |
| Less: income from continuing operations allocated to participating securities | 3,376 | 2,111 | 6,308 | 5,298 |
| Income from continuing operations available to common shareholders | $239,618 | $ 135,626 | $449,233 | $ 293,547 |
| Basic weighted average common shares outstanding | 106,475 | 106,340 | 106,652 | 106,039 |
| Basic earnings per share from continuing operations | $2.25 | $ 1.27 | $4.21 | $ 2.77 |

| Diluted Earnings per Share from Continuing Operations (in thousands except per share data) | Three Months Ended November 30, 2018 | Three Months Ended November 30, 2017 | Six Months Ended November 30, 2018 | Six Months Ended November 30, 2017 |
|---|---|---|---|---|
| Income from continuing operations | $242,994 | $ 137,737 | $455,541 | $ 298,845 |
| Less: income from continuing operations allocated to participating securities | 3,376 | 2,111 | 6,308 | 5,298 |
| Income from continuing operations available to common shareholders | $239,618 | $ 135,626 | $449,233 | $ 293,547 |
| Basic weighted average common shares outstanding | 106,475 | 106,340 | 106,652 | 106,039 |
| Effect of dilutive securities – employee stock options | 3,399 | 3,478 | 3,605 | 2,899 |
| Diluted weighted average common shares outstanding | 109,874 | 109,818 | 110,257 | 108,938 |
| Diluted earnings per share from continuing operations | $2.18 | $ 1.24 | $4.07 | $ 2.69 |

For the three and six months ended November 30, 2018, both basic and diluted earnings per share from discontinued operations were $0.00. Both basic and diluted loss per share from discontinued operations were $0.01 for the three months ended November 30, 2017. For the six months ended November 30, 2017, basic and diluted earnings per share from discontinued operations were $0.51 and $0.50, respectively.

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For the three months ended November 30, 2018 and 2017, options granted to purchase 0.4 million and 0.5 million shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. For the six months ended November 30, 2018 and 2017, options granted to purchase 0.4 million and 0.6 million shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common stock (anti-dilutive).

On August 2, 2016, Cintas announced that the Board of Directors authorized a $500.0 million share buyback program, which does not have an expiration date. The August 2, 2016 share buyback program was completed during the second quarter of fiscal 2019. From the inception of the August 2, 2016 share buyback program through November 2018, Cintas purchased a total of 2.6 million shares of Cintas common stock at an average price of $188.82 per share for a total purchase price of $500.0 million. On October 30, 2018, we announced that the Board of Directors authorized a new $1.0 billion share buyback program, which does not have an expiration date. The following table summarizes the buyback activity by program and fiscal period.

| (In thousands except per share data) | Three Months Ended November 30, 2018 | | | Six Months Ended November 30, 2018 | | |
|---|---|---|---|---|---|---|
| Buyback Program | Shares | Avg. Price per Share | Purchase Price | Shares | Avg. Price per Share | Purchase Price |
| August 2, 2016 | 1,740 | $190.66 | $331,547 | 2,130 | $192.55 | $410,003 |
| October 30, 2018 | 201 | $181.41 | $36,579 | 201 | $181.41 | $36,579 |
| | 1,941 | $189.69 | $368,126 | 2,331 | $191.58 | $446,582 |

In the period subsequent to November 30, 2018 through January 8, 2019, we purchased 0.6 million shares of Cintas common stock under the new share buyback program at an average price of $167.32 for a total purchase price of $100.0 million. From the inception of the October 30, 2018 share buyback program through January 8, 2019, Cintas has purchased a total of 0.8 million shares of Cintas common stock at an average price of $170.87 for a total purchase price of $136.6 million.

For the three months ended November 30, 2018, Cintas acquired less than 0.1 million shares of Cintas common stock for employee payroll taxes dues on restricted stock awards that vested during the three months ended November 30, 2018. These shares were acquired at an average price of $194.14 per share for a total purchase price of $0.4 million. During the six months ended November 30, 2018, Cintas acquired 0.3 million shares of Cintas common stock for employee payroll taxes due on restricted stock awards that vested during the six months ended November 30, 2018. These shares were acquired at an average price of $204.32 per share for a total purchase price of $61.5 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, 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, 2018 | $2,505,476 | $244,279 | $97,133 | $2,846,888 |
| Goodwill acquired | 15 | — | 5,092 | 5,107 |
| Foreign currency translation | (6,233) | (499) | (19) | (6,751) |
| Balance as of November 30, 2018 | $2,499,258 | $243,780 | $102,206 | $2,845,244 |

| Service Contracts (in thousands) | Uniform Rental and Facility Services | First Aid and Safety Services | All Other | Total |
|---|---|---|---|---|
| Balance as of June 1, 2018 | $492,067 | $27,294 | $26,407 | $545,768 |
| Service contracts acquired | 739 | 14 | 4,959 | 5,712 |
| Service contracts amortization | (23,477) | (1,926) | (2,680) | (28,083) |
| Foreign currency translation | (1,845) | (47) | — | (1,892) |
| Balance as of November 30, 2018 | $467,484 | $25,335 | $28,686 | $521,505 |

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

| (In thousands) | As of November 30, 2018 Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| Service contracts | $928,010 | $ 406,505 | $521,505 |
| Capitalized contract costs [1] | $234,446 | $ 34,726 | $199,720 |
| Noncompete and consulting agreements | 42,116 | 40,190 | 1,926 |
| Other | 41,282 | 14,542 | 26,740 |
| Total other assets | $317,844 | $ 89,458 | $228,386 |

[1] The current portion of capitalized contract costs, included in prepaid expenses and other current assets on the consolidated condensed balance sheet as of November 30, 2018, is $67.0 million.

| (In thousands) | As of May 31, 2018 Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| Service contracts | $924,978 | $ 379,210 | $545,768 |
| Noncompete and consulting agreements | $41,710 | $ 39,877 | $1,833 |
| Other | 38,787 | 11,305 | 27,482 |
| Total other assets | $80,497 | $ 51,182 | $29,315 |

Amortization expense for service contracts and other assets for continuing operations was $33.3 million and $15.6 million for the three months ended November 30, 2018 and 2017, respectively. Amortization expense for service contracts and other assets for continuing operations was $66.2 million and $29.8 million for the six months ended November 30, 2018 and 2017, respectively. Estimated amortization expense for service contracts and other assets, excluding any future acquisitions and commissions to be earned, for each of the next five full fiscal years and thereafter is $132.6 million, $124.7 million, $109.6 million, $97.7 million, $79.7 million and $323.1 million, respectively.

7. Debt, Derivatives and Hedging Activities

Cintas' outstanding debt is summarized as follows:

| (In thousands) | Interest Rate | Fiscal Year Issued | Fiscal Year Maturity | November 30, 2018 | May 31, 2018 |
|---|---|---|---|---|---|
| Debt due within one year | | | | | |
| Commercial paper | 2.60 % [(1)] | Various | Various | $173,500 | $— |
| Total debt due within one year | | | | $173,500 | $— |
| 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 [(2)] | 2.78 % | 2013 | 2023 | 51,902 | 52,119 |
| Senior notes [(3)] | 3.11 % | 2015 | 2025 | 52,140 | 52,309 |
| Senior notes | 3.70 % | 2017 | 2027 | 1,000,000 | 1,000,000 |
| Senior notes | 6.15 % | 2007 | 2037 | 250,000 | 250,000 |
| Debt issuance costs | | | | (17,634 ) | (19,119 ) |
| Total debt due after one year | | | | $2,536,408 | $2,535,309 |

[(1)] Variable rate debt instrument. The rate presented is the variable borrowing rate at November 30, 2018.
[(2)] 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%.
[(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 3.88%.

Cintas' senior notes, excluding the G&K senior notes assumed with the acquisition of G&K in fiscal 2017, 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 November 30, 2018 were $2,723.5 million and $2,715.0 million, respectively, and as of May 31, 2018 were $2,550.0 million and $2,582.0 million, respectively. During the six months ended November 30, 2018, Cintas issued $173.5 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 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 November 30, 2018, there was $173.5 million of commercial paper outstanding with a weighted average interest rate of 2.60% and maturity dates less than 30 days and no borrowings on our revolving credit facility. As of May 31, 2018, there was no commercial paper outstanding and no borrowings on our revolving credit facility.

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 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 and $0.1 million for the three months ended November 30, 2018 and 2017, respectively. For the six months ended November 30, 2018 and 2017, the amortization of the cash flow hedges resulted in a decrease to other comprehensive income of $0.6 million and $0.3 million, respectively. During the first quarter of fiscal 2019, Cintas entered into interest rate lock agreements with a notional value of $500.0 million for a forecasted debt issuance. As of November 30, 2018, the fair value of these interest rate locks was an asset of $2.3 million recorded in other assets and in other comprehensive income, net of tax. The interest rate locks had no impact on net income or cash flows from continuing operations for the three and six months ended November 30, 2018.

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 November 30, 2018 and May 31, 2018, recorded unrecognized tax benefits were $28.8 million and $26.9 million, respectively, and are included in long-term accrued liabilities on the consolidated condensed balance sheet.

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.

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, 2019.

On December 22, 2017, the President signed into legislation 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.

In acknowledgment of the substantial changes incorporated in the Tax Act, and 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 the Tax Act. During the first quarter of fiscal 2019, Cintas recorded an adjustment to the provisional transition tax, net of foreign tax credits, of $3.3 million. Cintas is still revising the transition tax calculation, and this amount is subject to change based on computation of the final fiscal 2018 earnings and profit and the amounts held in cash and cash equivalents at the end of fiscal 2018. There were no provisional adjustments recorded during the three months ended November 30, 2018. Cintas also analyzed the impact of the new provisions under the Tax Act surrounding executive compensation, the foreign derived intangible income deduction and global intangible low-taxed income and determined that the impact was immaterial for the three and six months ended November 30, 2018.

Cintas’ effective tax rate for continuing operations was 24.2% and 33.3% for the three months ended November 30, 2018 and 2017, respectively. For the six months ended November 30, 2018 and 2017, Cintas' effective tax rate for continuing operations was 18.9% and 29.8%, respectively. The effective tax rate for all periods was largely impacted by certain discrete items (primarily the tax accounting for stock-based compensation). The three and six-month periods ended November 30, 2018 were also impacted by the reduced U.S. corporate tax rate as a result of the enactment of the Tax Act.

9. Pension Plans

In conjunction with the acquisition of G&K in fiscal 2017, 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 is included in long-term accrued liabilities on the consolidated condensed balance sheets. Unrecognized differences between actual amounts and estimates based on actuarial assumptions are included in accumulated other comprehensive income in our consolidated condensed balance sheets. 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 (benefit) recognized in other comprehensive income for the Pension Plan are as follows:

| (In thousands) | Three Months Ended November 30, 2018 | Three Months Ended November 30, 2017 | Six Months Ended November 30, 2018 | Six Months Ended November 30, 2017 |
|---|---|---|---|---|
| Interest cost | $781 | $ 711 | $1,562 | $ 1,421 |
| Expected return on assets | (720) | (716) | (1,441) | (1,432) |
| Total net periodic pension cost (benefit) | $61 | $ (5) | $121 | $ (11) |

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 Income on Interest Rate Hedges | Other | Total |
|---|---|---|---|---|
| Balance at June 1, 2018 | $6,550 | $10,449 | $(656) | $16,343 |
| Other comprehensive loss before reclassifications | (3,019) | (3,168) | — | (6,187) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (295) | — | (295) |
| Net current period other comprehensive loss | (3,019) | (3,463) | — | (6,482) |
| Balance at August 31, 2018 | 3,531 | 6,986 | (656) | 9,861 |
| Other comprehensive (loss) income before reclassifications | (10,623) | 4,921 | — | (5,702) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (294) | — | (294) |
| Net current period other comprehensive (loss) income | (10,623) | 4,627 | — | (5,996) |
| Balance at November 30, 2018 | $(7,092) | $11,613 | $(656) | $3,865 |

| (In thousands) | Foreign Currency | Unrealized Income on Interest Rate 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 |

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 | | Six Months Ended | | |
| (In thousands) | November 30, 2018 | November 30, 2017 | November 30, 2018 | November 30, 2017 | |

| | | | | | |
|---|---|---|---|---|---|
| Amortization of interest rate locks | $474 | $ 278 | $948 | $ 556 | Interest expense |
| Tax expense | (180 ) | (106 ) | (359 ) | (212 ) | Income taxes |
| Amortization of interest rate locks, net of tax | $294 | $ 172 | $589 | $ 344 | Net income |

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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 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 November 30, 2018 | | | | | |
| Revenue | $1,390,778 | $153,348 | $174,142 | $ — | $1,718,268 |
| Income before income taxes | $242,891 | $21,328 | $11,421 | $ 44,884 | $320,524 |
| For the three months ended November 30, 2017 | | | | | |
| Revenue | $1,308,038 | $139,090 | $159,313 | $ — | $1,606,441 |
| Income (loss) before income taxes | $203,814 | $17,975 | $13,422 | $ (28,838 ) | $206,373 |
| As of and for the six months ended November 30, 2018 | | | | | |
| Revenue | $2,765,716 | $306,765 | $343,762 | $ — | $3,416,243 |
| Income before income taxes | $474,425 | $43,311 | $23,132 | $ 21,076 | $561,944 |
| Total assets | $6,438,400 | $495,054 | $383,150 | $ 88,479 | $7,405,083 |
| As of and for the six months ended November 30, 2017 | | | | | |
| Revenue | $2,619,822 | $279,672 | $318,450 | $ — | $3,217,944 |
| Income (loss) before income taxes | $422,724 | $37,386 | $24,200 | $ (58,858 ) | $425,452 |
| Total assets | $5,899,010 | $467,902 | $353,155 | $ 258,734 | $6,978,801 |

[1] Corporate assets include cash and marketable securities in all periods.

12. Discontinued Operations

During the first quarter of 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.

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

| (In thousands) | Three Months Ended November 30, 2018 | Three Months Ended November 30, 2017 | Six Months Ended November 30, 2018 | Six Months Ended November 30, 2017 |
|---|---|---|---|---|
| Revenue | $— | $ — | $— | $ 10,773 |
| Income (loss) before income taxes | 25 | (43 ) | (17 ) | (2,482 ) |
| Income tax (expense) benefit | (6 ) | 18 | 4 | 920 |
| (Loss) gain on sale of business | — | (1,209 ) | — | 99,060 |
| Income tax benefit (expense) on net gain | — | 606 | — | (42,023 ) |
| Net income (loss) from discontinued operations | $ 19 | $ (628 ) | $ (13 ) | $ 55,475 |

13. G&K Services, Inc. Integration Expenses

As a result of the acquisition of G&K in fiscal 2017, the Company incurred $7.8 million and $13.1 million in expenses during the three months ended November 30, 2018 and 2017, respectively, and $12.7 million and $17.0 million during the six months ended November 30, 2018 and 2017, respectively. The $7.8 million and $12.7 million of costs incurred in the three and six months ended November 30, 2018 related to integration expenses directly related to the acquisition, primarily comprised of facility closure expenses. The $13.1 million of costs incurred in the three months ended November 30, 2017 related to integration expenses directly related to the acquisition. During the six months ended November 30, 2017, the costs incurred related to $16.0 million of integration expenses directly related to the acquisition and $1.0 million of employee termination expenses recognized under ASC Topic 712, "Compensation - Nonretirement Postemployment Benefits."

As of November 30, 2018 and May 31, 2018, employee termination benefits included in accrued compensation and related liabilities on the consolidated condensed balance sheet was $5.8 million and $9.1 million, respectively. The amount of employee termination benefits paid during the three and six months ended November 30, 2018 was $0.9 million and $3.3 million, respectively. We anticipate the remaining accrued employee termination benefits will be paid over the remainder of fiscal 2019.

14. 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 $173.5 million aggregate principal amount of commercial paper and the $2,550.0 million aggregate principal amount of senior notes outstanding as of November 30, 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 12) 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 November 30, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Uniform rental and facility services | $ — | $ 1,134,118 | $ 182,876 | $ 101,830 | $ (28,046 ) | $ 1,390,778 |
| Other | — | 522,081 | 50 | 25,918 | (220,559 ) | 327,490 |
| Equity in net income of affiliates | 242,994 | — | — | — | (242,994 ) | — |
| Total revenue | 242,994 | 1,656,199 | 182,926 | 127,748 | (491,599 ) | 1,718,268 |
| Costs and expenses (income): | | | | | | |
| Cost of uniform rental and facility services | — | 640,859 | 111,555 | 65,316 | (56,611 ) | 761,119 |
| Cost of other | — | 375,764 | (27,133 ) | 19,319 | (185,959 ) | 181,991 |
| Selling and administrative expenses | — | 536,276 | (68,617 ) | 32,559 | (8,547 ) | 491,671 |
| G&K Services, Inc. integration expenses | — | 5,973 | 1,270 | 604 | — | 7,847 |
| Operating income | 242,994 | 97,327 | 165,851 | 9,950 | (240,482 ) | 275,640 |
| Gain on sale of a cost method investment | — | — | 69,373 | — | — | 69,373 |
| Interest income | — | (294 ) | (93 ) | (5 ) | 1 | (391 ) |
| Interest expense (income) | — | 25,046 | (173 ) | 7 | — | 24,880 |
| Income before income taxes | 242,994 | 72,575 | 235,490 | 9,948 | (240,483 ) | 320,524 |
| Income taxes | — | 19,166 | 55,788 | 2,613 | (37 ) | 77,530 |
| Income from continuing operations | 242,994 | 53,409 | 179,702 | 7,335 | (240,446 ) | 242,994 |
| Income from discontinued operations, net of tax | 19 | 19 | — | — | (19 ) | 19 |
| Net income | $ 243,013 | $ 53,428 | $ 179,702 | $ 7,335 | $ (240,465 ) | $ 243,013 |

Consolidating Condensed Income Statement
Three Months Ended November 30, 2017
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Uniform rental and facility services | $— | $1,086,667 | $170,320 | $100,933 | $(49,882) | $1,308,038 |
| Other | — | 435,539 | (313) | 21,982 | (158,805) | 298,403 |
| Equity in net income of affiliates | 137,737 | — | — | — | (137,737) | — |
| Total revenue | 137,737 | 1,522,206 | 170,007 | 122,915 | (346,424) | 1,606,441 |
| Costs and expenses (income): | | | | | | |
| Cost of uniform rental and facility services | — | 628,123 | 105,954 | 65,220 | (75,337) | 723,960 |
| Cost of other | — | 302,065 | (25,046) | 15,438 | (126,345) | 166,112 |
| Selling and administrative expenses | — | 528,369 | (85,417) | 31,211 | (6,079) | 468,084 |
| G&K Services, Inc. integration expenses | — | 4,192 | 8,319 | 563 | — | 13,074 |
| Operating income | 137,737 | 59,457 | 166,197 | 10,483 | (138,663) | 235,211 |
| Interest income | — | (45) | (59) | (187) | — | (291) |
| Interest expense (income) | — | 29,444 | (313) | (2) | — | 29,129 |
| Income before income taxes | 137,737 | 30,058 | 166,569 | 10,672 | (138,663) | 206,373 |
| Income taxes | — | 11,449 | 54,414 | 2,798 | (25) | 68,636 |
| Income from continuing operations | 137,737 | 18,609 | 112,155 | 7,874 | (138,638) | 137,737 |
| Loss from discontinued operations, net of tax | (628) | (628) | — | — | 628 | (628) |
| Net income | $137,109 | $17,981 | $112,155 | $7,874 | $(138,010) | $137,109 |

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Consolidating Condensed Income Statement
Six Months Ended November 30, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Uniform rental and facility services | $ — | $ 2,273,247 | $ 366,039 | $ 201,513 | $ (75,083) | $ 2,765,716 |
| Other | — | 1,013,371 | 93 | 50,250 | (413,187) | 650,527 |
| Equity in net income of affiliates | 455,541 | — | — | — | (455,541) | — |
| Total revenue | 455,541 | 3,286,618 | 366,132 | 251,763 | (943,811) | 3,416,243 |
| Costs and expenses (income): | | | | | | |
| Cost of uniform rental and facility services | — | 1,284,600 | 221,105 | 129,329 | (127,462) | 1,507,572 |
| Cost of other | — | 717,097 | (49,162) | 37,461 | (346,595) | 358,801 |
| Selling and administrative expenses | — | 1,081,186 | (133,238) | 66,922 | (18,565) | 996,305 |
| G&K Services, Inc. integration expenses | — | 8,649 | 3,133 | 915 | — | 12,697 |
| Operating income | 455,541 | 195,086 | 324,294 | 17,136 | (451,189) | 540,868 |
| Gain on sale of a cost method investment | — | — | 69,373 | — | — | 69,373 |
| Interest income | — | (503) | (365) | (21) | 2 | (887) |
| Interest expense (income) | — | 49,707 | (535) | 12 | — | 49,184 |
| Income before income taxes | 455,541 | 145,882 | 394,567 | 17,145 | (451,191) | 561,944 |
| Income taxes | — | 29,829 | 71,832 | 4,800 | (58) | 106,403 |
| Income from continuing operations | 455,541 | 116,053 | 322,735 | 12,345 | (451,133) | 455,541 |
| Loss from discontinued operations, net of tax | (13) | (13) | — | — | 13 | (13) |
| Net income | $ 455,528 | $ 116,040 | $ 322,735 | $ 12,345 | $ (451,120) | $ 455,528 |

Consolidating Condensed Income Statement
Six Months Ended November 30, 2017
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Uniform rental and facility services | $ — | $ 2,186,536 | $ 335,215 | $ 197,528 | $ (99,457) | $ 2,619,822 |
| Other | — | 862,841 | (6) | 42,290 | (307,003) | 598,122 |
| Equity in net income of affiliates | 298,845 | — | — | — | (298,845) | — |
| Total revenue | 298,845 | 3,049,377 | 335,209 | 239,818 | (705,305) | 3,217,944 |
| Costs and expenses (income): | | | | | | |
| Cost of uniform rental and facility services | — | 1,250,271 | 204,973 | 125,737 | (150,158) | 1,430,823 |
| Cost of other | — | 590,984 | (44,715) | 30,173 | (245,043) | 331,399 |
| Selling and administrative expenses | — | 1,039,324 | (132,955) | 61,117 | (13,119) | 954,367 |
| G&K Services, Inc. integration expenses | — | 5,713 | 10,754 | 578 | — | 17,045 |
| Operating income | 298,845 | 163,085 | 297,152 | 22,213 | (296,985) | 484,310 |
| Interest income | — | (76) | (158) | (354) | — | (588) |
| Interest expense (income) | — | 60,005 | (452) | (107) | — | 59,446 |
| Income before income taxes | 298,845 | 103,156 | 297,762 | 22,674 | (296,985) | 425,452 |
| Income taxes | — | 31,019 | 89,537 | 6,095 | (44) | 126,607 |
| Income from continuing operations | 298,845 | 72,137 | 208,225 | 16,579 | (296,941) | 298,845 |
| Income (loss) from discontinued operations, net of tax | 55,475 | 64,374 | (8,899) | — | (55,475) | 55,475 |
| Net income | $ 354,320 | $ 136,511 | $ 199,326 | $ 16,579 | $ (352,416) | $ 354,320 |

Consolidating Condensed Statement of Comprehensive Income
Three Months Ended November 30, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 243,013 | $ 53,428 | $ 179,702 | $ 7,335 | $ (240,465 ) | $ 243,013 |
| Other comprehensive (loss) income, net of tax: | | | | | | |
| Foreign currency translation adjustments | (10,623 ) | — | — | (10,623 ) | 10,623 | (10,623 ) |
| Change in fair value of interest rate lock agreements | 4,921 | 4,921 | — | | (4,921 ) | 4,921 |
| Amortization of interest rate lock agreements | (294 ) | (294 ) | — | — | 294 | (294 ) |
| Other comprehensive (loss) income | (5,996 ) | 4,627 | — | (10,623 ) | 5,996 | (5,996 ) |
| Comprehensive income (loss) | $ 237,017 | $ 58,055 | $ 179,702 | $ (3,288 ) | $ (234,469 ) | $ 237,017 |

Consolidating Condensed Statement of Comprehensive Income
Three Months Ended November 30, 2017
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 137,109 | $ 17,981 | $ 112,155 | $ 7,874 | $ (138,010 ) | $ 137,109 |
| Other comprehensive loss, net of tax: | | | | | | |
| Foreign currency translation adjustments | (11,374 ) | — | — | (11,374 ) | 11,374 | (11,374 ) |
| Amortization of interest rate lock agreements | (172 ) | (172 ) | — | — | 172 | (172 ) |
| Change in fair value of available-for-sale securities | (20 ) | — | — | (20 ) | 20 | (20 ) |
| Other comprehensive loss | (11,566 ) | (172 ) | — | (11,394 ) | 11,566 | (11,566 ) |
| Comprehensive income (loss) | $ 125,543 | $ 17,809 | $ 112,155 | $ (3,520 ) | $ (126,444 ) | $ 125,543 |

Consolidating Condensed Statement of Comprehensive Income
Six Months Ended November 30, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 455,528 | $ 116,040 | $ 322,735 | $ 12,345 | $ (451,120 ) | $ 455,528 |
| Other comprehensive (loss) income, net of tax: | | | | | | |
| Foreign currency translation adjustments | (13,642 ) | — | — | (13,642 ) | 13,642 | (13,642 ) |
| Change in fair value of interest rate lock agreements | 1,753 | 1,753 | — | — | (1,753 ) | 1,753 |
| Amortization of interest rate lock agreements | (589 ) | (589 ) | — | — | 589 | (589 ) |
| Other comprehensive (loss) income | (12,478 ) | 1,164 | — | (13,642 ) | 12,478 | (12,478 ) |
| Comprehensive income (loss) | $ 443,050 | $ 117,204 | $ 322,735 | $ (1,297 ) | $ (438,642 ) | $ 443,050 |

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Consolidating Condensed Statement of Comprehensive Income
Six Months Ended November 30, 2017
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Net income | $ 354,320 | $ 136,511 | $ 199,326 | $ 16,579 | $ (352,416 ) | $ 354,320 |
| Other comprehensive income (loss), net of tax: | | | | | | |
| Foreign currency translation adjustments | 23,810 | — | — | 23,810 | (23,810 ) | 23,810 |
| Amortization of interest rate lock agreements | (344 ) | (344 ) | — | — | 344 | (344 ) |
| Other comprehensive income (loss) | 23,466 | (344 ) | — | 23,810 | (23,466 ) | 23,466 |
| Comprehensive income | $ 377,786 | $ 136,167 | $ 199,326 | $ 40,389 | $ (375,882 ) | $ 377,786 |

Consolidating Condensed Balance Sheet
As of November 30, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $— | $47,771 | $9,759 | $30,949 | $— | $ 88,479 |
| Accounts receivable, net | — | 689,606 | 143,378 | 71,078 | — | 904,062 |
| Inventories, net | — | 267,335 | 34,467 | 17,611 | 2,461 | 321,874 |
| Uniforms and other rental items in service | — | 624,589 | 90,914 | 59,701 | (16,958) | 758,246 |
| Income taxes, current | — | 10,875 | 16,362 | 9,358 | — | 36,595 |
| Prepaid expenses and other current assets | — | 75,840 | 29,394 | 1,380 | — | 106,614 |
| Total current assets | — | 1,716,016 | 324,274 | 190,077 | (14,497) | 2,215,870 |
| Property and equipment, net | — | 923,931 | 376,274 | 110,325 | — | 1,410,530 |
| Investments [1] | 321,083 | 3,596,134 | 957,740 | 1,718,070 | (6,409,479) | 183,548 |
| Goodwill | — | — | 2,584,875 | 260,481 | (112) | 2,845,244 |
| Service contracts, net | — | 449,590 | — | 71,915 | — | 521,505 |
| Other assets, net | 2,240,914 | 203,378 | 4,783,008 | 2,143 | (7,001,057) | 228,386 |
| | $2,561,997 | $6,889,049 | $9,026,171 | $2,353,011 | $(13,425,145) | $ 7,405,083 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $(465,247) | $(1,828,417) | $2,495,759 | $(27,826) | $37,631 | $ 211,900 |
| Accrued compensation and related liabilities | — | 88,374 | 18,410 | 10,861 | — | 117,645 |
| Accrued liabilities | — | 87,221 | 504,186 | 20,234 | — | 611,641 |
| Debt due within one year | — | 173,500 | — | — | — | 173,500 |
| Total current liabilities | (465,247) | (1,479,322) | 3,018,355 | 3,269 | 37,631 | 1,114,686 |
| Long-term liabilities: | | | | | | |
| Debt due after one year | — | 2,536,018 | — | 390 | — | 2,536,408 |
| Deferred income taxes | — | 291,233 | 110,089 | 34,139 | — | 435,461 |
| Accrued liabilities | — | 61,597 | 213,289 | 16,398 | — | 291,284 |
| Total long-term liabilities | — | 2,888,848 | 323,378 | 50,927 | — | 3,263,153 |
| Total shareholders' equity | 3,027,244 | 5,479,523 | 5,684,438 | 2,298,815 | (13,462,776) | 3,027,244 |
| | $2,561,997 | $6,889,049 | $9,026,171 | $2,353,011 | $(13,425,145) | $ 7,405,083 |

[1] Investments include inter-company investment activity. Corp 2 and Subsidiary Guarantors hold $18.1 million and $165.4 million, respectively, of the $183.5 million consolidated net investments.

Consolidating Condensed Balance Sheet
As of May 31, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $— | $44,499 | $60,310 | $33,915 | $— | $ 138,724 |
| Accounts receivable, net | — | 620,920 | 120,767 | 62,896 | — | 804,583 |
| Inventories, net | — | 225,581 | 38,844 | 15,922 | — | 280,347 |
| Uniforms and other rental items in service | — | 585,108 | 81,494 | 54,248 | (18,589 ) | 702,261 |
| Income taxes, current | — | 5,546 | 9,258 | 4,830 | — | 19,634 |
| Prepaid expenses and other current assets | — | 9,453 | 21,688 | 1,242 | — | 32,383 |
| Total current assets | — | 1,491,107 | 332,361 | 173,053 | (18,589 ) | 1,977,932 |
| Property and equipment, net | — | 900,014 | 370,186 | 112,530 | — | 1,382,730 |
| Investments [1] | 321,083 | 3,595,668 | 950,239 | 1,716,070 | (6,407,479 ) | 175,581 |
| Goodwill | — | — | 2,579,769 | 267,231 | (112 ) | 2,846,888 |
| Service contracts, net | — | 468,283 | — | 77,485 | — | 545,768 |
| Other assets, net | 2,230,196 | 593 | 4,381,476 | 8,656 | (6,591,606 ) | 29,315 |
| | $2,551,279 | $6,455,665 | $8,614,031 | $2,355,025 | $(13,017,786) | $ 6,958,214 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $(465,247 ) | $(1,724,844) | $2,395,434 | $(28,216 ) | $37,947 | $ 215,074 |
| Accrued compensation and related liabilities | — | 104,560 | 24,878 | 11,216 | — | 140,654 |
| Accrued liabilities | — | 88,949 | 308,485 | 22,695 | — | 420,129 |
| Total current liabilities | (465,247 ) | (1,531,335 ) | 2,728,797 | 5,695 | 37,947 | 775,857 |
| Long-term liabilities: | | | | | | |
| Debt due after one year | — | 2,534,919 | — | 390 | — | 2,535,309 |
| Deferred income taxes | — | 215,881 | 104,559 | 32,141 | — | 352,581 |
| Accrued liabilities | — | 63,073 | 198,181 | 16,687 | — | 277,941 |
| Total long-term liabilities | — | 2,813,873 | 302,740 | 49,218 | — | 3,165,831 |
| Total shareholders' equity | 3,016,526 | 5,173,127 | 5,582,494 | 2,300,112 | (13,055,733 ) | 3,016,526 |
| | $2,551,279 | $6,455,665 | $8,614,031 | $2,355,025 | $(13,017,786) | $ 6,958,214 |

(1) Investments include inter-company investment activity. Corp 2 and Subsidiary Guarantors hold $17.6 million and $158.0 million, respectively, of the $175.6 million consolidated net investments.

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Consolidating Condensed Statement of Cash Flows
Six Months Ended November 30, 2018
(In thousands)

| | Cintas Corporation | Corp. 2 | Subsidiary Guarantors | Non-Guarantors | Eliminations | Cintas Corporation Consolidated |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Net income | $ 455,528 | $ 116,040 | $ 322,735 | $ 12,345 | $ (451,120 ) | $ 455,528 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | | | |
| Depreciation | — | 68,929 | 31,274 | 6,909 | — | 107,112 |
| Amortization of intangible assets and capitalized contract costs | — | 61,044 | 2,339 | 4,176 | — | 67,559 |
| Stock-based compensation | 74,784 | — | — | — | — | 74,784 |
| Gain on sale of a cost method investment | — | — | (69,373 ) | — | — | (69,373 ) |
| Deferred income taxes | — | 10,865 | 5,519 | 2,843 | — | 19,227 |
| Changes in current assets and liabilities, net of acquisitions of businesses: | | | | | | |
| Accounts receivable, net | — | (52,953 ) | (20,151 ) | (10,183 ) | (2,461 ) | (85,748 ) |
| Inventories, net | — | (52,989 ) | 3,546 | (2,153 ) | (1,631 ) | (53,227 ) |
| Uniforms and other rental items in service | — | (39,481 ) | (11,051 ) | (7,152 ) | — | (57,684 ) |
| Prepaid expenses and other current assets and capitalized contract costs | — | (52,392 ) | (5,570 ) | (199 ) | — | (58,161 ) |
| Accounts payable | — | (98,465 ) | 90,324 | 6,502 | (316 ) | (1,955 ) |
| Accrued compensation and related liabilities | — | (16,186 ) | (6,468 ) | 1,685 | — | (20,969 ) |
| Accrued liabilities and other | — | (1,908 ) | (9,983 ) | (3,431 ) | — | (15,322 ) |
| Income taxes, current | — | (5,329 ) | (7,109 ) | (4,766 ) | — | (17,204 ) |
| Net cash provided by (used in) operating activities | 530,312 | (62,825 ) | 326,032 | 6,576 | (455,528 ) | 344,567 |
| | | | | | | |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (92,461 ) | (37,357 ) | (7,796 ) | — | (137,614 ) |
| Purchase of marketable securities and investments | — | (466 ) | (13,605 ) | — | — | (14,071 ) |
| Proceeds from sale of a cost method investment | — | — | 73,342 | — | — | 73,342 |
| Acquisitions of businesses | — | (6,580 ) | — | — | — | (6,580 ) |
| Other, net | (54,795 ) | (2,534 ) | (398,963 ) | (953 ) | 455,528 | (1,717 ) |
| Net cash used in investing activities | (54,795 ) | (102,041 ) | (376,583 ) | (8,749 ) | 455,528 | (86,640 ) |
| | | | | | | |
| Cash flows from financing activities: | | | | | | |
| Issuance of commercial paper, net | — | 173,500 | — | — | — | 173,500 |
| Proceeds from exercise of stock-based compensation awards | 32,612 | — | — | — | — | 32,612 |
| Repurchase of common stock | (508,129 ) | — | — | — | — | (508,129 ) |
| Other, net | — | (5,362 ) | — | — | — | (5,362 ) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net cash (used in) provided by financing activities | (475,517 ) | 168,138 | — | — | — | (307,379 ) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | (793 ) | — | (793 ) |
| Net increase (decrease) in cash and cash equivalents | — | 3,272 | (50,551 ) | (2,966 ) | — | (50,245 ) |
| Cash and cash equivalents at beginning of period | — | 44,499 | 60,310 | 33,915 | — | 138,724 |
| Cash and cash equivalents at end of period | $— | | | | | |