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, 2022

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

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# Cintas Corporation

*(Exact name of registrant as specified in its charter)*

| **Washington** | **31-1188630** |
|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(IRS Employer Identification Number)* |

| **6800 Cintas Boulevard**<br>**P.O. Box 625737**<br>**Cincinnati, Ohio** | **45262-5737** |
|---|---|
| *(Address of Principal Executive Offices)* | *(Zip Code)* |

Registrant's Telephone Number, Including Area Code: **(513) 459-1200**

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Trading symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common stock, no par value | CTAS | The NASDAQ Stock Market LLC<br>(NASDAQ Global Select Market) |

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 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 ☑ 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.

Large Accelerated Filer ☑ 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 ☑

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, 2022 |
|---|---|
| Common Stock, no par value | 101,620,479 |

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**Part I. Financial Information**

ITEM 1.

FINANCIAL STATEMENTS

**CINTAS CORPORATION**
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (In thousands except per share data) | **November 30, 2022** | November 30, 2021 | **November 30, 2022** | November 30, 2021 |
| Revenue: | | | | |
| Uniform rental and facility services | $ 1,709,987 | $ 1,535,271 | $ 3,407,759 | $ 3,043,447 |
| Other | 464,871 | 387,010 | 933,553 | 775,784 |
| Total revenue | 2,174,858 | 1,922,281 | 4,341,312 | 3,819,231 |
| | | | | |
| Costs and expenses: | | | | |
| Cost of uniform rental and facility services | 906,727 | 817,261 | 1,797,493 | 1,596,562 |
| Cost of other | 245,684 | 219,879 | 493,260 | 434,772 |
| Selling and administrative expenses | 577,513 | 503,913 | 1,165,505 | 1,012,568 |
| | | | | |
| Operating income | 444,934 | 381,228 | 885,054 | 775,329 |
| | | | | |
| Interest income | (344) | (56) | (499) | (112) |
| Interest expense | 28,920 | 21,902 | 56,640 | 43,756 |
| | | | | |
| Income before income taxes | 416,358 | 359,382 | 828,913 | 731,685 |
| Income taxes | 92,065 | 64,713 | 152,931 | 105,837 |
| Net income | $ 324,293 | $ 294,669 | $ 675,982 | $ 625,848 |
| | | | | |
| Basic earnings per share | $ 3.18 | $ 2.83 | $ 6.63 | $ 6.02 |
| | | | | |
| Diluted earnings per share | $ 3.12 | $ 2.76 | $ 6.51 | $ 5.87 |
| | | | | |
| Dividends declared per share | $ 1.15 | $ 0.95 | $ 2.30 | $ 1.90 |

See accompanying notes.

**CINTAS CORPORATION**
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| (In thousands) | Three Months Ended **November 30, 2022** | Three Months Ended November 30, 2021 | Six Months Ended **November 30, 2022** | Six Months Ended November 30, 2021 |
|---|---|---|---|---|
| Net income | $ 324,293 | $ 294,669 | $ 675,982 | $ 625,848 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Foreign currency translation adjustments | (9,901) | (7,472) | (29,107) | (31,488) |
| Change in fair value of interest rate lock agreements, net of tax expense (benefit) of $2,531, $3,744, $2,851 and $(8,810), respectively | 7,394 | 10,940 | 8,328 | (25,739) |
| Amortization of interest rate lock agreements, net of tax expense of $513, $148, $1,025 and $296, respectively | (1,521) | (460) | (3,042) | (919) |
| Other comprehensive (loss) income, net of tax expense (benefit) of $3,044, $3,892, $3,876 and $(8,514), respectively | (4,028) | 3,008 | (23,821) | (58,146) |
| Comprehensive income | $ 320,265 | $ 297,677 | $ 652,161 | $ 567,702 |

See accompanying notes.

**CINTAS CORPORATION**
CONSOLIDATED CONDENSED BALANCE SHEETS

| (In thousands except per share data) | **November 30, 2022** | May 31, 2022 |
|---|---|---|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 89,799 | $ 90,471 |
| Accounts receivable, net | 1,135,833 | 1,006,220 |
| Inventories, net | 514,839 | 472,150 |
| Uniforms and other rental items in service | 986,505 | 916,706 |
| Income taxes, current | 13,657 | 21,708 |
| Prepaid expenses and other current assets | 152,537 | 124,728 |
| Total current assets | 2,893,170 | 2,631,983 |
| Property and equipment, net | 1,340,658 | 1,323,673 |
| Investments | 243,574 | 242,873 |
| Goodwill | 3,037,506 | 3,042,976 |
| Service contracts, net | 367,612 | 391,638 |
| Operating lease right-of-use assets, net | 176,276 | 170,003 |
| Other assets, net | 368,211 | 344,110 |
| | $ 8,427,007 | $ 8,147,256 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 310,986 | $ 251,504 |
| Accrued compensation and related liabilities | 208,342 | 236,992 |
| Accrued liabilities | 556,211 | 588,948 |
| Operating lease liabilities, current | 42,792 | 43,872 |
| Debt due within one year | 435,406 | 311,574 |
| Total current liabilities | 1,553,737 | 1,432,890 |
| Long-term liabilities: | | |
| Debt due after one year | 2,485,277 | 2,483,932 |
| Deferred income taxes | 493,379 | 473,777 |
| Operating lease liabilities | 136,520 | 129,064 |
| Accrued liabilities | 327,556 | 319,397 |
| Total long-term liabilities | 3,442,732 | 3,406,170 |
| Shareholders' equity: | | |
| Preferred stock, no par value: | — | — |
| 100,000 shares authorized, none outstanding | | |
| Common stock, no par value, and paid-in capital: | 1,933,145 | 1,771,917 |
| 425,000,000 shares authorized | | |
| FY 2023: 191,857,155 shares issued and 101,601,032 shares outstanding | | |
| FY 2022: 190,837,921 shares issued and 101,711,215 shares outstanding | | |
| Retained earnings | 9,160,346 | 8,719,163 |
| Treasury stock: | (7,747,049) | (7,290,801) |
| FY 2023: 90,256,123 shares | | |
| FY 2022: 89,126,706 shares | | |
| Accumulated other comprehensive income | 84,096 | 107,917 |
| Total shareholders' equity | 3,430,538 | 3,308,196 |
| | $ 8,427,007 | $ 8,147,256 |

See accompanying notes.

**CINTAS CORPORATION**
CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

| (In thousands) | Common Stock and Paid-In Capital Shares | Common Stock and Paid-In Capital Amount | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock Shares | Treasury Stock Amount | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at June 1, 2022 | 190,838 | $ 1,771,917 | $ 8,719,163 | $ 107,917 | (89,127) | $ (7,290,801) | $ 3,308,196 |
| Net income | — | — | 351,689 | — | — | — | 351,689 |
| Comprehensive loss, net of tax | — | — | — | (19,793) | — | — | (19,793) |
| Dividends | — | — | (117,461) | — | — | — | (117,461) |
| Stock-based compensation | — | 26,282 | — | — | — | — | 26,282 |
| Vesting of stock-based compensation awards | 273 | — | — | — | — | — | — |
| Stock options exercised | 543 | 80,638 | — | — | (193) | (79,591) | 1,047 |
| Repurchase of common stock | — | — | — | — | (802) | (320,334) | (320,334) |
| Balance at August 31, 2022 | 191,654 | $ 1,878,837 | $ 8,953,391 | $ 88,124 | (90,122) | $ (7,690,726) | $ 3,229,626 |
| Net income | — | — | 324,293 | — | — | — | 324,293 |
| Comprehensive loss, net of tax | — | — | — | (4,028) | — | — | (4,028) |
| Dividends | — | — | (117,338) | — | — | — | (117,338) |
| Stock-based compensation | — | 25,255 | — | — | — | — | 25,255 |
| Vesting of stock-based compensation awards | 9 | — | — | — | — | — | — |
| Stock options exercised | 194 | 29,053 | — | — | (66) | (27,975) | 1,078 |
| Repurchase of common stock | — | — | — | — | (68) | (28,348) | (28,348) |
| **Balance at November 30, 2022** | **191,857** | **$ 1,933,145** | **$ 9,160,346** | **$ 84,096** | **(90,256)** | **$ (7,747,049)** | **$ 3,430,538** |

**CINTAS CORPORATION**
CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

| (In thousands) | Common Stock and Paid-In Capital Shares | Common Stock and Paid-In Capital Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock Shares | Treasury Stock Amount | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at June 1, 2021 | 189,071 | $ 1,516,202 | $ 7,877,015 | $ 30,888 | (85,010) | $ (5,736,258) | $ 3,687,847 |
| Net income | — | — | 331,179 | — | — | — | 331,179 |
| Comprehensive loss, net of tax | — | — | — | (61,154) | — | — | (61,154) |
| Dividends | — | — | (98,826) | — | — | — | (98,826) |
| Stock-based compensation | — | 36,496 | — | — | — | — | 36,496 |
| Vesting of stock-based compensation awards | 493 | — | — | — | — | — | — |
| Stock options exercised | 564 | 72,896 | — | — | — | — | 72,896 |
| Repurchase of common stock | — | — | — | — | (1,788) | (659,235) | (659,235) |
| Balance at August 31, 2021 | 190,128 | $ 1,625,594 | $ 8,109,368 | $ (30,266) | (86,798) | $ (6,395,493) | $ 3,309,203 |
| Net income | — | — | 294,669 | — | — | — | 294,669 |
| Comprehensive income, net of tax | — | — | — | 3,008 | — | — | 3,008 |
| Dividends | — | — | (98,961) | — | — | — | (98,961) |
| Stock-based compensation | — | 24,397 | — | — | — | — | 24,397 |
| Vesting of stock-based compensation awards | 31 | — | — | — | — | — | — |
| Stock options exercised | 317 | 36,302 | — | — | — | — | 36,302 |
| Repurchase of common stock | — | — | — | — | (13) | (5,491) | (5,491) |
| Balance at November 30, 2021 | 190,476 | $ 1,686,293 | $ 8,305,076 | $ (27,258) | (86,811) | $ (6,400,984) | $ 3,563,127 |

See accompanying notes.

**CINTAS CORPORATION**
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

| (In thousands) | Six Months Ended November 30, 2022 | Six Months Ended November 30, 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 675,982 | $ 625,848 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 126,561 | 122,274 |
| Amortization of intangible assets and capitalized contract costs | 74,693 | 74,365 |
| Stock-based compensation | 51,537 | 60,893 |
| Gain on sale of operating assets | — | (12,129) |
| Deferred income taxes | 18,565 | 29,941 |
| Change in current assets and liabilities, net of acquisitions of businesses: | | |
| Accounts receivable, net | (133,897) | (77,343) |
| Inventories, net | (43,266) | 13,406 |
| Uniforms and other rental items in service | (73,475) | (69,513) |
| Prepaid expenses and other current assets and capitalized contract costs | (85,532) | (47,978) |
| Accounts payable | 61,421 | 11,400 |
| Accrued compensation and related liabilities | (28,212) | (59,988) |
| Accrued liabilities and other | (33,352) | (10,519) |
| Income taxes, current | 8,124 | (66,875) |
| Net cash provided by operating activities | 619,149 | 593,782 |
| Cash flows from investing activities: | | |
| Capital expenditures | (146,404) | (108,629) |
| Purchases of investments | (5,182) | (5,967) |
| Proceeds from sale of operating assets, net of cash disposed | — | 15,347 |
| Acquisitions of businesses, net of cash acquired | (15,457) | (45,670) |
| Other, net | (4,381) | (6,676) |
| Net cash used in investing activities | (171,424) | (151,595) |
| Cash flows from financing activities: | | |
| Issuance of commercial paper, net | 124,046 | 167,000 |
| Repayment of debt | — | (250,000) |
| Proceeds from exercise of stock-based compensation awards | 2,125 | 109,198 |
| Dividends paid | (215,017) | (177,949) |
| Repurchase of common stock | (348,682) | (664,726) |
| Other, net | (8,840) | (3,399) |
| Net cash used in financing activities | (446,368) | (819,876) |
| Effect of exchange rate changes on cash and cash equivalents | (2,029) | (2,781) |
| Net decrease in cash and cash equivalents | (672) | (380,470) |
| Cash and cash equivalents at beginning of period | 90,471 | 493,640 |
| Cash and cash equivalents at end of period | $ 89,799 | $ 113,170 |

See accompanying notes.

**CINTAS CORPORATION**
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

## Note 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 United States generally accepted accounting principles (U.S. 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, 2022 filed with the SEC on July 27, 2022. A summary of our significant accounting policies is presented beginning on page 41 of that report. There have been no material changes in the accounting policies followed by Cintas during the current fiscal year.

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.

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

| (In thousands) | **November 30, 2022** | May 31, 2022 |
|---|---|---|
| Raw materials | $ 18,431 | $ 19,071 |
| Work in process | 48,245 | 34,280 |
| Finished goods | 448,163 | 418,799 |
| | $ 514,839 | $ 472,150 |

Inventories are recorded net of reserves for obsolete inventory (excess and slow-moving) of $70.2 million and $100.3 million at November 30, 2022 and May 31, 2022, respectively. The inventory obsolescence reserve is determined by specific identification, as well as an estimate based on Cintas' historical rates of obsolescence. Once a specific inventory item is written down to the lower of cost or net realizable value, a new cost basis has been established, and that inventory item cannot subsequently be marked up.

### New Accounting Pronouncements

There are no new accounting pronouncements recently issued or newly effective that had, or are expected to have, a material impact on Cintas' consolidated condensed financial statements.

## Note 2 - Revenue Recognition

The following table presents Cintas' total revenue disaggregated by operating segment:

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | **November 30, 2022** | | November 30, 2021 | | **November 30, 2022** | | November 30, 2021 | |
| Uniform Rental and Facility Services | $ 1,709,987 | 78.6 % | $ 1,535,271 | 79.9 % | $ 3,407,759 | 78.5 % | $ 3,043,447 | 79.7 % |
| First Aid and Safety Services | 235,974 | 10.9 % | 202,160 | 10.5 % | 470,135 | 10.8 % | 401,276 | 10.5 % |
| Fire Protection Services | 146,602 | 6.7 % | 123,254 | 6.4 % | 298,449 | 6.9 % | 251,472 | 6.6 % |
| Uniform Direct Sales | 82,295 | 3.8 % | 61,596 | 3.2 % | 164,969 | 3.8 % | 123,036 | 3.2 % |
| Total revenue | $ 2,174,858 | 100.0 % | $ 1,922,281 | 100.0 % | $ 4,341,312 | 100.0 % | $ 3,819,231 | 100.0 % |

The Fire Protection Services and Uniform Direct Sales operating segments are included within All Other as disclosed in Note 12 entitled Segment Information.

**Revenue Recognition Policy**

Approximately 95% of the Company's revenue is derived from fees for route servicing of Uniform Rental and Facility Services, First Aid and Safety Services and Fire Protection Services operating segment customers, performed by a Cintas employee-partner, at the customer's location of business. Revenue from our route servicing customer contracts represent a single-performance obligation. The Company recognizes revenue over time as services are performed, based on the nature of services provided and contractual rates (output method) or at a point in time when the performance obligation under the terms of the contract with a customer are satisfied, at the customer's location of business. The Company's remaining revenue, primarily within the Uniform Direct Sales operating segment, and representing approximately 5% of the Company's total revenue, is 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.

Revenue recorded is presented net of sales and other taxes we collect on behalf of governmental authorities. Shipping and handling costs charged to customers are treated as fulfillment activities and are recorded in both revenue and cost of sales at the time control is transferred to the customer. Certain of our customer contracts 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, 2022 or 2021. 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. These assets are included in prepaid expenses and other current assets and in other assets, net on the consolidated condensed balance sheets.

We are exposed to credit losses primarily through our trade receivables. We determine the allowance for credit losses using both an estimate, based on historical rates of collections, and reserves for specific accounts identified as uncollectible. The portion of the allowance that is an estimate based on Cintas' historical rates of collections is recorded for overdue amounts, beginning with a nominal percentage when the account is current and increasing substantially as the account ages. The amount provided as the account ages will differ slightly between the Uniform Rental and Facility Services reportable operating segment, the First Aid and Safety Services reportable operating segment and All Other because of differences in customers served and the nature of each business. We update our estimate of credit loss reserves quarterly, considering recent write-offs and collections information and underlying economic expectations.

**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. As permitted by Accounting Standards Codification 606, "Revenue from Contracts with Customers (Topic 606)", the Company has elected to apply the guidance 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 standard or the amortization period of the asset would have been one year or less. 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, 2022, the current and noncurrent assets related to deferred commissions totaled $88.2 million and $244.1 million, respectively. As of May 31, 2022, the current and noncurrent assets related to deferred commissions totaled $83.7 million and $232.2 million, respectively. We recorded amortization expense related to deferred commissions of $23.4 million and $21.7 million during the three months ended November 30, 2022 and 2021, respectively. During the six months ended November 30, 2022 and 2021, we recorded amortization expense related to deferred commissions of $45.8 million and $43.1 million, respectively. These expenses are classified in selling and administrative expenses on the consolidated condensed statements of income.

## Note 3 - Leases

Cintas has operating leases for certain operating facilities, vehicles and equipment, which provide the right to use the underlying asset and require lease payments over the term of the lease. Each new contract is evaluated to determine if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. All identified leases are recorded on the consolidated condensed balance sheet with a corresponding operating lease right-of-use asset, net, representing the right to use the underlying asset for the lease term and the operating lease liabilities representing the obligation to make lease payments arising from the lease. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the consolidated condensed balance sheet.

Operating lease right-of-use assets, net and operating lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined primarily using the incremental borrowing rate based on the information available at lease commencement date. Lease expense for operating leases is recorded on a straight-line basis over the lease term and variable lease costs are recorded as incurred. Both lease expense and variable lease costs are primarily recorded in cost of uniform rental and facility services and other on the Company's consolidated condensed statements of income. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Operating lease costs, including short-term lease expense and variable lease costs which were immaterial in both periods, were $20.0 million and $18.0 million for the three months ended November 30, 2022 and 2021, respectively. For the six months ended November 30, 2022 and 2021, operating lease costs, including short-term lease expense and variable lease costs which were immaterial in both periods, were $39.5 million and $36.2 million, respectively.

The following table provides supplemental information related to the Company's consolidated condensed statements of cash flows for the six months ended November 30:

| (In thousands) | **2022** | 2021 |
|---|---|---|
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 25,108 | $ 24,301 |
| Operating lease right-of-use assets obtained in exchange for new and renewed operating lease liabilities | $ 29,186 | $ 10,609 |

Other information related to the operating lease right-of-use assets, net and operating lease liabilities was as follows:

| | **November 30, 2022** | May 31, 2022 |
|---|---|---|
| Weighted-average remaining lease term - operating leases | 5.37 years | 5.40 years |
| Weighted-average discount rate - operating leases | 2.50% | 2.20% |

The contractual future minimum lease payments of Cintas' operating lease liabilities by fiscal year are as follows as of November 30, 2022:

| (In thousands) | |
|---|---|
| 2023 (remaining six months) | $ 23,932 |
| 2024 | 43,081 |
| 2025 | 35,080 |
| 2026 | 28,347 |
| 2027 | 20,682 |
| Thereafter | 40,859 |
| Total payments | 191,981 |
| Less interest | (12,669) |
| Total present value of lease payments | $ 179,312 |

## Note 4 - 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, 2022 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
| Cash and cash equivalents | $ 89,799 | $ — | $ — | $ 89,799 |
| Other assets, net: | | | | |
| Interest rate lock agreements | — | 68,057 | — | 68,057 |
| Total assets at fair value | $ 89,799 | $ 68,057 | $ — | $ 157,856 |

| | As of May 31, 2022 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
| Cash and cash equivalents | $ 90,471 | $ — | $ — | $ 90,471 |
| Other assets, net: | | | | |
| Interest rate lock agreements | — | 56,877 | — | 56,877 |
| Total assets at fair value | $ 90,471 | $ 56,877 | $ — | $ 147,348 |

Cintas’ cash and cash equivalents 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 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. No other amounts included in other assets, net, are recorded at fair value on a recurring basis.

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, Cintas records assets and liabilities at fair value on a nonrecurring basis as required under U.S. GAAP. The assets and liabilities measured at fair value on a nonrecurring basis primarily relate to assets and liabilities acquired in a business acquisition. The Company's acquisition of the remaining interest of an equity method investment during fiscal 2022 was recorded at fair value. See Note 10 entitled Acquisitions for additional information.

## Note 5 - Investments

Cintas' investments are summarized as follows:

| (In thousands) | November 30, 2022 | May 31, 2022 |
|---|---|---|
| Cash surrender value of insurance policies | $ 238,637 | $ 237,136 |
| Other investments | 4,937 | 5,737 |
| Total investments | $ 243,574 | $ 242,873 |

Investments are generally evaluated for impairment on an annual basis or when indicators of impairment exist. For the three and six months ended November 30, 2022 and 2021, no impairment losses were recorded.

## Note 6 - Earnings Per Share

Cintas uses the two-class method to calculate basic and diluted earnings per share as a result of outstanding participating securities in the form of restricted stock awards. The following tables set forth the computation of basic and diluted earnings per share using the two-class method for amounts attributable to Cintas' common shares:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Basic Earnings per Share** (In thousands except per share data) | **November 30, 2022** | November 30, 2021 | **November 30, 2022** | November 30, 2021 |
| Net income | $ 324,293 | $ 294,669 | $ 675,982 | $ 625,848 |
| Less: net income allocated to participating securities | 1,372 | 1,495 | 2,859 | 3,179 |
| Net income available to common shareholders | $ 322,921 | $ 293,174 | $ 673,123 | $ 622,669 |
| Basic weighted average common shares outstanding | 101,637 | 103,646 | 101,530 | 103,463 |
| Basic earnings per share | $ 3.18 | $ 2.83 | $ 6.63 | $ 6.02 |

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Diluted Earnings per Share** (In thousands except per share data) | **November 30, 2022** | November 30, 2021 | **November 30, 2022** | November 30, 2021 |
| Net income | $ 324,293 | $ 294,669 | $ 675,982 | $ 625,848 |
| Less: net income allocated to participating securities | 1,372 | 1,495 | 2,859 | 3,179 |
| Net income available to common shareholders | $ 322,921 | $ 293,174 | $ 673,123 | $ 622,669 |
| Basic weighted average common shares outstanding | 101,637 | 103,646 | 101,530 | 103,463 |
| Effect of dilutive securities – employee stock options | 1,719 | 2,476 | 1,813 | 2,563 |
| Diluted weighted average common shares outstanding | 103,356 | 106,122 | 103,343 | 106,026 |
| Diluted earnings per share | $ 3.12 | $ 2.76 | $ 6.51 | $ 5.87 |

For the three months ended November 30, 2022 and 2021, options granted to purchase 1.1 million and 0.1 million shares of Cintas common stock, respectively, were excluded from the computation of diluted earnings per share. For the six months ended November 30, 2022 and 2021, options granted to purchase 0.9 million and 0.1 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 October 29, 2019, we announced that the Board of Directors authorized a $1.0 billion share buyback program, which was completed during the first quarter of fiscal 2022. On July 27, 2021, Cintas announced that the Board of Directors authorized a $1.5 billion share buyback program, which does not have an expiration date. From the inception of the July 27, 2021 share buyback program through November 30, 2022, Cintas purchased a total of 2.7 million shares of Cintas common stock at an average price of $385.62 per share for a total purchase price of $1.0 billion. On July 26, 2022, Cintas announced that the Board of Directors authorized a new $1.0 billion share buyback program, which does not have an expiration date. The following tables summarize the share buyback activity by program and period:

| | **Three Months Ended November 30, 2022** | | | **Six Months Ended November 30, 2022** | | |
|---|---|---|---|---|---|---|
| **Buyback Activity** (In thousands except per share data) | Shares | Avg. Price per Share | Purchase Price | Shares | Avg. Price per Share | Purchase Price |
| July 27, 2021 | 12 | $ 377.66 | $ 4,683 | 544 | $ 395.97 | $ 215,434 |
| July 26, 2022 | — | — | — | — | — | — |
| | 12 | $ 377.66 | $ 4,683 | 544 | $ 395.97 | $ 215,434 |
| Shares acquired for taxes due [(1)] | 56 | $ 423.64 | $ 23,665 | 326 | $ 408.97 | $ 133,248 |
| Total repurchase of Cintas common stock | | | $ 28,348 | | | $ 348,682 |

| | Three Months Ended November 30, 2021 | | | Six Months Ended November 30, 2021 | | |
|---|---|---|---|---|---|---|
| **Buyback Activity** (In thousands except per share data) | Shares | Avg. Price per Share | Purchase Price | Shares | Avg. Price per Share | Purchase Price |
| October 29, 2019 | — | $ — | $ — | 1,590 | $ 365.41 | $ 581,220 |
| July 27, 2021 | — | — | — | — | — | — |
| | — | $ — | $ — | 1,590 | $ 365.41 | $ 581,220 |
| Shares acquired for taxes due [(1)] | 13 | $ 420.87 | $ 5,483 | 211 | $ 395.84 | $ 83,506 |
| Total repurchase of Cintas common stock | | | $ 5,483 | | | $ 664,726 |

(1) Shares of Cintas common stock acquired for employee payroll taxes due on options exercised and vested restricted stock awards.

In addition to the share buyback activity presented above, Cintas acquired shares of Cintas common stock, via non-cash transactions, in connection with net-share settlements of option exercises. During the three months ended November 30, 2022, Cintas acquired 0.1 million shares of Cintas common stock via such non-cash transactions at an average price of $421.85 for a total non-cash value of $28.0 million. During the six months ended November 30, 2022, Cintas acquired 0.3 million shares of Cintas common stock via such non-cash transactions at an average price of $414.46 for a total non-cash value of $107.6 million. During the three and six months ended November 30, 2021, there were no shares of Cintas common stock acquired via non-cash transactions, in connection with net-share settlements of option exercises.

## Note 7 - Goodwill, Service Contracts and Other Assets, Net

Changes in the carrying amount of goodwill and service contracts for the six months ended November 30, 2022, 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, 2022 | $ 2,635,099 | $ 285,769 | $ 122,108 | $ 3,042,976 |
| Goodwill acquired | 2,998 | 6,714 | 518 | 10,230 |
| Foreign currency translation | (14,377) | (1,273) | (50) | (15,700) |
| **Balance as of November 30, 2022** | $ 2,623,720 | $ 291,210 | $ 122,576 | $ 3,037,506 |

| **Service Contracts** (in thousands) | Uniform Rental and Facility Services | First Aid and Safety Services | All Other | Total |
|---|---|---|---|---|
| Balance as of June 1, 2022 | $ 349,634 | $ 24,144 | $ 17,860 | $ 391,638 |
| Service contracts acquired | 2,763 | 1,720 | 764 | 5,247 |
| Service contracts amortization | (21,587) | (2,549) | (2,285) | (26,421) |
| Foreign currency translation | (2,730) | (122) | — | (2,852) |
| **Balance as of November 30, 2022** | $ 328,080 | $ 23,193 | $ 16,339 | $ 367,612 |

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

| | **As of November 30, 2022** | | | As of May 31, 2022 | | |
|---|---|---|---|---|---|---|
| (In thousands) | Carrying Amount | Accumulated Amortization | Net | Carrying Amount | Accumulated Amortization | Net |
| Service contracts | $ 1,000,250 | $ 632,638 | $ 367,612 | $ 1,001,311 | $ 609,673 | $ 391,638 |
| | | | | | | |
| Capitalized contract costs (1) | $ 609,239 | $ 365,159 | $ 244,080 | $ 551,582 | $ 319,358 | $ 232,224 |
| Noncompete and consulting agreements | 51,261 | 44,662 | 6,599 | 50,637 | 43,775 | 6,862 |
| Other | 138,725 | 21,193 | 117,532 | 125,941 | 20,917 | 105,024 |
| Total other assets, net | $ 799,225 | $ 431,014 | $ 368,211 | $ 728,160 | $ 384,050 | $ 344,110 |

(1) The current portion of capitalized contract costs, included in prepaid expenses and other current assets on the consolidated condensed balance sheets as of November 30, 2022 and May 31, 2022, is $88.2 million and $83.7 million, respectively.

Amortization expense for service contracts and other assets, was $37.3 million and $36.9 million for the three months ended November 30, 2022 and 2021, respectively. For the six months ended November 30, 2022 and 2021, amortization expense for service contracts and other assets was $73.7 million and $73.4 million, respectively. These expenses are recorded in selling and administrative expenses on the consolidated condensed statements of income. As of November 30, 2022, the estimated future amortization expense for service contracts and other assets, excluding any future acquisitions and commissions to be earned, is as follows:

| **Fiscal Year** (In thousands) | |
|---|---|
| 2023 (remaining six months) | $ 73,459 |
| 2024 | 136,963 |
| 2025 | 122,398 |
| 2026 | 102,222 |
| 2027 | 83,351 |
| Thereafter | 191,764 |
| Total future amortization expense | $ 710,157 |

## Note 8 - Debt, Derivatives and Hedging Activities

Cintas' outstanding debt is summarized as follows:

| (In thousands) | Interest Rate | Fiscal Year Issued | Fiscal Year Maturity | **November 30, 2022** | May 31, 2022 |
|---|---|---|---|---|---|
| Debt due within one year | | | | | |
| Commercial paper | 4.30 % (1) | 2023 | 2023 | $ 385,246 | $ 261,200 |
| Senior notes (2) | 2.78 % | 2013 | 2023 | 50,163 | 50,380 |
| Debt issuance costs | | | | (3) | (6) |
| Total debt due within one year | | | | $ 435,406 | $ 311,574 |
| | | | | | |
| Debt due after one year | | | | | |
| Senior notes (3) | 3.11 % | 2015 | 2025 | $ 50,798 | $ 50,965 |
| Senior notes | 3.45 % | 2022 | 2025 | 400,000 | 400,000 |
| Senior notes | 3.70 % | 2017 | 2027 | 1,000,000 | 1,000,000 |
| Senior notes | 4.00 % | 2022 | 2032 | 800,000 | 800,000 |
| Senior notes | 6.15 % | 2007 | 2037 | 250,000 | 250,000 |
| Debt issuance costs | | | | (15,521) | (17,033) |
| Total debt due after one year | | | | $ 2,485,277 | $ 2,483,932 |

(1) Variable rate debt instrument. The rate presented is the variable borrowing rate at November 30, 2022.

(2) Cintas assumed these senior notes with the acquisition of G&K Services, Inc. (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, 2022 were $2,935.2 million and $2,876.9 million, respectively, and as of May 31, 2022 were $2,811.2 million and $2,862.2 million, respectively. During the six months ended November 30, 2022 and 2021, Cintas issued $124.0 million and $167.0 million, net of commercial paper, respectively.

The credit agreement that supports our commercial paper program has a revolving credit facility with a capacity of $2.0 billion. The credit agreement has an accordion feature that provides Cintas the ability to request increases to the borrowing commitments under the revolving credit facility of up to $500.0 million in the aggregate, subject to customary conditions. The maturity date of the revolving credit facility is March 23, 2027. As of November 30, 2022, there was $385.2 million of commercial paper outstanding with a weighted average interest rate of 4.30% and maturity dates less than 120 days and no borrowings on our revolving credit facility. As of May 31, 2022, there was $261.2 million of commercial paper outstanding with a weighted average interest rate of 1.20% and maturity dates less than 120 days and no borrowings on our revolving credit facility. The fair value of the commercial paper, which approximates carrying value, is estimated using level 2 inputs based on general market prices and interest rates.

Cintas uses interest rate locks to manage its 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 locks, which represent cash flow hedges, to hedge against movements in the treasury rates at the time Cintas issued its senior notes in fiscal 2007, fiscal 2013, fiscal 2017 and fiscal 2022. The amortization of the interest rate locks resulted in a decrease to comprehensive income of $1.5 million and $0.4 million for the three months ended November 30, 2022 and 2021, respectively. For the six months ended November 30, 2022 and 2021, the amortization of the interest rate locks resulted in a decrease to comprehensive income of $3.0 million and $0.9 million, respectively.

During fiscal 2022 and fiscal 2020, Cintas entered into interest rate lock agreements for forecasted debt issuances. The aggregate notional value of outstanding cash flow hedges was $500.0 million at both November 30, 2022 and May 31, 2022, respectively. The notional and fair values of the outstanding interest rate locks, for forecasted debt issuances, are summarized as follows:

| | **November 30, 2022** | May 31, 2022 |
|---|---|---|
| **Fiscal Year of Issuance** (in thousands) | Other assets, net | Other assets, net |
| 2022 | $ 24,297 | $ 18,331 |
| 2020 | $ 43,760 | $ 38,546 |

The change in fair value of the interest rate locks are recorded in other comprehensive income (loss), net of tax. These interest rate locks had no impact on net income or cash flows for the three and six months ended November 30, 2022 or 2021.

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 of the debt covenants for all periods presented.

## Note 9 - 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, 2022 and May 31, 2022, recorded unrecognized tax benefits were $26.0 million and $30.8 million, respectively, and are included in long-term accrued liabilities on the consolidated condensed balance sheets.

The majority of Cintas' operations are in North America. Cintas is required to file U.S. 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 results of operations in any given period.

All U.S. federal income tax returns are closed to audit through fiscal 2018. 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 2014. 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, 2023.

Cintas' effective tax rate was 22.1% and 18.0% for the three months ended November 30, 2022 and 2021, respectively. For the six months ended November 30, 2022 and 2021, Cintas' effective tax rate was 18.4% and 14.5%, respectively. The effective tax rate for all periods was impacted by certain discrete items (primarily the tax accounting for stock-based compensation).

## Note 10 - Acquisitions

On December 10, 2021, Cintas acquired the remaining interest of an equity method investment. The acquisition operates as a component of Cintas' supply chain within the Uniform Rental and Facility Services reportable operating segment. The cash consideration transferred to acquire the remaining interest of the equity method investment was $48.0 million, net of cash acquired of $1.7 million. Under applicable accounting guidance, the Company was required to record its historical equity method investment at fair value ($43.5 million), resulting in a gain of $30.2 million, which was recorded as a reduction in selling and administrative expenses in fiscal 2022. The fair value of the historical equity method investment was determined using a combination of a market and income approach (discounted cash flow analysis). The key assumptions and estimates utilized in these approaches included market data and market multiples, discount rates, as well as future levels of revenue growth and operating margins. The Company believes these assumptions and estimates are reasonable and based on the best information available at the valuation date.

Cintas accounted for the acquisition using the acquisition method of accounting. The purchase price allocation was determined by management with the assistance of third-party valuation specialists and is based on estimates of the fair value of assets acquired and liabilities assumed as of December 10, 2021. During the three and six months ended November 30, 2022, no material adjustments were made to the preliminary purchase price allocation. 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. The factors contributing to the recognition of the amount of goodwill are based on several strategic supply chain and synergistic benefits that will allow for Cintas to further vertically integrate the operations for certain product lines, and are expected to be realized from the acquisition. None of the goodwill is deductible for income tax purposes.

The final purchase price allocation, including the value of the previously held equity method investment, at fair value is as follows:

| (In thousands) | December 10, 2021 |
|---|---|
| ASSETS | |
| Working capital assets | $ 17,352 |
| Property and equipment | 16,246 |
| Operating lease right-of-use assets | 16,882 |
| Goodwill | 55,970 |
| Separately identifiable intangible assets | 9,201 |
| LIABILITIES | |
| Total current liabilities | (6,425) |
| Operating lease liabilities | (17,734) |
| Total allocation (consideration) | $ 91,492 |

The separately identifiable intangible assets are primarily made up of a customer relationship intangible asset that will be amortized over a period of nine years, which represents the estimated useful life of the economic benefit.

Cintas is required to provide additional disclosures about fair value measurements as part of the consolidated condensed financial statements for each major category of assets and liabilities measured at fair value on a nonrecurring basis (including business combinations). 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 and separately identifiable intangible assets were valued using Level 3 inputs, which are unobservable by nature, and included internal estimates of future cash flows (income approach). The results of operations of the acquisition are included in Cintas' consolidated condensed statements of income subsequent to the date of acquisition, and are not material to the consolidated condensed financial statements.

## Note 11 - Accumulated Other Comprehensive Income (Loss)

The following tables summarize 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 Locks | Other | Total |
|---|---|---|---|---|
| Balance at June 1, 2022 | $ 17,006 | $ 92,688 | $ (1,777) | $ 107,917 |
| Other comprehensive (loss) income before reclassifications | (19,206) | 934 | — | (18,272) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (1,521) | — | (1,521) |
| Net current period other comprehensive loss | (19,206) | (587) | — | (19,793) |
| Balance at August 31, 2022 | (2,200) | 92,101 | (1,777) | 88,124 |
| Other comprehensive (loss) income before reclassifications | (9,901) | 7,394 | — | (2,507) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (1,521) | — | (1,521) |
| Net current period other comprehensive (loss) income | (9,901) | 5,873 | — | (4,028) |
| **Balance at November 30, 2022** | **$ (12,101)** | **$ 97,974** | **$ (1,777)** | **$ 84,096** |

| thousands) | Foreign Currency | Unrealized Loss on Interest Rate Locks | Other | Total |
|---|---|---|---|---|
| lance at June 1, 2021 | $ 41,839 | $ (7,308) | $ (3,643) | $ 30,888 |
| ther comprehensive loss before reclassifications | (24,016) | (36,679) | — | (60,695) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (459) | — | (459) |
| t current period other comprehensive loss | (24,016) | (37,138) | — | (61,154) |
| lance at August 31, 2021 | 17,823 | (44,446) | (3,643) | (30,266) |
| ther comprehensive (loss) income before reclassifications | (7,472) | 10,940 | — | 3,468 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (460) | — | (460) |
| t current period other comprehensive (loss) income | (7,472) | 10,480 | — | 3,008 |
| lance at November 30, 2021 | $ 10,351 | $ (33,966) | $ (3,643) | $ (27,258) |

The following table summarizes the 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, 2022** | November 30, 2021 | **November 30, 2022** | November 30, 2021 | |
| Amortization of interest rate locks | $ 2,034 | $ 608 | $ 4,067 | $ 1,215 | Interest expense |
| Tax expense | (513) | (148) | (1,025) | (296) | Income taxes |
| Amortization of interest rate locks, net of tax | $ 1,521 | $ 460 | $ 3,042 | $ 919 | |

## Note 12 - Segment Information

Cintas' 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, 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' operating segments, which consists of the Fire Protection Services operating segment and the Uniform Direct Sale operating segment, 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' reportable operating segments and All Other 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, 2022** | | | | | |
| Revenue | $ 1,709,987 | $ 235,974 | $ 228,897 | $ — | $ 2,174,858 |
| Income (loss) before income taxes | $ 369,095 | $ 45,495 | $ 30,344 | $ (28,576) | $ 416,358 |
| For the three months ended November 30, 2021 | | | | | |
| Revenue | $ 1,535,271 | $ 202,160 | $ 184,850 | $ — | $ 1,922,281 |
| Income (loss) before income taxes | $ 337,615 | $ 22,077 | $ 21,536 | $ (21,846) | $ 359,382 |
| **As of and for the six months ended November 30, 2022** | | | | | |
| Revenue | $ 3,407,759 | $ 470,135 | $ 463,418 | $ — | $ 4,341,312 |
| Income (loss) before income taxes | $ 733,866 | $ 86,341 | $ 64,847 | $ (56,141) | $ 828,913 |
| Total assets | $ 7,142,226 | $ 699,184 | $ 495,798 | $ 89,799 | $ 8,427,007 |
| As of and for the six months ended November 30, 2021 | | | | | |
| Revenue | $ 3,043,447 | $ 401,276 | $ 374,508 | $ — | $ 3,819,231 |
| Income (loss) before income taxes | $ 666,997 | $ 47,805 | $ 60,527 | $ (43,644) | $ 731,685 |
| Total assets | $ 6,901,366 | $ 632,421 | $ 370,453 | $ 113,170 | $ 8,017,410 |

[1] Corporate assets include cash and cash equivalents and marketable securities, if applicable, in all periods.

## Note 13 - Litigation and Other Contingencies

Cintas is subject to legal proceedings, insurance receipts, legal settlements and claims arising from the ordinary course of its business, including personal injury, customer contract, environmental and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such ordinary course of business actions will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of Cintas. Cintas is party to additional litigation not considered in the ordinary course of business, including the litigation discussed below.

The Company is a defendant in a purported class action lawsuit, *City of Laurel, Mississippi v. Cintas Corporation No. 2*, filed on March 12, 2021. This is a contract dispute whereby plaintiffs allege that Cintas breached its contracts with participating public agencies and seek, among other things, contract-based damages in an unspecified amount. In March 2022, the District Court denied Cintas' motion to compel arbitration. Cintas' appeal from the denial of its motion is pending. Liability in this matter is not probable nor estimable at this time. However, this matter, if decided adversely to Cintas or settled, may result in liability material to Cintas' consolidated financial condition, consolidated results of operation or consolidated cash flows.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Business Strategy

Cintas helps more than one million businesses of all types and sizes, primarily in the United States (U.S.), as well as Canada and Latin America, get **READY**™ to open their doors with confidence every day by providing a wide range of products and services that enhance our customers' image and help keep their facilities and employees clean, safe and looking their best. With products and services including uniforms, mats, mops, restroom supplies, first aid and safety products, fire extinguishers and testing, and safety training, Cintas helps customers get **Ready for the Workday**®.

We are North America's leading provider of corporate identity uniforms through rental and sales programs, as well as a significant provider of related business services, including entrance mats, restroom cleaning services and supplies, first aid and safety services and fire protection products and services.

Cintas' principal objective is "to exceed customers' expectations in order to maximize the long-term value of Cintas for shareholders and working partners," and it provides the framework and focus for Cintas' business strategy. This strategy is to achieve revenue growth for all our products and services by increasing our penetration at existing customers and by broadening our customer base to include market segments to which we have not historically served. We will also continue to identify additional product and service opportunities for our current and future customers.

To pursue the strategy of increasing penetration, we have a highly talented and diverse team of service professionals visiting our customers on a regular basis. This frequent contact with our customers enables us to develop close personal relationships. The combination of our distribution system and these strong customer relationships provides a platform from which we launch additional products and services.

We pursue the strategy of broadening our customer base in several ways. Cintas has a national sales organization introducing all its products and services to prospects in all market segments. Our broad range of products and services allows our sales organization to consider any type of business a prospect. We also broaden our customer base through geographic expansion. Finally, we evaluate strategic acquisitions as opportunities arise.

## Results of Operations

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 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 the Fire Protection Services operating segment and the Uniform Direct Sale operating segment, is included in All Other. These operating segments consist of fire protection products and services and the direct sale of uniforms and related items. Cintas evaluates operating segment performance based on revenue and income before income taxes. Revenue and income before income taxes for the three and six months ended November 30, 2022 and 2021, for the two reportable operating segments and All Other are presented in Note 12 entitled Segment Information of "Notes to Consolidated Condensed Financial Statements."

### Consolidated Results

**Three Months Ended November 30, 2022 Compared to Three Months Ended November 30, 2021**

Total revenue increased 13.1% to $2,174.9 million for the three months ended November 30, 2022, compared to $1,922.3 million for the three months ended November 30, 2021. The organic revenue growth rate, which adjusts for the impact of acquisitions, divestitures and foreign currency exchange rate fluctuations, was 12.8%. Revenue growth was positively impacted by 0.7% due primarily to acquisitions and negatively impacted by 0.4% due to foreign currency exchange rate fluctuations.

Uniform Rental and Facility Services reportable operating segment revenue was $1,710.0 million for the three months ended November 30, 2022, compared to $1,535.3 million for the same period in the prior fiscal year, which was an increase of 11.4%. The organic revenue growth rate for this reportable operating segment was 11.3%. Revenue growth in the Uniform Rental and Facility Services reportable operating segment was positively impacted by 0.6% due to acquisitions and negatively impacted by 0.5% due to foreign currency exchange rate fluctuations. Revenue growth was a result of new business, the penetration of additional products and services into existing customers and price increases, partially offset by lost business. New business growth resulted from an increase in the number and productivity of sales representatives.

Other revenue, consisting of revenue from the First Aid and Safety Services reportable operating segment and All Other, increased 20.1% for the three months ended November 30, 2022, compared to the same period in the prior fiscal year, from $387.0 million to $464.9 million. The organic revenue growth rate for other revenue was 19.0%. Revenue growth was positively impacted by 1.3% due primarily to acquisitions and negatively impacted by 0.2% due to foreign currency exchange rate fluctuations.

Cost of uniform rental and facility services consists primarily of production expenses, delivery expenses and the amortization of in service inventory, including uniforms, mats, shop towels and other ancillary items. Cost of uniform rental and facility services increased $89.5 million, or 10.9%, for the three months ended November 30, 2022, compared to the three months ended November 30, 2021. This change from the same period in the prior fiscal year was primarily due to higher Uniform Rental and Facility Services reportable operating segment sales volume, as well as increased energy costs and investments in material cost to support increased revenue growth achieved during the three months ended November 30, 2022.

Cost of other consists primarily of cost of goods sold (predominantly first aid and safety products, personal protective equipment, uniforms, and fire protection products), delivery expenses and distribution expenses in the First Aid and Safety Services reportable operating segment and All Other. Cost of other increased $25.8 million, or 11.7%, for the three months ended November 30, 2022, compared to the three months ended November 30, 2021, primarily due to increased sales volume in each of the underlying operating segments. Cost of other improved as a percentage of revenue, decreasing from 56.8% for three months ended November 30, 2021 to 52.8% for the three months ended November 30, 2022. The improvement in cost of sales as a percent to revenue was primarily due to favorable changes in the sales mix in the First Aid and Safety Services reportable operating segment as well as improved leverage of fixed costs for both the First Aid and Safety Services reportable operating segment and All Other.

Selling and administrative expenses increased $73.6 million, or 14.6%, in the three months ended November 30, 2022, compared to the same period of the prior fiscal year. The increase was primarily due to increases in labor and other employee-partner expenses. Selling and administrative expenses as a percent of revenue were 26.6% for the three months ended November 30, 2022, compared to 26.2% for the same period in the prior fiscal year. Selling and administrative expenses increased as a percent to revenue due to employee-partner related expenses, including medical expenses, increasing at a faster rate than revenue growth in the three months ended November 30, 2022.

Operating income was $444.9 million, or 20.5% of revenue, for the three months ended November 30, 2022, compared to $381.2 million, or 19.8% of revenue, for the three months ended November 30, 2021. The increase in operating income as a percent of revenue was due to previously mentioned improvements in cost of sales slightly offset by the increase in selling and administrative expenses as a percent of revenue.

Net interest expense (interest expense less interest income) was $28.6 million for the three months ended November 30, 2022, compared to $21.8 million for the three months ended November 30, 2021. The change was primarily due to an increase in interest rates on commercial paper and an increase in outstanding commercial paper during the three months ended November 30, 2022 compared to the three months ended November 30, 2021.

Cintas' effective tax rate was 22.1% and 18.0% for the three months ended November 30, 2022 and 2021, respectively. The effective tax rate in both periods was impacted by certain discrete items, primarily the tax accounting impact for stock-based compensation.

Net income for the three months ended November 30, 2022, increased $29.6 million, or 10.1%, compared to the three months ended November 30, 2021. Diluted earnings per share were $3.12 for the three months ended November 30, 2022, which was an increase of 13.0% compared to the same period in the prior fiscal year. Diluted earnings per share increased primarily due to the increase in net income combined with the decrease in diluted weighted average common shares outstanding. The decrease in diluted weighted average common shares outstanding resulted from purchasing an aggregate of approximately 2.7 million shares of common stock under the board approved share buyback programs since the beginning of the third quarter of fiscal 2022 through the second quarter of fiscal 2023.

**Uniform Rental and Facility Services Reportable Operating Segment**

**Three Months Ended November 30, 2022 Compared to Three Months Ended November 30, 2021**

Uniform Rental and Facility Services reportable operating segment revenue was $1,710.0 million for the three months ended November 30, 2022 compared to $1,535.3 million for the same period of the prior fiscal year. The organic revenue growth rate for the reportable operating segment was 11.3%. The cost of uniform rental and facility services increased $89.5 million, or 10.9%. The reportable operating segment's gross margin was $803.3 million. Gross margin as a percentage of revenue was 47.0% for the three months ended November 30, 2022 and 46.8% for the three months ended November 30, 2021. The improvement in gross margin was the result of efficiencies in labor and improved leverage of fixed costs, partially offset by investments in material cost to support increased revenue growth and a 20 basis point increase in energy costs.

Selling and administrative expenses for the Uniform Rental and Facility Services reportable operating segment increased $53.8 million in the three months ended November 30, 2022 compared to the same period of the prior fiscal year. Selling and administrative expenses as a percent of revenue for the three months ended November 30, 2022 was 25.4% compared to the 24.8% in the second quarter of the prior fiscal year. The change as a percent of revenue was primarily due to higher employee-partner related expenses, including medical expenses, in the three months ended November 30, 2022.

Income before income taxes increased $31.5 million, or 9.3%, for the Uniform Rental and Facility Services reportable operating segment for the three months ended November 30, 2022, compared to the same period in the prior fiscal year. Income before income taxes was 21.6% of the reportable operating segment's revenue, which was a 40 basis point decrease from the second quarter of the prior fiscal year of 22.0%. This decrease as a percent of revenue was primarily due to the previously discussed increase in selling and administrative expenses partially offset by the improvements in gross margin.

**First Aid and Safety Services Reportable Operating Segment**

**Three Months Ended November 30, 2022 Compared to Three Months Ended November 30, 2021**

First Aid and Safety Services reportable operating segment revenue increased from $202.2 million to $236.0 million, or 16.7%, for the three months ended November 30, 2022, over the same period in the prior fiscal year. The organic revenue growth rate for the reportable operating segment was 15.1%. First Aid and Safety Services reportable operating segment revenue was positively impacted by 1.9% due to acquisitions and negatively impacted by 0.3% due to foreign currency exchange rate fluctuations. The increase in revenue was driven by many factors including new business sold by sales representatives, penetration of additional products and services into existing customers, price increases and strong customer retention.

Cost of first aid and safety services increased $2.7 million, or 2.4%, for the three months ended November 30, 2022, over the three months ended November 30, 2021, due to higher sales volume. The gross margin as a percent of revenue was 50.5% for the quarter ended November 30, 2022, compared to the gross margin as a percent of revenue of 43.5% in the same period of the prior fiscal year. The improvement in gross margin from the second quarter of the prior fiscal year was primarily driven by favorable changes in the sales mix as well as improved leverage of fixed costs.
Selling and administrative expenses increased $7.7 million in the three months ended November 30, 2022, compared to the same period of the prior fiscal year. Selling and administrative expenses as a percent of revenue for the three months ended November 30, 2022 were 31.2%, compared to 32.6% in the second quarter of the prior fiscal year. The improvement as a percent of revenue from the same period in the prior fiscal year was primarily due to a decrease in bad debt expense and efficiencies realized in selling and administrative labor expenses.

Income before income taxes for the First Aid and Safety Services reportable operating segment increased $23.4 million to $45.5 million for the three months ended November 30, 2022, compared to the same period in the prior fiscal year. Income before income taxes was 19.3% of the reportable operating segment's revenue compared to the second quarter of the prior fiscal year of 10.9%. The increase in income before income taxes was due to the previously discussed improvements in gross margin and selling and administrative expenses.

**Consolidated Results**

**Six Months Ended November 30, 2022 Compared to Six Months Ended November 30, 2021**

Total revenue increased 13.7% to $4,341.3 million for the six months ended November 30, 2022, compared to $3,819.2 million for the six months ended November 30, 2021. Total organic revenue growth was 13.4%. Organic growth adjusts for the impact of acquisitions, divestitures and foreign currency exchange rate fluctuations. Revenue growth was positively impacted by a net 0.6% due primarily to acquisitions and negatively impacted by 0.3% due to foreign currency exchange rate fluctuations.

Uniform Rental and Facility Services reportable operating segment revenue was $3,407.8 million for the six months ended November 30, 2022, compared to $3,043.4 million in the same period of the prior fiscal year, which was an increase of 12.0%. Organic revenue growth for this reportable operating segment was 11.8%. Uniform Rental and Facility Services reportable operating segment revenue was positively impacted by 0.6% due to acquisitions and negatively impacted by 0.4% due to foreign currency exchange rate fluctuations. Revenue growth was a result of new business, the penetration of additional products and services into existing customers and price increases, partially offset by lost business. New business growth resulted from an increase in the number and productivity of sales representatives.

Other revenue, consisting of revenue from the First Aid and Safety Services reportable operating segment and All Other, was $933.6 million for the six months ended November 30, 2022, compared to $775.8 million for the six months ended November 30, 2021, which was an increase of 20.3%. Other revenue organic growth was 19.8%. Revenue growth was positively impacted by a net 0.7% due primarily to acquisitions and negatively impacted by 0.2% due to foreign currency exchange rate fluctuations.

Cost of uniform rental and facility services consists primarily of production expenses, delivery expenses and the amortization of in service inventory, including uniforms, mats, shop towels and other ancillary items. Cost of uniform rental and facility services increased $200.9 million, or 12.6%, for the six months ended November 30, 2022, compared to the six months ended November 30, 2021. This increase over the same period of the prior fiscal year was due to higher Uniform Rental and Facility Services reportable operating segment sales volume, as well as a 30 basis point increase in energy costs.

Cost of other consists primarily of cost of goods sold (predominantly first aid and safety products, personal protective equipment, uniforms, and fire protection products), delivery expenses and distribution expenses in the First Aid and Safety Services reportable operating segment and All Other. Cost of other increased $58.5 million, or 13.5%, for the six months ended November 30, 2022, compared to the six months ended November 30, 2021. Cost of other improved as a percentage of revenue, decreasing from 56.0% for six months ended November 30, 2021 to 52.8% for the six months ended November 30, 2022. The improvement in cost of sales as a percent to revenue was primarily due to favorable changes in the sales mix in the First Aid and Safety Services reportable operating segment as well as improved leverage of fixed costs for both the First Aid and Safety Services reportable operating segment and All Other.

Selling and administrative expenses increased $152.9 million, or 15.1%, for the six months ended November 30, 2022, compared to the same period in the prior fiscal year. Selling and administrative expenses as a percent to revenue were 26.8% for the six months ended November 30, 2022, compared to 26.5% for the same period of the prior fiscal year. The change as a percent of revenue is primarily due to the $12.1 million gain on the sale of certain operating assets recorded within the Uniform Direct Sales operating segment as a reduction of selling and administrative expenses in the six months ended November 30, 2021.

Operating income was $885.1 million, or 20.4% of revenue, for the six months ended November 30, 2022, compared to $775.3 million, or 20.3% of revenue, for the six months ended November 30, 2021. The improvement in operating income as a percent of revenue was due to the improvements in gross margin for both the First Aid and Safety Services reportable operating segment and All Other, noted above.

Net interest expense (interest expense less interest income) was $56.1 million for the six months ended November 30, 2022, compared to $43.6 million for the six months ended November 30, 2021. The change was primarily due to an increase in interest rates on commercial paper and an increase in outstanding commercial paper during the six months ended November 30, 2022.

Cintas' effective tax rate was 18.4% and 14.5% for the six months ended November 30, 2022 and 2021, respectively. The effective tax rate in both periods was impacted by certain discrete items, primarily the tax accounting for stock-based compensation.

Net income for the six months ended November 30, 2022, increased $50.1 million, or 8.0%, compared to the six months ended November 30, 2021. Diluted earnings per share was $6.51 for the six months ended November 30, 2022, which was an increase of 10.9% compared to the same period in the prior fiscal year. Diluted earnings per share increased due to the increase in net income combined with the decrease in diluted weighted average common shares outstanding. The decrease in diluted weighted average common shares outstanding resulted from purchasing an aggregate of approximately 2.7 million shares of common stock under the board approved share buyback programs since the beginning of the third quarter of fiscal 2022 through the second quarter of fiscal 2023.

**Uniform Rental and Facility Services Reportable Operating Segment**

**Six Months Ended November 30, 2022 Compared to Six Months Ended November 30, 2021**

Uniform Rental and Facility Services reportable operating segment revenue increased 12.0% to $3,407.8 million for the six months ended November 30, 2022, compared to $3,043.4 million for the same period of the prior fiscal year. Organic revenue growth for this reportable operating segment was 11.8%. The cost of uniform rental and facility services increased $200.9 million, or 12.6%, for the six months ended November 30, 2022 over the same period in the prior fiscal year. The reportable operating segment's gross margin was $1,610.3 million, or 47.3% of revenue, for the six months ended November 30, 2022, compared to the gross margin of 47.5% for the six months ended November 30, 2021. The change in gross margin was primarily due to a 30 basis point increase in energy costs in the current year.

Selling and administrative expenses for the Uniform Rental and Facility Services reportable operating segment increased $96.5 million, increasing as a percent to revenue for the six months ended November 30, 2022 to 25.7%, compared to 25.6% for the same period of the prior fiscal year. The increase was primarily due to higher employee-partner related expenses, including medical expenses.

Income before income taxes increased $66.9 million, or 10.0%, for the Uniform Rental and Facility Services reportable operating segment for the six months ended November 30, 2022, compared to the same period in the prior fiscal year. Income before income taxes was 21.5% of the reportable operating segment's revenue, compared to 21.9% for the six months ended November 30, 2021. The change in percent to revenue is due to the reasons previously discussed.

**First Aid and Safety Services Reportable Operating Segment**

**Six Months Ended November 30, 2022 Compared to Six Months Ended November 30, 2021**

First Aid and Safety Services reportable operating segment revenue increased from $401.3 million to $470.1 million, or 17.2%, for the six months ended November 30, 2022, over the same period in the prior fiscal year. Organic revenue growth for this reportable operating segment was 15.4%. First Aid and Safety Services reportable operating segment revenue was positively impacted by 1.9% due to acquisitions and negatively impacted by 0.1% due to foreign currency exchange rate fluctuations. Increases in new business sold by sales representatives, penetration of additional products and services into existing customers and strong customer retention.

Cost of first aid and safety services increased $10.9 million, or 4.9%, for the six months ended November 30, 2022, from the six months ended November 30, 2021, due to higher sales volume. The gross margin as a percent of revenue was 50.0% for the six months ended November 30, 2022, which was an increase of 580 basis points compared to the gross margin as a percent of revenue of 44.2% in the same period of the prior fiscal year. The change in gross margin from the first half of the prior fiscal year was primarily driven by favorable changes in the sales mix as well as improved leverage of fixed costs.

Selling and administrative expenses increased $19.4 million, but decreased as a percent of revenue to 31.7%, for the six months ended November 30, 2022, compared to 32.3% for the six months ended November 30, 2021. The decrease in expenses as a percent of revenue was primarily due efficiencies realized in selling and administrative labor expenses.

Income before income taxes for the First Aid and Safety Services reportable operating segment was $86.3 million for the six months ended November 30, 2022, compared to $47.8 million for the same period in the prior fiscal year. Income before income taxes, at 18.4% of the reportable operating segment's revenue, increased 650 basis points compared to the same period of the prior fiscal year due to the improvements in both gross margin and selling and administrative expenses.

## Liquidity and Capital Resources

The following is a summary of our cash flows and cash and cash equivalents as of and for the six months ended November 30:

| (In thousands) | | **2022** | | 2021 |
|---|---|---|---|---|
| Net cash provided by operating activities | $ | 619,149 | $ | 593,782 |
| Net cash used in investing activities | $ | (171,424) | $ | (151,595) |
| Net cash used in financing activities | $ | (446,368) | $ | (819,876) |
| Cash and cash equivalents at the end of the period | $ | 89,799 | $ | 113,170 |

Cash and cash equivalents as of November 30, 2022 and 2021, include $29.8 million and $64.8 million, respectively, that is located outside of the U.S.

Cash flows provided by operating activities have historically supplied us with a significant source of liquidity. We generally use these cash flows to fund most, if not all, of our operations and expansion activities and dividends on our common stock. We may also use cash flows provided by operating activities, as well as proceeds from long-term debt and short-term borrowings, to fund growth and expansion opportunities, as well as other cash requirements such as the repurchase of our common stock and payment of long-term debt.

We expect our cash flows from operating activities to remain sufficient to provide us with adequate levels of liquidity. In addition, we have access to $2.0 billion of debt capacity from our amended and restated revolving credit facility. We believe the Company has sufficient liquidity to operate in the current business environment for at least the next 12 months and the foreseeable future thereafter. Acquisitions, repurchases of our common stock and dividends remain strategic objectives, but they will be dependent on the economic outlook and liquidity of the Company.

Net cash provided by operating activities was $619.1 million for the six months ended November 30, 2022, compared to $593.8 million for the six months ended November 30, 2021. The change from the prior fiscal year was primarily due to an increase in net income and favorable changes in working capital, specifically accounts payable and current income taxes, which was partially offset by unfavorable changes in working capital, specifically, accounts receivable and inventories, net which resulted from the growth in revenue.

Net cash used in investing activities includes capital expenditures, purchases of investments, proceeds from sale of operating assets and cash paid for acquisitions of businesses. Capital expenditures were $146.4 million and $108.6 million for the six months ended November 30, 2022 and 2021, respectively. Capital expenditures in the six months ended November 30, 2022, included $105.7 million for the Uniform Rental and Facility Services reportable operating segment and $28.0 million for the First Aid and Safety Services reportable operating segment. The increase in capital expenditures during the six months ended November 30, 2022 over the same period in the prior fiscal year is due to an investment in the operating segments to support continued market penetration and revenue growth. Cash paid for acquisitions of businesses was $15.5 million and $45.7 million for the six months ended November 30, 2022 and 2021, respectively. The acquisitions during both the six months ended November 30, 2022 and 2021, occurred in our Uniform Rental and Facility Services reportable operating segment, our First Aid and Safety Services reportable operating segment and our Fire Protection operating segment, which is included in All Other. During the six months ended November 30, 2021, the Company received proceeds of $15.3 million from the sale of certain operating assets, net of cash disposed in the Uniform Direct Sales operating segment, which is included in All Other.

Net cash used in investing activities also includes $5.2 million and $6.0 million of purchases of investments during the six months ended November 30, 2022 and 2021, respectively.

Net cash used in financing activities was $446.4 million and $819.9 million for the six months ended November 30, 2022 and 2021, respectively. The decrease in cash used in financing activities was primarily due to the decrease in share buyback activity and debt payments partially offset by the increase in dividends paid in the six months ended November 30, 2022.

On October 29, 2019, we announced that the Board of Directors authorized a $1.0 billion share buyback program, which was completed during the first quarter of fiscal 2022. On July 27, 2021, Cintas announced that the Board of Directors authorized a $1.5 billion share buyback program, which does not have an expiration date. From the inception of the July 27, 2021 share buyback program through November 30, 2022, Cintas purchased a total of 2.7 million shares of Cintas common stock at an average price of $385.62 per share for a total purchase price of $1.0 billion. On July 26, 2022, Cintas 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 for the six months ended November 30:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| **Buyback Activity** (In thousands except per share data) | Shares | Avg. Price per Share | Purchase Price | Shares | Avg. Price per Share | Purchase Price |
| October 29, 2019 | — | $ — | $ — | 1,590 | $ 365.41 | $ 581,220 |
| July 27, 2021 | 544 | 395.97 | 215,434 | — | — | — |
| July 26, 2022 | — | — | — | — | — | — |
| | 544 | $ 395.97 | $ 215,434 | 1,590 | $ 365.41 | $ 581,220 |
| Shares acquired for taxes due (1) | 326 | $ 408.97 | $ 133,248 | 211 | $ 395.84 | $ 83,506 |
| Total repurchase of Cintas common stock | | | $ 348,682 | | | $ 664,726 |

(1) Shares of Cintas common stock acquired for employee payroll taxes due on options exercised and vested restricted stock awards.

Our Board of Directors declared the following dividends:

| **Paid Dividends**<br>Declaration Date (In millions except per share data) | Record Date | Payment Date | Dividend Per Share | Total Amount |
|---|---|---|---|---|
| **Six months ended November 30, 2022** | | | | |
| April 12, 2022 | May 16, 2022 | June 15, 2022 | $ 0.95 | $ 97.7 |
| July 26, 2022 | August 15, 2022 | September 15, 2022 | 1.15 | 117.3 |
| | | | $ 2.10 | $ 215.0 |
| Six months ended November 30, 2021 | | | | |
| April 13, 2021 | May 15, 2021 | June 15, 2021 | $ 0.75 | $ 79.1 |
| July 27, 2021 | August 13, 2021 | September 15, 2021 | 0.95 | 98.8 |
| | | | $ 1.70 | $ 177.9 |
| **Accrued Dividends** | | | | |
| **As of November 30, 2022** | | | | |
| October 25, 2022 (1) | November 15, 2022 | December 15, 2022 | $ 1.15 | $ 117.4 |
| As of November 30, 2021 | | | | |
| October 26, 2021 (1) | November 15, 2021 | December 15, 2021 | $ 0.95 | $ 99.1 |

(1) The dividends declared during the three months ended November 30, 2022 and 2021 were included in current accrued liabilities on the consolidated condensed balance sheet at November 30, 2022 and 2021.

Any future dividend declarations, including the amount of any dividends, are at the discretion of the Board of Directors and dependent upon then-existing conditions, including the Company's consolidated operating results and consolidated financial condition, capital requirements, contractual restrictions, business prospects and other factors that the Board of Directors may deem relevant.

During the six months ended November 30, 2022 and 2021, Cintas issued a net $124.0 million and $167.0 million of commercial paper, respectively. On June 1, 2021, in accordance with the terms of the notes, Cintas paid the $250.0 million aggregate principal amount of its 4.30%, 10-year senior notes that matured on that date with cash on hand. The following table summarizes Cintas' outstanding debt:

| (In thousands) | Interest Rate | Fiscal Year Issued | Fiscal Year Maturity | **November 30, 2022** | May 31, 2022 |
|---|---|---|---|---|---|
| Debt due within one year | | | | | |
| Commercial paper | 4.30 % [(1)] | 2023 | 2023 | $ 385,246 | $ 261,200 |
| Senior notes [(2)] | 2.78 % | 2013 | 2023 | 50,163 | 50,380 |
| Debt issuance costs | | | | (3) | (6) |
| Total debt due within one year | | | | $ 435,406 | $ 311,574 |
| | | | | | |
| Debt due after one year | | | | | |
| Senior notes [(3)] | 3.11 % | 2015 | 2025 | $ 50,798 | $ 50,965 |
| Senior notes | 3.45 % | 2022 | 2025 | 400,000 | 400,000 |
| Senior notes | 3.70 % | 2017 | 2027 | 1,000,000 | 1,000,000 |
| Senior notes | 4.00 % | 2022 | 2032 | 800,000 | 800,000 |
| Senior notes | 6.15 % | 2007 | 2037 | 250,000 | 250,000 |
| Debt issuance costs | | | | (15,521) | (17,033) |
| Total debt due after one year | | | | $ 2,485,277 | $ 2,483,932 |

(1) Variable rate debt instrument. The rate presented is the variable borrowing rate at November 30, 2022.

(2) Cintas assumed these senior notes with the acquisition of G&K Services, Inc. (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%.

The credit agreement that supports our commercial paper program has a revolving credit facility with a capacity of $2.0 billion. The credit agreement has an accordion feature that provides Cintas the ability to request increases to the borrowing commitments under the revolving credit facility of up to $500.0 million in the aggregate, subject to customary conditions. The maturity date of the revolving credit facility is March 23, 2027. As of November 30, 2022, there was $385.2 million of commercial paper outstanding with a weighted average interest rate of 4.30% and maturity dates less than 120 days and no borrowings on our revolving credit facility. As of May 31, 2022, there was $261.2 million of commercial paper outstanding with a weighted average interest rate of 1.20% and maturity dates less than 120 days and no borrowings on our revolving credit facility.

Cintas has certain covenants related to debt agreements. These covenants limit our 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 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 of the debt covenants for all periods presented.

Our access to the commercial paper and long-term debt markets has historically provided us with sources of liquidity. We do not anticipate having difficulty in obtaining financing from those markets in the future in view of our favorable experiences in the debt markets in the recent past. Additionally, our ability to continue to access the commercial paper and long-term debt markets on favorable interest rate and other terms will depend, to a significant degree, on the ratings assigned by the credit rating agencies to our indebtedness. As of November 30, 2022, our ratings were as follows:

| Rating Agency | Outlook | Commercial Paper | Long-term Debt |
|---|---|---|---|
| Standard & Poor's | Stable | A-2 | A- |
| Moody's Investors Service | Stable | P-2 | A3 |

In the event that the ratings of our commercial paper or our outstanding long-term debt issues were substantially lowered or withdrawn for any reason, or if the ratings assigned to any new issue of long-term debt securities were significantly lower than those noted above, particularly if we no longer had investment grade ratings, our ability to access the debt markets may be adversely affected. In addition, in such a case, our cost of funds for new issues of commercial paper and long-term debt would be higher than our cost of funds would have been had the ratings of those new issues been at or above the level of the ratings noted above. The rating agency ratings are not recommendations to buy, sell or hold our commercial paper or debt securities. Each rating may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating. Moreover, each credit rating is specific to the security to which it applies.

To monitor our credit rating and our capacity for long-term financing, we consider various qualitative and quantitative factors. One such factor is the ratio of our total debt to EBITDA. For the purpose of this calculation, debt is defined as the sum of short-term borrowings, long-term debt due within one year, long-term debt and standby letters of credit.

## Financial and Nonfinancial Disclosure About Issuers and Guarantors of Cintas' Senior Notes

Cintas Corporation No. 2 (Corp. 2) is the indirectly, wholly owned principal operating subsidiary of Cintas. Corp. 2 is the issuer of the $2,550.0 million aggregate principal amount of senior notes outstanding as of November 30, 2022, which are unconditionally guaranteed, jointly and severally, by Cintas Corporation and its wholly owned, direct and indirect domestic subsidiaries.

### Basis of Preparation of the Summarized Financial Information

The following tables include summarized financial information of Cintas Corporation (Issuer), Corp. 2 and subsidiary guarantors (together, the Obligor Group). Investments in and equity in the earnings of non-guarantors, which are not members of the Obligor Group, have been excluded. Non-guarantor subsidiaries are located outside the U.S., and therefore, excluded from the Obligor Group.

The summarized financial information of the Obligor Group is presented on a combined basis with intercompany balances and transactions between entities in the Obligor Group eliminated. The Obligor Group's amounts due from, amounts due to and transactions with non-guarantors have been presented in separate line items, if they are material. Summarized financial information of the Obligor Group is as follows:

| | Six Months Ended | |
|---|---|---|
| **Summarized Consolidated Condensed Statement of Income**<br>(In thousands) | **November 30, 2022** | November 30, 2021 |
| Net sales to unrelated parties | $ 4,105,128 | $ 3,599,543 |
| Net sales to non-guarantors | $ 7,227 | $ 3,242 |
| Operating income | $ 861,404 | $ 749,944 |
| Net income | $ 658,665 | $ 607,272 |

| **Summarized Consolidated Condensed Balance Sheets**<br>(In thousands) | **November 30, 2022** | May 31, 2022 |
|---|---|---|
| ASSETS | | |
| Receivables due from non-obligor subsidiaries | $ 7,350 | $ 11,759 |
| Total other current assets | $ 2,696,839 | $ 2,427,494 |
| Total other noncurrent assets | $ 5,130,643 | $ 5,081,265 |
| | | |
| LIABILITIES | | |
| Amounts due to non-obligor subsidiaries | $ 836 | $ 11,383 |
| Current liabilities | $ 1,521,610 | $ 1,388,310 |
| Noncurrent liabilities | $ 3,386,322 | $ 3,346,851 |

### Litigation and Other Contingencies

Cintas is subject to legal proceedings, insurance receipts, legal settlements and claims arising from the ordinary course of its business, including personal injury, customer contract, environmental and employment claims. In the opinion of management, the aggregate liability, if any, with respect to such ordinary course of business actions will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows of Cintas. Cintas is also party to additional litigation not considered in the ordinary course of business. See Note 13 entitled Litigation and Other Contingencies of "Notes to Consolidated Condensed Financial Statements" for a detailed discussion of such additional litigation.

*Forward-Looking Statements*

*This Quarterly Report on Form 10-Q contains forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor from civil litigation for forward-looking statements. Forward-looking statements may be identified by words such as "estimates," "anticipates," "predicts," "projects," "plans," "expects," "intends," "target," "forecast," "believes," "seeks," "could," "should," "may" and "will" or the negative versions thereof and similar words, terms and expressions and by the context in which they are used. Such statements are based upon current expectations of Cintas and speak only as of the date made. You should not place undue reliance on any forward-looking statement. We cannot guarantee that any forward-looking statement will be realized. These statements are subject to various risks, uncertainties, potentially inaccurate assumptions and other factors that could cause actual results to differ from those set forth in or implied by this Quarterly Report. Factors that might cause such a difference include, but are not limited to, the possibility of greater than anticipated operating costs including energy and fuel costs; lower sales volumes; loss of customers due to outsourcing trends; the performance and costs of integration of acquisitions; inflationary pressures and fluctuations in costs of materials and labor, including increased medical costs; interest rate volatility; costs and possible effects of union organizing activities; failure to comply with government regulations concerning employment discrimination, employee pay and benefits and employee health and safety; the effect on operations of exchange rate fluctuations, tariffs and other political, economic and regulatory risks; uncertainties regarding any existing or newly-discovered expenses and liabilities related to environmental compliance and remediation; our ability to meet our goals relating to environmental, social and governance (ESG) opportunities, improvements and efficiencies; the cost, results and ongoing assessment of internal controls for financial reporting; the effect of new accounting pronouncements; disruptions caused by the inaccessibility of computer systems data, including cybersecurity risks; the initiation or outcome of litigation, investigations or other proceedings; higher assumed sourcing or distribution costs of products; the disruption of operations from catastrophic or extraordinary events including global health pandemics such as the COVID-19 coronavirus; the amount and timing of repurchases of our common stock, if any; changes in federal and state tax and labor laws; and the reactions of competitors in terms of price and service. Cintas undertakes no obligation to publicly release any revisions to any forward-looking statements or to otherwise update any forward-looking statements whether as a result of new information or to reflect events, circumstances or any other unanticipated developments arising after the date on which such statements are made. A further list and description of risks, uncertainties and other matters can be found in our Annual Report on Form 10-K for the year ended May 31, 2022 and in our reports on Forms 10-Q and 8-K. The risks and uncertainties described herein are not the only ones we may face. Additional risks and uncertainties presently not known to us, or that we currently believe to be immaterial, may also harm our business.*

ITEM 3.

QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

In our normal operations, Cintas has market risk exposure to interest rates. There has been no material change to this market risk exposure to interest rates from that which was previously disclosed on page 30 of our Annual Report on Form 10-K for the year ended May 31, 2022.

Through its foreign operations, Cintas is exposed to foreign currency risk. Foreign currency exposures arise from transactions denominated in a currency other than the functional currency and from foreign currency denominated revenue and profit translated into U.S. dollars. The primary foreign currency to which Cintas is exposed is the Canadian dollar.

ITEM 4.

CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

With the participation of Cintas' management, including Cintas' President and Chief Executive Officer, Chief Financial Officer, General Counsel and Controllers, Cintas has evaluated the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of November 30, 2022. Based on such evaluation, Cintas' management, including Cintas' President and Chief Executive Officer, Chief Financial Officer, General Counsel and Controllers, has concluded that Cintas' disclosure controls and procedures were effective as of November 30, 2022, in ensuring (i) information required to be disclosed by Cintas in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by Cintas in the reports that it files or submits under the Exchange Act is accumulated and communicated to Cintas' management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Internal Control over Financial Reporting**

There were no changes in Cintas' internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended November 30, 2022, that have materially affected, or are reasonably likely to materially affect, Cintas' internal control over financial reporting.

## Part II. Other Information

ITEM 1.

LEGAL PROCEEDINGS

We discuss material legal proceedings (other than ordinary routine litigation incidental to our business) pending against us in “Part I, Item 1. Financial Statements,” in Note 13 entitled Litigation and Other Contingencies of “Notes to Consolidated Condensed Financial Statements.” We refer you to and incorporate by reference into this Part II, Item 1 that discussion for important information concerning those legal proceedings.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

| Period (In millions, except share and per share data) | Total number of shares purchased | | Average price paid per share | Total number of shares purchased as part of the publicly announced plan [1] | | Maximum approximate dollar value of shares that may yet be purchased under the plan [1] |
|---|---|---|---|---|---|---|
| September 1 - 30, 2022 [2] | 6,839 | $ | 407.57 | — | $ | 1,465.9 |
| October 1 - 31, 2022 [3] | 41,290 | $ | 401.93 | 12,400 | $ | 1,461.2 |
| November 1 - 30, 2022 [4] | 20,132 | $ | 445.28 | — | $ | 1,461.2 |
| Total | 68,261 | $ | 415.28 | 12,400 | $ | 1,461.2 |

(1) On July 27, 2021, Cintas announced that the Board of Directors authorized a $1.5 billion share buyback program, which does not have an expiration date. From the inception of the July 27, 2021 share buyback program through November 30, 2022, Cintas has purchased a total of 2.7 million shares of Cintas common stock at an average price of $385.62 per share for a total purchase price of $1.0 billion. On July 26, 2022, Cintas announced that the Board of Directors authorized a new $1.0 billion share buyback program, which does not have an expiration date. There were no share buybacks under the July 26, 2022 share buyback program through November 30, 2022.

(2) During September 2022, Cintas acquired 6,839 shares of Cintas common stock in trade for employee payroll taxes due on options exercised and restricted stock awards that vested during the fiscal year. These shares were acquired at an average price of $407.57 per share for a total purchase price of $2.8 million.

(3) During October 2022, Cintas acquired 28,890 shares of Cintas common stock in trade for employee payroll taxes due on options exercised and restricted stock awards that vested during the fiscal year. These shares were acquired at an average price of $412.36 per share for a total purchase price of $11.9 million.

(4) During November 2022, Cintas acquired 20,132 shares of Cintas common stock in trade for employee payroll taxes due on options exercised and restricted stock awards that vested during the fiscal year. These shares were acquired at an average price of $445.28 per share for a total purchase price of $9.0 million.

ITEM 6.

EXHIBITS

| | |
|---|---|
| 3.1 | Restated Articles of Incorporation, as amended |
| 22 | Subsidiary Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize Securities of the Registrant (Incorporated by reference to Exhibit 22 to Cintas' Annual Report on Form 10-K for the year ended May 31, 2022) |
| 31.1 | Certification of Principal Executive Officer required by Rule 13a-14(a) |
| 31.2 | Certification of Principal Financial Officer required by Rule 13a-14(a) |
| 32.1 | Section 1350 Certification of Chief Executive Officer |
| 32.2 | Section 1350 Certification of Chief Financial Officer |
| 101 | The following financial statements from Cintas' Quarterly Report on Form 10-Q for the period ended November 30, 2022, formatted in Inline XBRL: (i) Consolidated Condensed Statements of Income (unaudited), (ii) Consolidated Condensed Statements of Comprehensive Income (unaudited), (iii) Consolidated Condensed Balance Sheets (unaudited), (iv) Consolidated Condensed Statements of Shareholders' Equity (unaudited), (v) Consolidated Condensed Statements of Cash Flows (unaudited) and (vi) Notes to Consolidated Condensed Financial Statements, tagged as blocks of text and including detailed tags |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINTAS CORPORATION
(Registrant)

Date: January 6, 2023

/s/ J. Michael Hansen

J. Michael Hansen
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)