

SERVICEMASTER CO  
Form 10-Q  
November 14, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2012**

- o 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 1-14762**

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**THE SERVICEMASTER COMPANY**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-3858106**  
(IRS Employer Identification No.)

**860 Ridge Lake Boulevard, Memphis, Tennessee 38120**

(Address of principal executive offices) (Zip Code)

**901-597-1400**

(Registrant's telephone number, including area code)

Indicate by check mark 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 check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The registrant is a privately held corporation and its equity shares are not publicly traded. At November 14, 2012, 1,000 shares of the registrant's common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE SERVICEMASTER COMPANY****Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)***(In thousands)*

	<b>Three months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Operating Revenue	\$ 900,693	\$ 930,920
Operating Costs and Expenses:		
Cost of services rendered and products sold	514,649	517,756
Selling and administrative expenses	245,992	245,935
Amortization expense	15,171	20,137
Goodwill and trade name impairment	845,173	
Restructuring charges	3,322	1,593
Total operating costs and expenses	1,624,307	785,421
Operating (Loss) Income	(723,614)	145,499
Non-operating Expense (Income):		
Interest expense	62,257	68,317
Interest and net investment income	(3,961)	(4,628)
Loss on extinguishment of debt	16,361	
Other expense	141	174
(Loss) Income from Continuing Operations before Income Taxes	(798,412)	81,636
(Benefit) provision for income taxes	(94,303)	34,421
Equity in losses of joint venture	(50)	
(Loss) Income from Continuing Operations	(704,159)	47,215
Loss from discontinued operations, net of income taxes	(203)	(1,487)
Net (Loss) Income	\$ (704,362)	\$ 45,728
Total Comprehensive (Loss) Income	\$ (698,594)	\$ 39,664

*See accompanying Notes to the Condensed Consolidated Financial Statements*

Table of Contents**THE SERVICEMASTER COMPANY****Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)***(In thousands)*

	Nine months ended September 30,	
	2012	2011
Operating Revenue	\$ 2,517,547	\$ 2,513,031
Operating Costs and Expenses:		
Cost of services rendered and products sold	1,434,191	1,408,959
Selling and administrative expenses	679,291	696,388
Amortization expense	50,962	72,887
Goodwill and trade name impairment	912,873	
Restructuring charges	12,338	4,276
Total operating costs and expenses	3,089,655	2,182,510
Operating (Loss) Income	(572,108)	330,521
Non-operating Expense (Income):		
Interest expense	186,771	205,210
Interest and net investment income	(7,999)	(8,219)
Loss on extinguishment of debt	55,554	
Other expense	492	522
(Loss) Income from Continuing Operations before Income Taxes	(806,926)	133,008
(Benefit) provision for income taxes	(95,956)	50,526
Equity in losses of joint venture	(161)	
(Loss) Income from Continuing Operations	(711,131)	82,482
Loss from discontinued operations, net of income taxes	(289)	(26,430)
Net (Loss) Income	\$ (711,420)	\$ 56,052
Total Comprehensive (Loss) Income	\$ (698,958)	\$ 59,976

*See accompanying Notes to the Condensed Consolidated Financial Statements*

Table of Contents**THE SERVICEMASTER COMPANY****Condensed Consolidated Statements of Financial Position (Unaudited)***(In thousands, except share data)*

	As of September 30, 2012	As of December 31, 2011
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 324,549	\$ 328,930
Marketable securities	24,449	12,026
Receivables, less allowance of \$20,022 and \$20,362, respectively	486,019	374,200
Inventories	60,111	59,643
Prepaid expenses and other assets	51,643	38,295
Deferred customer acquisition costs	37,734	30,403
Deferred taxes	88,292	90,609
Assets of discontinued operations		17
<b>Total Current Assets</b>	<b>1,072,797</b>	<b>934,123</b>
Property and Equipment:		
At cost	619,233	541,817
Less: accumulated depreciation	(276,952)	(235,058)
<b>Net property and equipment</b>	<b>342,281</b>	<b>306,759</b>
Other Assets:		
Goodwill	2,393,624	3,161,980
Intangible assets, primarily trade names, service marks and trademarks, net	2,383,147	2,543,539
Notes receivable	22,493	23,322
Long-term marketable securities	124,601	130,456
Other assets	5,408	8,846
Debt issuance costs	47,523	37,798
<b>Total Assets</b>	<b>\$ 6,391,874</b>	<b>\$ 7,146,823</b>
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 112,716	\$ 81,641
Accrued liabilities:		
Payroll and related expenses	76,059	85,346
Self-insured claims and related expenses	79,514	73,071
Accrued interest payable	22,901	67,011
Other	70,105	70,103
Deferred revenue	464,923	473,242
Liabilities of discontinued operations	897	805
Current portion of long-term debt	53,421	51,838
<b>Total Current Liabilities</b>	<b>880,536</b>	<b>903,057</b>
<b>Long-Term Debt</b>	<b>3,912,792</b>	<b>3,824,032</b>
Other Long-Term Liabilities:		
Deferred taxes	933,635	1,036,693
Liabilities of discontinued operations		2,070
Other long-term obligations, primarily self-insured claims	110,819	133,052
<b>Total Other Long-Term Liabilities</b>	<b>1,044,454</b>	<b>1,171,815</b>

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Commitments and Contingencies (See Note 4)

Shareholder s Equity:

Common stock \$0.01 par value, authorized 1,000 shares; issued 1,000 shares			
Additional paid-in capital	1,469,424		1,464,293
Retained deficit	(921,582)		(210,162)
Accumulated other comprehensive income (loss)	6,250		(6,212)
Total Shareholder s Equity	554,092		1,247,919
Total Liabilities and Shareholder s Equity	\$ 6,391,874	\$	7,146,823

*See accompanying Notes to the Condensed Consolidated Financial Statements*

Table of Contents**THE SERVICEMASTER COMPANY****Condensed Consolidated Statements of Cash Flows (Unaudited)***(In thousands)*

	Nine months ended September 30,	
	2012	2011
Cash and Cash Equivalents at Beginning of Period	\$ 328,930	\$ 252,698
<b>Cash Flows from Operating Activities from Continuing Operations:</b>		
Net (Loss) Income	(711,420)	56,052
Adjustments to reconcile net (loss) income to net cash provided from operating activities:		
Loss from discontinued operations	289	26,430
Equity in losses of joint venture	161	
Depreciation expense	59,241	53,644
Amortization expense	50,962	72,887
Amortization of debt issuance costs	9,918	10,544
Loss on extinguishment of debt	55,554	
Call premium paid on retirement of debt	(42,893)	
Premium received on issuance of debt	3,000	
Deferred income tax (benefit) provision	(105,610)	24,374
Stock-based compensation expense	5,131	6,251
Goodwill and trade name impairment	912,873	
Restructuring charges	12,338	4,276
Cash payments related to restructuring charges	(11,724)	(4,741)
Change in working capital, net of acquisitions:		
Current income taxes	1,512	17,003
Receivables	(104,436)	(97,246)
Inventories and other current assets	(18,637)	(15,724)
Accounts payable	36,338	30,197