

SERVICEMASTER CO
Form 10-Q
May 15, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

THE SERVICEMASTER COMPANY

(Exact name of registrant as specified in its charter)

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 May 15, 2013, 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 (Unaudited)***(In thousands)*

	Three months ended March 31,	
	2013	2012
Operating Revenue	\$ 608,107	\$ 654,689
Operating Costs and Expenses:		
Cost of services rendered and products sold	373,175	386,588
Selling and administrative expenses	197,583	191,370
Amortization expense	13,935	17,989
Restructuring charges	3,277	3,990
Total operating costs and expenses	587,970	599,937
Operating Income	20,137	54,752
Non-operating Expense (Income):		
Interest expense	60,235	64,814
Interest and net investment income	(2,419)	(2,642)
Loss on extinguishment of debt		39,193
Other expense	146	174
Loss from Continuing Operations before Income Taxes	(37,825)	(46,787)
Benefit for income taxes	(14,935)	(17,681)
Equity in losses of joint venture	(54)	
Loss from Continuing Operations	(22,944)	(29,106)
Loss from discontinued operations, net of income taxes	(165)	(924)
Net Loss	\$ (23,109)	\$ (30,030)
Total Comprehensive Loss	\$ (20,277)	\$ (22,778)

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 March 31, 2013	As of December 31, 2012
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 353,896	\$ 422,745
Marketable securities	28,415	19,347
Receivables, less allowances of \$21,803 and \$21,347, respectively	394,689	403,705
Inventories	64,916	56,562
Prepaid expenses and other assets	96,949	37,344
Deferred customer acquisition costs	47,171	33,921
Deferred taxes	109,937	107,499
Total Current Assets	1,095,973	1,081,123
Property and Equipment:		
At cost	660,544	633,582
Less: accumulated depreciation	(314,506)	(293,534)
Net Property and Equipment	346,038	340,048
Other Assets:		
Goodwill	2,415,962	2,412,251
Intangible assets, primarily trade names, service marks and trademarks, net	2,360,918	2,373,469
Notes receivable	22,566	22,419
Long-term marketable securities	127,614	126,456
Other assets	8,448	10,197
Debt issuance costs	47,686	44,951
Total Assets	\$ 6,425,205	\$ 6,410,914
Liabilities and Shareholders Equity:		
Current Liabilities:		
Accounts payable	\$ 112,390	\$ 86,710
Accrued liabilities:		
Payroll and related expenses	71,180	78,188
Self-insured claims and related expenses	75,728	83,035
Accrued interest payable	21,174	54,156
Other	60,236	58,994
Deferred revenue	549,529	483,897
Liabilities of discontinued operations	829	905
Current portion of long-term debt	55,014	52,214
Total Current Liabilities	946,080	898,099
Long-Term Debt	3,901,833	3,909,039
Other Long-Term Liabilities:		
Deferred taxes	926,913	934,271
Other long-term obligations, primarily self-insured claims	114,731	114,855
Total Other Long-Term Liabilities	1,041,644	1,049,126

Commitments and Contingencies (See Note 4)

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Shareholder's Equity:			
Common stock \$0.01 par value, authorized 1,000 shares; issued 1,000 shares			
Additional paid-in capital	1,473,064		1,471,789
Retained deficit	(946,814)		(923,705)
Accumulated other comprehensive income	9,398		6,566
Total Shareholder's Equity	535,648		554,650
Total Liabilities and Shareholder's Equity	\$ 6,425,205	\$	6,410,914

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Three months ended March 31,	
	2013	2012
Cash and Cash Equivalents at Beginning of Period	\$ 422,745	\$ 328,930
Cash Flows from Operating Activities from Continuing Operations:		
Net Loss	(23,109)	(30,030)
Adjustments to reconcile net loss to net cash used for operating activities:		
Loss from discontinued operations, net of income taxes	165	924
Equity in losses of joint venture	54	
Depreciation expense	22,630	17,852
Amortization expense	13,935	17,989
Amortization of debt issuance costs	2,361	3,310
Loss on extinguishment of debt		39,193
Call premium paid on retirement of debt		(32,250)
Premium received on issuance of debt		3,000
Deferred income tax benefit	(12,096)	(17,464)
Stock-based compensation expense	1,275	1,678
Restructuring charges	3,277	3,990
Cash payments related to restructuring charges	(4,653)	(3,358)
Change in working capital, net of acquisitions:		
Current income taxes	(5,190)	(2,510)
Receivables	6,856	(7,597)
Inventories and other current assets	(75,792)	(61,243)
Accounts payable	29,665	17,908
Deferred revenue	65,554	73,064
Accrued liabilities	(37,733)	(65,570)
Other, net	(326)	9,233
Net Cash Used for Operating Activities from Continuing Operations	(13,127)	(31,881)
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(19,098)	(29,859)
Sale of equipment and other assets	254	177
Other business acquisitions, net of cash acquired	(3,815)	(5,959)
Notes receivable, financial investments and securities, net	(3,470)	(8,558)
Net Cash Used for Investing Activities from Continuing Operations	(26,129)	(44,199)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt	855	600,000
Payments of debt	(12,807)	(611,217)
Discount paid on issuance of debt	(12,200)	
Debt issuance costs paid	(5,096)	(12,666)
Net Cash Used for Financing Activities from Continuing Operations	(29,248)	(23,883)
Cash Flows from Discontinued Operations:		
Cash used for operating activities	(345)	(186)
Cash used for investing activities:		
Proceeds from sale of businesses		(1,239)

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Net Cash Used for Discontinued Operations	(345)	(1,425)
Cash Decrease During the Period	(68,849)	(101,388)
Cash and Cash Equivalents at End of Period	\$ 353,896	\$ 227,542

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The ServiceMaster Company (ServiceMaster, the Company, we, us or our) is a global company serving both residential and commercial customers. ServiceMaster's services include termite and pest control, lawn care, home warranties and preventative maintenance contracts, cleaning and disaster restoration, house cleaning, wood furniture repair and home inspection. ServiceMaster provides these services through a network of company-owned, franchised and licensed locations operating primarily under the following leading brands: Terminix, TruGreen, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec.

The condensed consolidated financial statements include the accounts of ServiceMaster and its majority-owned subsidiary partnerships, limited liability companies and corporations. All consolidated ServiceMaster subsidiaries are wholly owned. ServiceMaster is organized into five principal reportable segments: Terminix, TruGreen, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters. Intercompany transactions and balances have been eliminated.

The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The Company recommends that the quarterly condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC (the 2012 Form 10-K). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not indicative of the results that might be achieved for a full year.

On July 24, 2007 (the Closing Date), ServiceMaster was acquired pursuant to a merger transaction (the Merger), and, immediately following the completion of the Merger, all of the outstanding common stock of ServiceMaster Global Holdings, Inc. (Holdings), the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliated with, Clayton, Dubilier & Rice, LLC (CD&R), Citigroup Private Equity LP (Citigroup), BAS Capital Funding Corporation (BAS) and JPMorgan Chase Funding Inc. (JPMorgan). On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that own shares of common stock of Holdings to StepStone Group LLC (StepStone) and its proprietary interests in such investment funds to Lexington Partners Advisors LP.

Note 2. Significant Accounting Policies

The Company's significant accounting policies are included in the 2012 Form 10-K. The following selected accounting policies should be read in conjunction with the 2012 Form 10-K.

Revenues from lawn care and pest control services, as well as liquid and fumigation termite applications, are recognized as the services are provided. The Company eradicates termites through the use of non-baiting methods (e.g., fumigation or liquid treatments) and baiting systems. Termite services using baiting systems, termite inspection and protection contracts, as well as home warranties, are frequently sold through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for home warranties) are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Those costs bear a direct relationship to the fulfillment of the Company's obligations under the contracts and are representative of the relative value provided to the customer (proportional performance method). The Company regularly reviews its estimates of direct costs for its termite bait contracts and home warranties and adjusts the estimates when appropriate.

The Company has franchise agreements in its Terminix, TruGreen, ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids businesses. Franchise revenue (which in the aggregate represents approximately four percent of annual consolidated operating revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee's customer level revenue. Monthly fee revenue is recognized when the related customer level revenue is reported by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise or license. These initial franchise or license fees are pre-established, fixed amounts and are recognized as revenue when collectability is reasonably assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations were \$18.1 million and \$16.8 million for the three months ended March 31, 2013 and 2012, respectively. Consolidated operating income from continuing operations was \$20.1 million and \$54.8 million for the three months ended March 31, 2013 and

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2012, respectively. The Company evaluates the performance of its franchise businesses based primarily on operating profit before corporate general and administrative expenses, interest expense and amortization of intangible assets. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company's condensed consolidated financial statements for all periods.

The Company had \$549.5 million and \$483.9 million of deferred revenue as of March 31, 2013 and December 31, 2012, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection, pest control and lawn care services.

Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to \$47.2 million and \$33.9 million as of March 31, 2013 and December 31, 2012, respectively.

TruGreen has significant seasonality in its business. In the winter and spring, this business sells a series of lawn applications to customers which are rendered primarily in March through October (the production season). This business incurs incremental selling expenses at the beginning of the year that directly relate to successful sales for which the revenues are recognized in later quarters. On an interim basis, TruGreen defers these incremental selling expenses, pre-season advertising costs and annual repair and maintenance costs that are incurred primarily in the first quarter. These costs are deferred and recognized in proportion to the revenue generated over the production season and are not deferred beyond the calendar year-end. Other business segments of the Company also defer, on an interim basis, advertising costs incurred early in the year. These pre-season costs are deferred and recognized approximately in proportion to revenue over the balance of the year and are not deferred beyond the calendar year-end.

The cost of direct-response advertising at Terminix, consisting primarily of direct-mail promotions, is capitalized and amortized over its expected period of future benefits.

The preparation of the condensed consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. Disclosures in the 2012 Form 10-K presented the significant areas requiring the use of management estimates and discussed how management formed its judgments. The areas discussed included revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers' compensation, auto and general liability insurance claims; accruals for home warranties and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets.

Newly Issued Accounting Statements and Positions

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, Intangibles Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment, which amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment. This standard allows an entity testing an indefinite-lived intangible asset for impairment the option of performing a qualitative assessment before calculating the fair value of the asset. If entities determine, on the basis of the qualitative assessment, that the fair

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value of the indefinite-lived intangible asset is more likely than not greater than its carrying amount, the quantitative impairment test would not be required. Otherwise, further testing would be needed. This standard revises the examples of events and circumstances that an entity should consider in interim periods, but it does not revise the requirements to test indefinite-lived intangible assets (1) annually for impairment and (2) between annual tests if there is a change in events or circumstances. The amendments in this standard are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company adopted the required provisions of this standard during the first quarter of 2013. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this standard do not change the current requirements for reporting net income or other comprehensive income in financial statements and are effective

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prospectively for reporting periods beginning after December 15, 2012. The Company adopted the required provisions of this standard during the first quarter of 2013. The disclosures required by this standard are presented in Note 7 of the Company's notes to condensed consolidated financial statements.

Note 3. Restructuring Charges

The Company incurred restructuring charges of \$3.3 million (\$2.0 million, net of tax) and \$4.0 million (\$2.4 million, net of tax) for the three months ended March 31, 2013 and 2012, respectively. Restructuring charges were comprised of the following:

(In thousands)	2013	Three months ended March 31,		2012
Terminix branch optimization(1)	\$	950	\$	2,120
TruGreen reorganization and restructuring(2)		324		671
ServiceMaster Clean reorganization(3)		170		
Merry Maids reorganization(3)		47		
Centers of excellence initiative(4)		1,786		1,199
Total restructuring charges	\$	3,277	\$	3,990

(1) For the three months ended March 31, 2013 and 2012, these charges included lease termination costs.

(2) For the three months ended March 31, 2013 and 2012, these charges included severance costs of \$0.3 million and \$0.2 million, respectively. For the three months ended March 31, 2012, these charges included lease termination costs of \$0.5 million.

(3) For the three months ended March 31, 2013, these charges included severance costs.

(4) Represents restructuring charges related to an initiative to enhance capabilities and reduce costs in the Company's headquarters functions that provide company-wide administrative services for our operations that we refer to as centers of excellence. For the three months ended March 31, 2013 and 2012, these charges included professional fees of \$1.4 million and \$0.7 million, respectively, and severance and other costs of \$0.4 million and \$0.5 million, respectively.

The pretax charges discussed above are reported in Restructuring charges in the condensed consolidated statements of operations and comprehensive loss.

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A reconciliation of the beginning and ending balances of accrued restructuring charges, which are included in Accrued liabilities - Other on the condensed consolidated statements of financial position, is presented as follows:

(In thousands)	Accrued Restructuring Charges	
Balance as of December 31, 2012	\$	4,542
Costs incurred		3,277
Costs paid or otherwise settled		(4,653)
Balance as of March 31, 2013	\$	3,166

Note 4. Commitments and Contingencies

A portion of the Company's vehicle fleet and some equipment are leased through month-to-month operating leases, cancelable at the Company's option. There are residual value guarantees by the Company (which approximated 84 percent of the estimated terminal value at the inception of the lease) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. The fair value of the assets under all of the fleet and equipment leases is expected to substantially mitigate the Company's guarantee obligations under the agreements. As of March 31, 2013, the Company's residual value guarantees related to the leased assets totaled \$17.7 million for which the Company has recorded a liability for the estimated fair value of these guarantees of \$0.3 million in the condensed consolidated statements of financial position.

The Company carries insurance policies on insurable risks at levels which it believes to be appropriate, including workers' compensation, auto and general liability risks. The Company purchases insurance policies from third-party insurance carriers, which typically incorporate significant deductibles or self-insured retentions. The Company is responsible for all claims that fall below the retention limits. In determining the Company's accrual for self-insured claims, the Company uses historical claims experience to

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establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual includes known claims, as well as incurred but not reported claims. The Company adjusts its estimate of accrued self-insured claims when required to reflect changes based on factors such as changes in health care costs, accident frequency and claim severity.

A reconciliation of beginning and ending accrued self-insured claims, which are included in Accrued liabilities – Self-insured claims and related expenses and Other long-term obligations, primarily self-insured claims on the condensed consolidated statements of financial position, net of reinsurance receivables, which are included in Prepaid expenses and other assets and Other assets on the condensed consolidated statements of financial position, is presented as follows:

(In thousands)	Accrued Self-insured Claims, Net
Balance as of December 31, 2012	\$ 103,825
Provision for self-insured claims	11,857
Cash payments	(11,156)
Balance as of March 31, 2013	\$ 104,526

(In thousands)	Accrued Self-insured Claims, Net
Balance as of December 31, 2011	\$ 108,082
Provision for self-insured claims	11,596
Cash payments	(8,327)
Balance as of March 31, 2012	\$ 111,351

Accruals for home warranty claims in the American Home Shield business are made based on the Company's claims experience and actuarial projections. Termite damage claim accruals in the Terminix business are recorded based on both the historical rates of claims incurred within a contract year and the cost per claim. Current activity could differ causing a change in estimates. The Company has certain liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified.

In the ordinary course of conducting business activities, the Company and its subsidiaries become involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include insured and uninsured matters that are brought on an individual, collective, representative and class action basis, or other proceedings involving regulatory, employment, general and commercial liability, automobile liability, wage and hour, environmental and other matters. The Company has entered into settlement agreements in certain cases, including with respect to putative collective and class actions, which are subject to court or other approvals. If one or more of the Company's settlements are not finally approved, the Company could have additional or different exposure, which could be material. At this time, the Company does not expect any of these proceedings to have a material effect on its reputation, business, financial position, results of operations or cash flows; however, the Company can give no assurance that the results of any such proceedings will not materially affect its reputation, business, financial position, results of operations and cash flows.

Note 5. Goodwill and Intangible Assets

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Goodwill and intangible assets that are not amortized are subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company's annual assessment date is October 1. There were no goodwill or trade name impairment charges recorded in the three months ended March 31, 2013 and 2012, respectively.

During the three months ended March 31, 2013, the increase in goodwill and other intangible assets related primarily to tuck-in acquisitions completed throughout the period by Terminix, TruGreen and Merry Maids.

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The table below summarizes the goodwill balances by segment for continuing operations:

(In thousands)	Terminix	TruGreen	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters	Total
Balance as of December 31, 2012	\$ 1,458,490	\$ 417,069	\$ 347,480	\$ 135,769	\$ 53,443	\$ 2,412,251
Acquisitions	2,875	770			292	3,937
Other(1)	39	(118)	(3)	(144)		(226)
Balance as of March 31, 2013	\$ 1,461,404	\$ 417,721	\$ 347,477	\$ 135,625	\$ 53,735	\$ 2,415,962

(1) Reflects the impact of the amortization of tax deductible goodwill and foreign exchange rate changes.

Accumulated impairment losses as of March 31, 2013 and December 31, 2012 were \$790.2 million and related entirely to the TruGreen reporting unit.

The table below summarizes the other intangible asset balances for continuing operations:

(In thousands)	As of March 31, 2013			As of December 31, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names(1)	\$ 2,214,800	\$	\$ 2,214,800	\$ 2,214,800	\$	\$ 2,214,800
Customer relationships	698,524	(603,830)	94,694	697,264	(592,724)	104,540
Franchise agreements	88,000	(50,015)	37,985	88,000	(48,649)	39,351
Other	59,841	(46,402)	13,439	59,117	(44,339)	14,778
Total	\$ 3,061,165	\$ (700,247)	\$ 2,360,918	\$ 3,059,181	\$ (685,712)	\$ 2,373,469

(1) Not subject to amortization.

Note 6. Stock-Based Compensation

For the three months ended March 31, 2013 and 2012, the Company recognized stock-based compensation expense of \$1.3 million (\$0.8 million, net of tax) and \$1.7 million (\$1.0 million, net of tax), respectively. As of March 31, 2013, there was \$12.1 million of total unrecognized compensation costs related to non-vested stock options and restricted share units granted by Holdings under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan (the MSIP). These remaining costs are expected to be recognized over a weighted-average period of 2.5 years.

Note 7. Comprehensive Income

Comprehensive (loss) income, which primarily includes net (loss) income, unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translation is disclosed in the condensed consolidated statements of operations and comprehensive loss.

The following tables summarize the activity in other comprehensive income (loss), net of the related tax effects.

(In thousands)	Three months ended March 31, 2013				Total
	Unrealized Losses on Derivatives	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation		
Beginning accumulated other comprehensive (loss) income	\$ (2,029)	\$ 5,295	\$ 3,300	\$ 6,566	
Other comprehensive income (loss) before reclassifications	862	2,470	(1,229)	2,103	
Amounts reclassified from accumulated other comprehensive (loss) income	1,110	(381)		729	
Net current-period other comprehensive income (loss)	1,972	2,089	(1,229)	2,832	
Ending accumulated other comprehensive (loss) income	\$ (57)	\$ 7,384	\$ 2,071	\$ 9,398	

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(In thousands)	Three months ended March 31, 2012				Total
	Unrealized Losses on Derivatives	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation		
Beginning accumulated other comprehensive (loss) income	\$ (14,268)	\$ 4,330	\$ 3,726	\$ (6,212)	
Other comprehensive income before reclassifications	722	1,305	642	2,669	
Amounts reclassified from accumulated other comprehensive (loss) income	4,826	(243)		4,583	
Net current-period other comprehensive income	5,548	1,062	642	7,252	
Ending accumulated other comprehensive (loss) income	\$ (8,720)	\$ 5,392	\$ 4,368	\$ 1,040	

Reclassifications out of accumulated other comprehensive (loss) income included the following components for the periods indicated.

(In thousands)	Amount Reclassified from Accumulated Other Comprehensive Income		Condensed Consolidated Statements of Operations and Comprehensive Loss Location
	As of March 31, 2013	As of March 31, 2012	
Gains and losses on derivatives:			
Fuel swap contracts	\$ (482)	\$ (409)	Cost of services rendered and products sold
Interest rate swap contracts	2,259	7,860	Interest expense
Total gains on derivatives	1,777	7,451	
Impact of income taxes	667	2,625	Benefit for income taxes
Total reclassifications related to derivatives	\$ 1,110	\$ 4,826	
Unrealized gains on available-for-sale securities	\$ (625)	\$ (386)	Interest and net investment income
Impact of income taxes	(244)	(143)	Benefit for income taxes
Total reclassifications related to securities	\$ (381)	\$ (243)	
Total reclassifications for the period	\$ 729	\$ 4,583	

Note 8. Supplemental Cash Flow Information

Supplemental information relating to the condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012 is presented in the following table:

(In thousands)	Three months ended March 31,	
	2013	2012
Cash paid for or (received from):		
Interest expense	\$ 89,227	\$ 100,187
Interest and dividend income	(1,132)	(1,217)

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Income taxes, net of refunds	2,339	2,331
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The Company acquired \$13.9 million and \$1.8 million of property and equipment through capital leases and other non-cash financing transactions in the three months ended March 31, 2013 and 2012, respectively, which have been excluded from the condensed consolidated statements of cash flows as non-cash investing and financing activities.

Note 9. Receivable Sales

The Company has an accounts receivable securitization arrangement under which Terminix and TruGreen may sell certain eligible trade accounts receivable to ServiceMaster Funding Company LLC (Funding), the Company's wholly owned, bankruptcy-remote subsidiary, which is consolidated for financial reporting purposes. Funding, in turn, may transfer, on a revolving basis, an undivided percentage ownership interest of up to \$50.0 million in the pool of accounts receivable to one or both of the purchasers who are parties to the accounts receivable securitization arrangement (Purchasers). The amount of the eligible receivables varies during the year based on seasonality of the businesses and could, at times, limit the amount available to the Company from the sale of these interests. As of March 31, 2013, the amount of eligible receivables was approximately \$39.2 million.

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During the three months ended March 31, 2013, there were no transfers of interests in the pool of trade accounts receivables to Purchasers under this arrangement. As of March 31, 2013 and December 31, 2012, the Company had \$10.0 million outstanding under the arrangement and, as of March 31, 2013, had \$29.2 million of remaining capacity available under the accounts receivable securitization arrangement.

The accounts receivable securitization arrangement is a 364-day facility scheduled to mature on October 23, 2013. The Company has recorded its obligation to repay the Purchasers for their interest in the pool of receivables within the current portion of long-term debt on the condensed consolidated statements of financial position. The interest rates applicable to the Company's obligation are based on a fluctuating rate of interest based on the Purchasers' pooled commercial paper rate (0.21 percent as of March 31, 2013). In addition, the Company pays usage fees on its obligations and commitment fees on undrawn amounts committed by the Purchasers. Unless the arrangement is renegotiated or extended prior to its expiration, all obligations under the accounts receivable securitization arrangement must be repaid by October 23, 2013.

Note 10. Cash and Marketable Securities

Cash, money market funds and certificates of deposits with maturities of three months or less when purchased are included in Cash and cash equivalents on the condensed consolidated statements of financial position. As of March 31, 2013 and December 31, 2012, the Company's investments consisted primarily of domestic publicly traded debt and certificates of deposit (Debt securities) and common equity securities (Equity securities). The amortized cost, fair value and gross unrealized gains and losses of the Company's short- and long-term investments in Debt securities and Equity securities as of March 31, 2013 and December 31, 2012 were as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, March 31, 2013:				
Debt securities	\$ 104,896	\$ 5,465	\$ (39)	\$ 110,322
Equity securities	39,871	6,210	(374)	45,707
Total securities	\$ 144,767	\$ 11,675	\$ (413)	\$ 156,029

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, December 31, 2012:				
Debt securities	\$ 99,071	\$ 5,773	\$ (20)	\$ 104,824
Equity securities	38,786	3,809	(1,616)	40,979
Total securities	\$ 137,857	\$ 9,582	\$ (1,636)	\$ 145,803

The portion of unrealized losses which had been in a loss position for more than one year was \$0.3 million and \$1.5 million as of March 31, 2013 and December 31, 2012, respectively. The aggregate fair value of the investments with unrealized losses was \$13.7 million and \$13.1 million as of March 31, 2013 and December 31, 2012, respectively.

As of March 31, 2013 and December 31, 2012, \$265.9 million and \$243.7 million, respectively, of the cash and short- and long-term marketable securities balance were associated with regulatory requirements at American Home Shield and for other purposes. Such amounts, although not necessarily subject to third-party restrictions, are identified as being potentially unavailable to be paid to the Company by its subsidiaries. There

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are third-party restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at The ServiceMaster Acceptance Company Limited Partnership (SMAC). As of March 31, 2013, the total net assets subject to these third-party restrictions was \$176.9 million. American Home Shield's investment portfolio has been invested in a combination of high-quality, short-duration fixed-income securities and equities.

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Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income in the period they are realized. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes. The table below summarizes proceeds, gross realized gains and gross realized losses, each resulting from sales of available-for-sale securities. There were no impairment charges due to other than temporary declines in the value of certain investments for the three months ended March 31, 2013 and 2012.

(In thousands)	Three months ended			
	2013		March 31, 2012	
Proceeds from sale of securities	\$	3,512	\$	2,479
Gross realized gains, pre-tax		502		386
Gross realized gains, net of tax		306		238
Gross realized losses, pre-tax		(1)		
Gross realized losses, net of tax		(1)		

Note 11. Long-Term Debt

Long-term debt as of March 31, 2013 and December 31, 2012 is summarized in the following table:

(In thousands)	As of	
	March 31, 2013	December 31, 2012
Senior secured term loan facility maturing in 2014 (Tranche A)	\$	\$ 1,219,145
Senior secured term loan facility maturing in 2017 (Tranche B)		998,227
Senior secured term loan facility maturing in 2017 (Tranche C) (1)		1,205,010
7.00% senior notes maturing in 2020		750,000
8.00% senior notes maturing in 2020(2)		602,676
Revolving credit facility maturing in 2017		
7.10% notes maturing in 2018(3)		69,882
7.45% notes maturing in 2027(3)		156,562
7.25% notes maturing in 2038(3)		62,452
Other		112,038
Less current portion		(55,014)
Total long-term debt	\$	\$ 3,901,833

(1) Presented net of unamortized portion of \$12.2 million original issue discount paid as part of the 2013 amendment (the Term Loan Facility Amendment) to the senior secured term loan facility (the Term Loan Facility).

(2) Includes unamortized portion of \$3.0 million premium received on the sale of \$100.0 million aggregate principal amount of such notes.

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(3) The increase in the balance from December 31, 2012 to March 31, 2013 reflects the amortization of fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.

Interest rate swap agreements in effect as of March 31, 2013 are as follows:

Trade Date	Effective Date	Expiration Date	Notional Amount	Fixed Rate(1)	Floating Rate
June 10, 2010	September 1, 2011	September 1, 2013	50,000	2.25%	One month LIBOR
June 15, 2010	September 1, 2011	September 1, 2013	150,000	2.21%	One month LIBOR
August 18, 2011	September 1, 2011	August 1, 2013	530,000	1.51%	One month LIBOR

(1) Before the application of the applicable borrowing margin.

On February 22, 2013, the Company entered into the 2013 Term Loan Facility Amendment to amend the credit agreement governing the Term Loan Facility (the Credit Agreement) primarily to extend the maturity date of a portion of the borrowings under the Term Loan Facility. Pursuant to the 2013 Term Loan Facility Amendment, the maturity of the outstanding Tranche A loans was extended, and such loans were converted into a new tranche of term loans in an aggregate principal amount, along with new loans extended by certain new lenders, of \$1.220 billion (the Tranche C loans). The maturity date for the new Tranche C loans is January 31, 2017. The interest rates applicable to the Tranche C loans under the Term Loan Facility are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) an adjusted London inter-bank offered rate (adjusted for

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maximum reserves) plus 3.25 percent, with a minimum adjusted London inter-bank offered rate of 1.00 percent or (ii) an alternate base rate plus 2.25 percent, with a minimum alternate base rate of 2.00 percent. As part of the 2013 Term Loan Facility Amendment, the Company paid an original issue discount equal to 1.00 percent of the outstanding borrowings, or \$12.2 million. Voluntary prepayments of borrowings under the Tranche C Loans are permitted at any time, in minimum principal amounts, without premium or penalty, except for a 1.00 percent premium payable in connection with certain repricing transactions within the first year. As a result of the amendment entered into in August 2012 (the 2012 Term Loan Facility Amendment) and the 2013 Term Loan Facility Amendment, the Company has, as of March 31, 2013, approximately \$2.203 billion of outstanding borrowings maturing January 31, 2017, after including the unamortized portion of the original issue discount paid.

Note 12. Discontinued Operations

Loss from discontinued operations, net of income taxes, for all periods presented includes the operating results of the previously sold businesses noted in the 2012 Form 10-K.

The operating results of discontinued operations were as follows:

(In thousands)	2013	Three months ended March 31,	2012
Operating Results:			
Operating revenue	\$		\$
Operating loss		(269)	(331)
Benefit for income taxes		(104)	(129)
Operating loss, net of income taxes		(165)	(202)
Loss on sale, net of income taxes			(722)
Loss from discontinued operations, net of income taxes	\$	(165)	\$ (924)

The table below summarizes the activity for the three months ended March 31, 2013 for the remaining liabilities of previously sold businesses. The remaining obligations primarily relate to self-insurance claims and related costs. The Company believes that the remaining reserves continue to be adequate and reasonable.

(In thousands)	As of December 31, 2012	Cash Payments or Other	Expense	As of March 31, 2013
Remaining liabilities of discontinued operations:				
TruGreen LandCare	\$ 415	\$ (130)	\$ 145	\$ 430
InStar	352	(78)		274
Other	138	(33)	20	125
Total liabilities of discontinued operations	\$ 905	\$ (241)	\$ 165	\$ 829

Note 13. Income Taxes

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As of March 31, 2013 and December 31, 2012, the Company had \$8.2 million and \$8.3 million, respectively, of tax benefits primarily reflected in state tax returns that have not been recognized for financial reporting purposes (unrecognized tax benefits). The Company currently estimates that, as a result of pending tax settlements and expiration of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately \$0.7 million during the next 12 months.

As required by Accounting Standard Codification (ASC) 740 Income Taxes, the Company computes interim period income taxes by applying an anticipated annual effective tax rate to our year-to-date income or loss from continuing operations before income taxes, except for significant unusual or infrequently occurring items. The Company's estimated tax rate is adjusted each quarter in accordance with ASC 740.

The effective tax rate on loss from continuing operations was 39.5 percent for the three months ended March 31, 2013 compared to 37.8 percent for the three months ended March 31, 2012. The effective tax rate on loss from discontinued operations was 38.8 percent for each of the three month periods ended March 31, 2013 and 2012.

Table of Contents**Note 14. Business Segment Reporting**

The business of the Company is conducted through five reportable segments: Terminix, TruGreen, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters.

In accordance with accounting standards for segments, the Company's reportable segments are strategic business units that offer different services. The Terminix segment provides termite and pest control services to residential and commercial customers and distributes pest control products. The TruGreen segment provides residential and commercial lawn, tree and shrub care services. The American Home Shield segment provides home warranties and preventative maintenance contracts for household systems and appliances. The ServiceMaster Clean segment provides residential and commercial disaster restoration, janitorial and cleaning services through franchises primarily under the ServiceMaster, ServiceMaster Restore and ServiceMaster Clean brand names, on-site wood furniture repair and restoration services primarily under the Furniture Medic brand name and home inspection services primarily under the AmeriSpec brand name. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of Merry Maids, which provide home cleaning services. The Other Operations and Headquarters segment also includes SMAC, our financing subsidiary exclusively dedicated to providing financing to our franchisees and retail customers of our operating units, and the Company's headquarters operations, which provide various technology, marketing, finance, legal and other support services to the business units. The composition of our reportable segments is consistent with that used by our chief operating decision maker to evaluate performance and allocate resources.

Information regarding the accounting policies used by the Company is described in Note 2. The Company derives substantially all of its revenue from customers and franchises in the United States with less than two percent generated in foreign markets. Operating expenses of the business units consist primarily of direct costs.

Segment information for continuing operations is presented below:

(In thousands)	Three months ended	
	2013	March 31, 2012
Operating Revenue:		
Terminix	\$ 313,408	\$ 311,419
TruGreen	94,001	131,111
American Home Shield	143,315	159,045
ServiceMaster Clean	35,414	31,945
Other Operations and Headquarters	21,969	21,169
Total Operating Revenue	\$ 608,107	\$ 654,689
Operating Income (Loss):(1),(2)		
Terminix	\$ 68,699	\$ 69,070
TruGreen	(49,442)	(14,322)
American Home Shield	23,560	27,828
ServiceMaster Clean	14,014	12,276
Other Operations and Headquarters	(36,694)	(40,100)
Total Operating Income	\$ 20,137	\$ 54,752

(1) Presented below is a reconciliation of segment operating income to loss from continuing operations before income taxes.

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(In thousands)	Three months ended	
	2013	March 31, 2012
Total Segment Operating Income	\$ 20,137	\$ 54,752
Non-operating Expense (Income):		
Interest expense	60,235	64,814
Interest and net investment income	(2,419)	(2,642)
Loss on extinguishment of debt		39,193
Other expense	146	174
Loss from Continuing Operations before Income Taxes	\$ (37,825)	\$ (46,787)

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(2) Includes restructuring charges primarily related to a branch optimization project at Terminix, a reorganization of field leadership and a restructuring of branch operations at TruGreen, a reorganization of leadership at ServiceMaster Clean and Merry Maids and an initiative to enhance capabilities and reduce costs in our centers of excellence at Other Operations and Headquarters. Presented below is a summary of restructuring charges by segment:

(In thousands)	Three months ended	
	2013	March 31, 2012
Restructuring charges:		
Terminix	\$ 950	\$ 2,120
TruGreen	324	671
ServiceMaster Clean	170	
Other Operations and Headquarters	1,833	1,199
Total restructuring charges	\$ 3,277	\$ 3,990

Note 15. Related Party Transactions

In connection with the Merger and the related transactions, the Company entered into a consulting agreement with CD&R under which CD&R provides the Company with on-going consulting and management advisory services. The annual management fee payable under the consulting agreement with CD&R is \$6.25 million. Under this agreement, the Company recorded management fees of \$1.6 million in each of the three month periods ended March 31, 2013 and 2012, which is included in Selling and administrative expenses in the condensed consolidated statements of operations and comprehensive loss. The consulting agreement also provides that CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions. There were no additional fees incurred in the three months ended March 31, 2013 and 2012, respectively. The consulting agreement will terminate on July 24, 2017, unless terminated earlier at CD&R's election.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan. Under the consulting agreements, Citigroup, BAS and JPMorgan each provide the Company with on-going consulting and management advisory services through June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that own shares of common stock of Holdings to StepStone and Lexington Partners Advisors LP. Citigroup also assigned its obligations and rights under its consulting agreement to StepStone, and beginning in the fourth quarter of 2010, the consulting fee otherwise payable to Citigroup became payable to StepStone. As of December 22, 2011, Holdings purchased from BAS 7.5 million shares of capital stock of Holdings, and, effective January 1, 2012, the annual consulting fee payable to BAS was reduced to \$0.25 million. The Company pays annual consulting fees of \$0.5 million, \$0.25 million and \$0.25 million to StepStone, BAS and JPMorgan, respectively. The Company recorded aggregate consulting fees related to these agreements of \$0.25 million in each of the three month periods ended March 31, 2013 and 2012, which is included in Selling and administrative expenses in the condensed consolidated statements of operations and comprehensive loss.

Note 16. Fair Value Measurements

The period end carrying amounts of receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The period end carrying amounts of long-term notes receivable approximate fair value as the effective interest rates for these instruments are comparable to market rates at period end. The period end carrying amounts of short- and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net of tax as a component of accumulated other comprehensive income on the

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condensed consolidated statements of financial position, or, for certain unrealized losses, reported in interest and net investment income in the condensed consolidated statements of operations and comprehensive loss if the decline in value is other than temporary. The carrying amount of total debt was \$3.957 billion and \$3.961 billion and the estimated fair value was \$4.068 billion and \$4.018 billion as of March 31, 2013 and December 31, 2012, respectively. The fair value of the Company's debt is estimated based on available market prices for the same or similar instruments which are considered significant other observable inputs (Level 2) within the fair value hierarchy. The fair values presented reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report are based on information available to the Company as of March 31, 2013 and December 31, 2012.

The Company has estimated the fair value of its financial instruments measured at fair value on a recurring basis using the market and income approaches. For investments in marketable securities, deferred compensation trust assets and derivative contracts, which are carried at their fair values, the Company's fair value estimates incorporate quoted market prices, other observable inputs (for example, forward interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

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Interest rate swap contracts are valued using forward interest rate curves obtained from third-party market data providers. The fair value of each contract is the sum of the expected future settlements between the contract counterparties, discounted to present value. The expected future settlements are determined by comparing the contract interest rate to the expected forward interest rate as of each settlement date and applying the difference between the two rates to the notional amount of debt in the interest rate swap contracts.

Fuel swap contracts are valued using forward fuel price curves obtained from third-party market data providers. The fair value of each contract is the sum of the expected future settlements between the contract counterparties, discounted to present value. The expected future settlements are determined by comparing the contract fuel price to the expected forward fuel price as of each settlement date and applying the difference between the contract and expected prices to the notional gallons in the fuel swap contracts. The Company regularly reviews the forward price curves obtained from third-party market data providers and related changes in fair value for reasonableness utilizing information available to the Company from other published sources.

The Company has not changed its valuation techniques for measuring the fair value of any financial assets and liabilities during the year. Transfers between levels, if any, are recognized at the end of the reporting period. There were no significant transfers between levels during each of the three month periods ended March 31, 2013 or 2012.

The carrying amount and estimated fair value of the Company's financial instruments that are recorded at fair value on a recurring basis for the periods presented are as follows:

(In thousands)	Statement of Financial Position Location	Carrying Value	As of March 31, 2013 Estimated Fair Value Measurements			As of December 31, 2012	
			Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value	Estimated Fair Value
Financial Assets:							
Deferred compensation trust assets	Long-term marketable securities	\$ 13,003	\$ 13,003	\$	\$	\$ 11,987	\$ 11,987
Investments in marketable securities	Marketable securities and Long-term marketable securities	143,026	53,829	89,197		133,816	133,816
Fuel swap contracts:							
Current	Prepaid expenses and other assets	2,837			2,837	1,957	1,957
Noncurrent	Other assets	21			21		
Total financial assets		\$ 158,887	\$ 66,832	\$ 89,197	\$ 2,858	\$ 147,760	\$ 147,760
Financial Liabilities:							
Fuel swap contracts:							
Current	Other accrued liabilities	\$ 63	\$	\$	\$ 63	\$ 113	\$ 113
Noncurrent	Other long-term obligations, primarily self-insured claims	27			27		
Interest rate swap contracts	Other accrued liabilities	4,053		4,053		7,349	7,349
Total financial liabilities		\$ 4,143	\$	\$ 4,053	\$ 90	\$ 7,462	\$ 7,462

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A reconciliation of the beginning and ending fair values of financial instruments valued using significant unobservable inputs (Level 3) on a recurring basis is presented as follows:

(In thousands)	Fuel Swap Contract Assets (Liabilities)	
Balance as of December 31, 2012	\$	1,844
Total gains (realized and unrealized)		
Included in earnings		482
Included in accumulated other comprehensive income		924
Settlements, net		(482)
Balance as of March 31, 2013	\$	2,768

(In thousands)	Fuel Swap Contract (Liabilities) Assets	
Balance as of December 31, 2011	\$	(733)
Total gains (realized and unrealized)		
Included in earnings		409
Included in accumulated other comprehensive income		3,997
Settlements, net		(409)
Balance as of March 31, 2012	\$	3,264

The following table presents information relating to the significant unobservable inputs of our Level 3 financial instruments as of March 31, 2013:

Item	Fair Value as of March 31, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Fuel swap contracts	\$ 2,768	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	\$ 3.39 - \$ 3.94	\$ 3.71
			Forward Diesel Price per Gallon(1)	\$ 3.84 - \$ 3.97	\$ 3.93

(1) Forward price per gallon for unleaded and diesel were derived from third-party market data providers. A decrease in the forward price would result in a decrease in the fair value of the fuel swap contracts.

The Company uses derivative financial instruments to manage risks associated with changes in fuel prices and interest rates. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. In designating its derivative financial instruments as hedging instruments under accounting standards for derivative instruments, the Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives to forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly thereafter, whether the derivative item is effective in offsetting the projected changes in cash flows of the associated forecasted transactions. All of the Company's designated hedging instruments are classified as cash flow hedges.

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The Company has historically hedged a significant portion of its annual fuel consumption of approximately 20 million gallons. The Company has also hedged the interest payments on a portion of its variable-rate debt through the use of interest rate swap agreements. All of the Company's fuel swap contracts and interest rate swap contracts are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the condensed consolidated statements of financial position as either an asset or liability at fair value, with the effective portion of changes in the fair value attributable to the hedged risks recorded in accumulated other comprehensive income. Any change in the fair value of the hedging instrument resulting from ineffectiveness, as defined by accounting standards, is recognized in current period earnings. Cash flows related to fuel and interest rate derivatives are classified as operating activities in the condensed consolidated statements of cash flows, other than cash flows related to one amended interest rate swap contract which are classified as financing activities.

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The effect of derivative instruments on the condensed consolidated statements of operations and comprehensive loss and accumulated other comprehensive income on the condensed consolidated statements of financial position for the three months ended March 31, 2013 and 2012, respectively, is presented as follows:

(In thousands)

Derivatives designated as Cash Flow Hedge Relationships	Effective Portion of Gain Recognized in Accumulated Other Comprehensive Income	Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings		Location of Gain (Loss) included in Earnings
		Three months ended March 31, 2013		
Fuel swap contracts	\$ 924	\$ 482		Cost of services rendered and products sold
Interest rate swap contracts	\$ 2,204	\$ (2,259)		Interest expense

Derivatives designated as Cash Flow Hedge Relationships	Effective Portion of Gain Recognized in Accumulated Other Comprehensive Income	Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings		Location of Gain (Loss) included in Earnings
		Three months ended March 31, 2012		
Fuel swap contracts	\$ 3,997	\$ 409		Cost of services rendered and products sold
Interest rate swap contracts	\$ 4,795	\$ (7,860)		Interest expense

Ineffective portions of derivative instruments designated in accordance with accounting standards as cash flow hedge relationships were insignificant during the three months ended March 31, 2013. As of March 31, 2013, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of \$32.3 million, maturing through 2014. Under the terms of its fuel swap contracts, the Company is required to post collateral in the event that the fair value of the contracts exceeds a certain agreed upon liability level and in other circumstances required by the counterparty. As of March 31, 2013, the Company had posted \$4.0 million in letters of credit as collateral under its fuel hedging program, none of which were posted under the Company's senior secured revolving credit facility (the Revolving Credit Facility). As of March 31, 2013, the Company had interest rate swap contracts to pay fixed rates for interest on long-term debt with an aggregate notional amount of \$730.0 million, maturing through 2013.

The effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments is recorded in accumulated other comprehensive income. These amounts are reclassified into earnings in the same period or periods during which the hedged forecasted debt interest settlement or the fuel settlement affects earnings. The amount expected to be reclassified into earnings during the next 12 months includes unrealized gains and losses related to open fuel hedges and interest rate swap contracts. Specifically, as the underlying forecasted transactions occur during the next 12 months, the hedging gains and losses in accumulated other comprehensive income expected to be recognized in earnings is a loss of \$0.1 million, net of tax, as of March 31, 2013. The amounts that are ultimately reclassified into earnings will be based on actual interest rates and fuel prices at the time the positions are settled and may differ materially from the amount noted above.

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Note 17. Condensed Consolidating Financial Statements of The ServiceMaster Company and Subsidiaries

The following condensed consolidating financial statements of the Company and its subsidiaries have been prepared pursuant to Rule 3-10 of Regulation S-X. These condensed consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the condensed consolidated financial statements. Goodwill and other intangible assets have been allocated to all of the subsidiaries of the Company based on management's estimates.

The payment obligations of the Company under the \$600 million aggregate principal amount of 8 percent senior notes due 2020 (the 8% 2020 Notes) and \$750 million aggregate principal amount of 7 percent senior notes due 2020 (the 7% 2020 Notes , and together with the 8% 2020 Notes, the 2020 Notes) are jointly and severally guaranteed on a senior unsecured basis by the Company's domestic subsidiaries that guarantee our indebtedness under the Term Loan Facility, the pre-funded letter of credit facility (together, the Term Facilities) and the Revolving Credit Facility (together with the Term Facilities, the Credit Facilities) (the Guarantors). Each of the Guarantors is wholly owned, directly or indirectly, by the Company, and all guarantees are full and unconditional. Our non-U.S. subsidiaries, our subsidiaries subject to regulation as an insurance, home warranty, service contract or similar company, or certain other subsidiaries (the Non-Guarantors) do not guarantee the 2020 Notes. A Guarantor will be released from its obligations under its guarantee under certain customary circumstances, including, (i) the sale or disposition of the Guarantor, (ii) the release of the Guarantor from all of its obligations under all guarantees related to any indebtedness of the Company, (iii) the merger or consolidation of the Guarantor as specified in the indenture governing the 2020 Notes, (iv) the Guarantor becomes an unrestricted subsidiary under the indenture governing the 2020 Notes, (v) the defeasance of the Company's obligations under the indenture governing the 2020 Notes or (vi) the payment in full of the principal amount of the 2020 Notes.

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Operations and Comprehensive Loss****For the Three Months Ended March 31, 2013 (Unaudited)***(In thousands)*

	The ServiceMaster Company	Guarantors	Non- Guarantors	Eliminations	Consolidated
Operating Revenue	\$	\$ 453,953	\$ 169,370	\$ (15,216)	\$ 608,107
Operating Costs and Expenses:					
Cost of services rendered and products sold		310,951	77,178	(14,954)	373,175
Selling and administrative expenses	3,371	105,146	89,172	(106)	197,583
Amortization expense		13,305	630		13,935
Restructuring charges		1,467	1,810		3,277
Total operating costs and expenses	3,371	430,869	168,790	(15,060)	587,970
Operating (Loss) Income	(3,371)	23,084	580	(156)	20,137
Non-operating Expense (Income):					
Interest expense (income)	26,283	34,322	(370)		60,235
Interest and net investment income	(89)		(2,174)	(156)	(2,419)
Other expense			146		146
(Loss) Income from Continuing					
Operations before Income Taxes	(29,565)	(11,238)	2,978		(37,825)
(Benefit) provision for income taxes	(2,879)	(25,087)	13,031		(14,935)
Equity in losses of joint venture			(54)		(54)
(Loss) Income from Continuing Operations	(26,686)	13,849	(10,107)		(22,944)
Loss from discontinued operations, net of income taxes		(145)	(20)		(165)
Equity in earnings of subsidiaries (net of tax)	3,577	(8,345)		4,768	
Net (Loss) Income	\$ (23,109)	\$ 5,359	\$ (10,127)	\$ 4,768	\$ (23,109)
Total Comprehensive (Loss) Income	\$ (20,277)	\$ 7,376	\$ (9,444)	\$ 2,068	\$ (20,277)

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Operations and Comprehensive Loss****For the Three Months Ended March 31, 2012 (Unaudited)***(In thousands)*

	The ServiceMaster Company	Guarantors	Non- Guarantors	Eliminations	Consolidated
Operating Revenue	\$	\$ 485,872	\$ 183,063	\$ (14,246)	\$ 654,689
Operating Costs and Expenses:					
Cost of services rendered and products sold		318,191	82,537	(14,140)	386,588
Selling and administrative expenses	2,082	93,561	95,833	(106)	191,370
Amortization expense	55	16,830	1,104		17,989
Restructuring charges		2,279	1,711		3,990
Total operating costs and expenses	2,137	430,861	181,185	(14,246)	599,937
Operating (Loss) Income	(2,137)	55,011	1,878		54,752
Non-operating Expense (Income):					
Interest expense (income)	46,841	22,195	(4,222)		64,814
Interest and net investment (income) loss	(190)	1,621	(4,073)		(2,642)
Loss on extinguishment of debt	39,193				39,193
Other expense			174		174
(Loss) Income from Continuing Operations before Income Taxes	(87,981)	31,195	9,999		(46,787)
(Benefit) provision for income taxes	(32,830)	(2,285)	17,434		(17,681)
(Loss) Income from Continuing Operations	(55,151)	33,480	(7,435)		(29,106)
Loss from discontinued operations, net of income taxes		(921)	(3)		(924)
Equity in earnings of subsidiaries (net of tax)	25,121	(6,774)		(18,347)	
Net (Loss) Income	\$ (30,030)	\$ 25,785	\$ (7,438)	\$ (18,347)	\$ (30,030)
Total Comprehensive (Loss) Income	\$ (22,778)	\$ 26,374	\$ (5,807)	\$ (20,567)	\$ (22,778)

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Financial Position (Unaudited)**

As of March 31, 2013

(In thousands)

	The ServiceMaster Company	Guarantors	Non- Guarantors	Eliminations	Consolidated
Assets:					
Current Assets:					
Cash and cash equivalents	\$ 237,061	\$ 15,257	\$ 101,578	\$	\$ 353,896
Marketable securities			28,415		28,415
Receivables	1,927	128,693	443,989	(179,920)	394,689
Inventories		62,589	2,327		64,916
Prepaid expenses and other assets	20,114	60,245	25,382	(8,792)	96,949
Deferred customer acquisition costs		31,689	15,482		47,171
Deferred taxes	37,798	69,046	3,093		109,937
Total Current Assets	296,900	367,519	620,266	(188,712)	1,095,973
Property and Equipment:					
At cost		464,200	196,344		660,544
Less: accumulated depreciation		(226,094)	(88,412)		(314,506)
Net Property and Equipment		238,106	107,932		346,038
Other Assets:					
Goodwill		2,059,656	356,306		2,415,962
Intangible assets, primarily trade names, service marks and trademarks, net		1,622,180	738,738		2,360,918
Notes receivable	1,982,659	17	38,166	(1,998,276)	22,566
Long-term marketable securities	13,003		114,611		127,614
Investments in and advances to subsidiaries	2,296,756	1,094,779		(3,391,535)	
Other assets	53,283	677	7,022	(52,534)	8,448
Debt issuance costs	47,621		65		47,686
Total Assets	\$ 4,690,222	\$ 5,382,934	\$ 1,983,106	\$ (5,631,057)	\$ 6,425,205
Liabilities and Shareholders Equity:					
Current Liabilities:					
Accounts payable	\$ 145	\$ 67,947	\$ 44,298	\$	\$ 112,390
Accrued liabilities:					
Payroll and related expenses	1,735	28,456	40,989		71,180
Self-insured claims and related expenses		20,934	54,794		75,728
Accrued interest payable	21,390		37	(253)	21,174
Other	5,056	24,725	38,994	(8,539)	60,236
Deferred revenue		186,618	362,911		549,529
Liabilities of discontinued operations		689	140		829
Current portion of long-term debt	112,893	23,582	98,459	(179,920)	55,014
Total Current Liabilities	141,219	352,951	640,622	(188,712)	946,080
Long-Term Debt	3,830,221	2,052,604	17,284	(1,998,276)	3,901,833
Other Long-Term Liabilities:					

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Deferred taxes		712,323	267,124	(52,534)	926,913
Intercompany payable	161,385		389,337	(550,722)	
Other long-term obligations, primarily self-insured claims	21,749	1,204	91,778		114,731
Total Other Long-Term Liabilities	183,134	713,527	748,239	(603,256)	1,041,644
Shareholder s Equity	535,648	2,263,852	576,961	(2,840,813)	535,648
Total Liabilities and Shareholder s Equity	\$ 4,690,222	\$ 5,382,934	\$ 1,983,106	\$ (5,631,057)	\$ 6,425,205

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Financial Position****As of December 31, 2012***(In thousands)*

	The ServiceMaster Company	Guarantors	Non- Guarantors	Eliminations	Consolidated
Assets:					
Current Assets:					
Cash and cash equivalents	\$ 316,528	\$ 13,842	\$ 92,375	\$	\$ 422,745
Marketable securities			19,347		19,347
Receivables	1,164	116,778	476,620	(190,857)	403,705
Inventories		54,313	2,249		56,562
Prepaid expenses and other assets	6,597	10,272	21,810	(1,335)	37,344
Deferred customer acquisition costs		19,010	14,911		33,921
Deferred taxes	38,140	66,129	3,230		107,499
Total Current Assets	362,429	280,344	630,542	(192,192)	1,081,123
Property and Equipment:					
At cost		440,107	193,475		633,582
Less: accumulated depreciation					