SERVICEMASTER CO
Form 10-Q
May 15, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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	**36-3858106**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

The registrant is a privately held corporation and its equity shares are not publicly traded. At May 8, 2009, 1,000 shares of the registrant s common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Operating Revenue	$ 645,927	$ 632,231
Operating Costs and Expenses:		
Cost of services rendered and products sold	394,400	417,368
Selling and administrative expenses	173,763	171,116
Amortization expense	40,309	50,674
Merger related charges	294	50
Restructuring charges	8,483	3,325
Total operating costs and expenses	617,249	642,533
Operating Income (Loss)	28,678	(10,302)
Non-operating Expense (Income):		
Interest expense	76,666	89,586
Interest and net investment loss	4,761	6,045
Gain on extinguishment of debt	(46,106)	
Other expense	200	132
Loss from Continuing Operations before Income Taxes	(6,843)	(106,065)
Benefit for income taxes	(7,555)	(30,971)
Income (Loss) from Continuing Operations	712	(75,094)
Loss from discontinued operations, net of income taxes	(163)	(748)
Net Income (Loss)	$ 549	$ (75,842)

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, 2009	As of December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 288,316	$ 405,587
Marketable securities	19,285	22,928
Receivables, less allowance of $20,251 and $21,138, respectively	331,777	335,927
Inventories	86,125	80,018
Prepaid expenses and other assets	95,888	37,648
Deferred customer acquisition costs	58,230	36,514
Deferred taxes	42,177	42,945
Assets of discontinued operations	177	412
Total Current Assets	921,975	961,979
Property and Equipment:		
At cost	307,402	287,818
Less: accumulated depreciation	(87,036)	(72,189)
Net property and equipment	220,366	215,629
Other Assets:		
Goodwill	3,095,086	3,093,909
Intangible assets, primarily trade names, service marks and trademarks, net	2,929,064	2,967,984
Notes receivable	24,433	25,628
Long-term marketable securities	103,570	110,134
Other assets	35,165	35,350
Debt issuance costs	77,453	83,014
Total Assets	$ 7,407,112	$ 7,493,627
Liabilities and Shareholder s Equity		
Current Liabilities:		
Accounts payable	$ 120,332	$ 89,242
Accrued liabilities:		
Payroll and related expenses	71,956	83,036
Self-insured claims and related expenses	76,396	91,923
Other	146,519	202,174
Deferred revenue	501,489	443,426
Liabilities of discontinued operations	2,963	4,870
Current portion of long-term debt	220,812	221,269
Total Current Liabilities	1,140,467	1,135,940
Long-Term Debt	3,945,661	4,044,823
Other Long-Term Liabilities:		
Deferred taxes	977,624	981,746
Liabilities of discontinued operations	4,126	4,077
Other long-term obligations, primarily self-insured claims	204,862	194,682
Total Other Long-Term Liabilities	1,186,612	1,180,505

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		1,440,367		1,438,432
Retained deficit		(249,370)		(249,919)
Accumulated other comprehensive loss		(56,625)		(56,154)
Total Shareholder s Equity		1,134,372		1,132,359
Total Liabilities and Shareholder s Equity	$	7,407,112	$	7,493,627

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, 2009	Three months ended March 31, 2008
Cash and Cash Equivalents at Beginning of Period	$ 405,587	$ 207,219
Cash Flows from Operating Activities from Continuing Operations:		
Net Income (Loss)	549	(75,842)
Adjustments to reconcile net loss to net cash provided from operating activities:		
Loss from discontinued operations	163	748
Depreciation expense	15,614	12,558
Amortization expense	40,309	50,674
Amortization of debt issuance costs	3,768	9,245
Gain on extinguishment of debt	(46,106)	
Deferred income tax benefit	(2,280)	(36,589)
Option and restricted stock expense	1,934	1,664
Restructuring charges	8,483	3,325
Cash payments related to restructuring charges	(4,296)	(13,874)
Merger related charges	294	50
Change in working capital, net of acquisitions:		
Current income taxes	(3,026)	5,182
Receivables	6,001	12,971
Inventories and other current assets	(87,560)	(95,764)
Accounts payable	26,548	28,326
Deferred revenue	58,033	84,953
Accrued liabilities	(75,177)	(54,835)
Other, net	9,141	1,678
Net Cash Used for Operating Activities from Continuing Operations	(47,608)	(65,530)
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(18,608)	(9,049)
Sale of equipment and other assets	362	711
Acquisition of The ServiceMaster Company	(486)	(16,163)
Other business acquisitions, net of cash acquired	(4,871)	(4,385)
Notes receivable, financial investments and securities, net	3,536	14,370
Net Cash Used for Investing Activities from Continuing Operations	(20,067)	(14,516)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt		76,350
Payments of debt	(47,504)	(52,793)
Debt issue costs paid	(198)	
Net Cash (Used for) Provided from Financing Activities from Continuing Operations	(47,702)	23,557
Cash Flows from Discontinued Operations:		
Cash (used for) provided from operating activities	(980)	4,560
Cash used for investing activities	(914)	(44)
Cash used for financing activities		(51)
Net Cash (used for) Provided from Discontinued Operations	(1,894)	4,465

Cash Decrease During the Period		(117,271)		(52,024)
Cash and Cash Equivalents at End of Period	$	288,316	$	155,195

See accompanying Notes to the Condensed Consolidated Financial Statements

Table of Contents

THE SERVICEMASTER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The condensed consolidated financial statements include the accounts of The ServiceMaster Company and its subsidiaries, collectively referred to as the Company or ServiceMaster .

On March 18, 2007, ServiceMaster entered into an Agreement and Plan of Merger (the Merger Agreement) with ServiceMaster Global Holdings, Inc. (formerly CDRSVM Topco, Inc.) (Holdings) and CDRSVM Acquisition Co., Inc., an indirect wholly owned subsidiary of Holdings (Acquisition Co.). The Merger Agreement provided that, upon the terms and subject to the conditions set forth in the Merger Agreement, Acquisition Co. would merge with and into ServiceMaster, with ServiceMaster as the surviving corporation (the Merger).

On July 24, 2007 (the Closing Date), the Merger was completed, and each issued and outstanding share of ServiceMaster common stock, other than shares held by ServiceMaster or Holdings or their subsidiaries and shares held by stockholders who validly perfected their appraisal rights under Delaware law, was converted into the right to receive $15.625 in cash (the Merger Consideration). Each share of ServiceMaster common stock owned by ServiceMaster, Holdings or Acquisition Co. or any of their respective direct or indirect wholly-owned subsidiaries was cancelled and retired, and no consideration was paid in exchange for it.

Immediately following the completion of the Merger, all of the outstanding capital stock of Holdings, the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliated with, Clayton, Dubilier & Rice, Inc. (CD&R), Citigroup Private Equity L.P., BAS Capital Funding Corporation and J.P. Morgan Ventures Corporation (collectively, the Equity Sponsors).

Equity contributions totaling $1,431 million from the Equity Sponsors, together with (i) borrowings under a new $1,150 million senior unsecured interim loan facility (Interim Loan Facility), (ii) borrowings under a new $2,650 million senior secured term loan facility and (iii) cash on hand at ServiceMaster, were used, among other things, to finance the aggregate Merger Consideration, to make payments in satisfaction of other equity-based interests in ServiceMaster under the Merger Agreement, to settle existing interest rate swaps, to redeem or provide for the repayment of certain of the Company s existing indebtedness and to pay related transaction fees and expenses. In addition, letters of credit issued under a new $150 million pre-funded letter of credit facility (together with the senior secured term loan facility, the Term Facilities) were used to replace and/or secure letters of credit previously issued under a ServiceMaster credit facility that was terminated as of the Closing Date. On the Closing Date, the Company also entered into, but did not draw under, a new $500 million senior secured revolving credit facility (the Revolving Credit Facility).

The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one to one basis into 10.75%/11.50% senior toggle notes maturing in 2015 (Permanent Notes). The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of Permanent Notes, ServiceMaster entered into a registration rights agreement (the

Registration Rights Agreement), pursuant to which ServiceMaster filed with the SEC a registration statement with respect to the resale of the Permanent Notes, which was declared effective on January 16, 2009. ServiceMaster s obligation under the Registration Rights Agreement to keep the registration statement effective has terminated. Accordingly, ServiceMaster may choose to deregister the Permanent Notes and terminate the effectiveness of the registration statement at any time.

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 condensed consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2008. The condensed consolidated financial statements reflect all adjustments which 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. All intercompany transactions and balances have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of the results which might be achieved for a full year.

Table of Contents

Note 2. Significant Accounting Policies

The Company s significant accounting policies are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The following selected accounting policies should be read in conjunction with that Annual Report on 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. Revenues from landscaping services are recognized as they are earned based upon contract arrangements or when services are performed for non-contractual arrangements. The Company eradicates termites through the use of baiting systems, as well as through non-baiting methods (e.g., fumigation or liquid treatments). Termite services using baiting systems, termite inspection and protection contracts, as well as home warranty services, 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 warranty contracts) 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). Home warranty contract revenue is recognized based on the expected emergence of total claim costs. The Company regularly reviews its estimates of direct costs for its termite bait and home warranty contracts and adjusts the estimates when appropriate. Revenue from trade name licensing arrangements is recognized when earned.

The Company has franchise agreements in its TruGreen LawnCare, Terminix, ServiceMaster Clean, Merry Maids, AmeriSpec and Furniture Medic businesses. Franchise revenue (which in the aggregate represents approximately four percent of consolidated 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 assured. Franchise revenue also includes initial fees resulting from the sale of a franchise. These fees are fixed and are recognized as revenue when collectability is assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations (excluding trade name licensing) were approximately $15.8 million and $13.8 million for the three months ended March 31, 2009 and 2008, respectively, and consolidated operating income (loss) from continuing operations was approximately $28.7 million and ($10.3) million for the three months ended March 31, 2009 and 2008, respectively. We evaluate the performance of our 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 $501.5 million and $443.4 million of deferred revenue at March 31, 2009 and December 31, 2008, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranty, 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.

TruGreen LawnCare 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 LawnCare defers these incremental selling expenses, pre-season advertising costs and annual repairs and maintenance procedures that are performed primarily in the first quarter. These costs are deferred and recognized in proportion to the contract revenue 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 and TruGreen LawnCare, consisting primarily of direct-mail promotions, is capitalized and amortized over its expected period of future benefits.

The fair values of the Company s financial instruments 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, 2009 and December 31, 2008.

Table of Contents

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 Company s Annual Report on Form 10-K for the year ended December 31, 2008 presented the significant areas that require the use of management s 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 warranty 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.

Note 3. Restructuring Charges

The Company is engaged in a reorganization and restructuring of certain of its businesses and support functions known as Fast Forward. Among the purposes of Fast Forward is to eliminate layers and bureaucracy and simplify work processes in order to better align the Company s work processes around its operational and strategic objectives. Fast Forward is being implemented in phases. The first phase involved, among other things, a reduction in work force and various process improvements, including the closing of American Home Shield s call center located in Santa Rosa, California. The second phase includes, among other things, the organization of certain corporate support functions into centers of excellence which are expected to deliver higher quality services to our business units at lower costs, the outsourcing to third party vendors of various business activities that currently are handled internally, as well as other employee workforce reductions expected to result in cost-savings.

The first phase of Fast Forward was substantially completed in the first quarter of 2008, and the second phase is underway. As part of the second phase of Fast Forward, on December 11, 2008, the Company entered into an agreement with International Business Machines Corporation (IBM) pursuant to which IBM will provide information technology operations and applications development services to the Company. The initial term of the agreement is seven years. The agreement commenced on December 11, 2008 and the services are expected to be phased in over approximately a six-month period. In connection with the agreement, the Company expects to eliminate approximately 275 positions. As a result of the elimination of positions and the transition of information technology services to IBM, the Company has incurred and expects to continue to incur charges related to, among other things, employee retention and severance costs and transition fees paid to IBM. Almost all charges related to the agreement will be cash charges and will be expensed throughout the transition period. Such charges are expected to amount to $10 to $15 million, pre-tax, and will be recorded as restructuring charges in the condensed consolidated statement of operations principally in the first half of 2009.

In connection with Fast Forward, the Company incurred costs of approximately $5.3 million ($3.2 million after-tax) and $2.6 million ($1.5 million after-tax) for the three months ended March 31, 2009 and 2008, respectively. For the three months ended March 31, 2009, such costs included transition fees paid to IBM of approximately $3.8 million, employee retention and severance costs of approximately $0.9 million and consulting and other costs of approximately $0.6 million. For the three months ended March 31, 2008, these charges included consulting fees of approximately $1.6 million and severance and other costs of approximately $1.0 million.

For the three months ended March 31, 2009, Terminix incurred restructuring costs of approximately $3.2 million ($2.0 million after-tax) relating to a branch optimization project, which included approximately $2.9 million of lease termination costs and approximately $0.3 million of severance costs.

The results for the three months ended March 31, 2008 include restructuring charges related to the Company s consolidation of its corporate headquarters into its operations support center in Memphis, Tennessee and the closing of its headquarters in Downers Grove, Illinois. The transition to Memphis was substantially completed in 2007. Almost all costs related to the transition were cash expenditures and were expensed throughout the transition period. During the three months ended March 31, 2008, the Company incurred $0.7 million ($0.4 million after-tax) relating to this relocation, which includes severance and other costs.

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

Note 4. Commitments and Contingencies

A portion of the Company s vehicle fleet and some equipment are leased through operating leases. The lease terms are non-cancelable for the first twelve-month term, and then are month-to-month, cancelable at the Company s option. There

Table of Contents

are residual value guarantees by the Company (ranging from 70 percent to 84 percent of the estimated terminal value at the inception of the lease depending on the agreement) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. At March 31, 2009, there was approximately $103 million of residual value relating to the Company s fleet and equipment leases. 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. At March 31, 2009, the Company has recorded the estimated fair value of this guarantee of approximately $2 million in the condensed consolidated statement of financial position.

The Company maintains lease facilities with banks totaling $65 million, which provide for the financing of branch properties to be leased by the Company. At March 31, 2009, approximately $65 million was funded under these facilities. Approximately $12 million of these leases are treated as capital leases and have been included on the balance sheet as assets with related debt as of March 31, 2009. The balance of the funded amount is treated as operating leases. The Company has guaranteed the residual value of the properties under the leases up to 73 percent of the fair market value at the commencement of the lease. At March 31, 2009, the Company s residual value guarantee related to the leased assets totaled $53 million for which the Company has recorded the estimated fair value of this guarantee of approximately $0.1 million in the condensed consolidated statements of financial position. In connection with the closing of the Merger, the Company amended these leases effective July 24, 2007. Among the modifications, the Company extended the lease terms through July 24, 2010. The operating lease and capital lease classifications of these leases did not change as a result of the modifications.

The Company carries insurance policies on insurable risks at levels that it believes to be appropriate, including workers compensation, auto and general liability risks. The Company purchases insurance from third-party insurance carriers. These policies typically incorporate significant deductibles or self-insured retentions. The Company is required to pay all claims that fall below the retention limits. As of March 31, 2009 and December 31, 2008, the Company had accrued self-insured claims of $143 million and $146 million, respectively. During the three months ended March 31, 2009 and 2008, the Company recorded provisions for uninsured claims totaling $9 million and $8 million, respectively, and the Company paid claims totaling $12 million and $14 million, respectively. In determining the Company s accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual includes both 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.

Accruals for warranty claims in the American Home Shield business are made based on the Company s claims experience and actuarial projections. Termite damage claim accruals 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.

The Company has guarantees on certain bonds issued by divested companies, primarily performance type bonds. The maximum payments the Company could be required to make if the buyers of the divested companies are unable to fulfill their obligations is approximately $0.6 million at March 31, 2009. Substantially all of the bonds are scheduled to expire in 2009, but may be extended depending on the completion of the related projects. The Company believes that if it were to incur a loss on any individual bond guarantee, the likelihood of which the Company believes is remote, such loss would not have a material effect on the Company s business, financial condition, annual results of operations or cash flows.

In the ordinary course of conducting its business activities, the Company becomes involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include general and commercial liability and employment actions as well as environmental proceedings. The Company does not expect any of these proceedings to have a material effect on the Company s business, financial condition, annual results of operations or cash flows.

Note 5. Goodwill and Intangible Assets

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , 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.

Table of Contents

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

(In thousands)	TruGreen LawnCare	TruGreen LandCare	Terminix	American Home Shield	Other Operations & Headquarters	Total
Balance at Dec. 31, 2008	$ 1,161,507	$ 45,782	$ 1,352,799	$ 348,309	$ 185,512	$ 3,093,909
Acquisitions	370		1,674		118	2,162
Other (1)	(181)	(484)	(196)	(74)	(50)	(985)
Balance at March 31, 2009	$ 1,161,696	$ 45,298	$ 1,354,277	$ 348,235	$ 185,580	$ 3,095,086

(1) Reflects the amortization of tax deductible goodwill.

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

(In thousands)	March 31, 2009 Gross	March 31, 2009 Accumulated Amortization	March 31, 2009 Net	December 31, 2008 Gross	December 31, 2008 Accumulated Amortization	December 31, 2008 Net
Trade names(1)	$ 2,408,100	$	$ 2,408,100	$ 2,408,100	$	$ 2,408,100
Customer relationships	661,824	(245,095)	416,729	660,677	(209,485)	451,192
Franchise agreements	88,000	(18,807)	69,193	88,000	(16,270)	71,730
Other	49,630	(14,588)	35,042	49,395	(12,433)	36,962
Total	$ 3,207,554	$ (278,490)	$ 2,929,064	$ 3,206,172	$ (238,188)	$ 2,967,984

(1) Not subject to amortization.

Note 6. Stock-Based Compensation

During the three months ended March 31, 2009 and 2008, the Company recognized compensation cost of approximately $1.9 million ($1.1 million after-tax) and $1.7 million ($1.2 million after-tax), respectively. As of March 31, 2009, there was approximately $21.7 million of total unrecognized compensation cost related to non-vested stock options granted by Holdings under the ServiceMaster Global Holdings, Inc. Stock Incentive Plan. These remaining costs are expected to be recognized over a weighted-average period of 2.8 years.

Note 7. Supplemental Cash Flow Information

In the condensed consolidated statements of cash flows, the caption Cash and cash equivalents includes investments in short-term, highly-liquid securities having a maturity of three months or less when purchased. Supplemental information relating to the condensed consolidated statements of cash flows for the three months ended March 31, 2009 and 2008 is presented in the following table:

(In thousands) Cash paid for or (received from):	Three months ended March 31, 2009	 2008
Interest expense	$ 127,710	$ 90,149
Interest and dividend income	(2,368)	(3,841)
Income taxes, net of refunds	(864)	775

Note 8. Comprehensive Income

Total comprehensive income (loss) was $0.1 million and ($14.7) million for the three months ended March 31, 2009 and 2008, respectively. Total comprehensive loss primarily includes net income (loss), unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translation.

Note 9. Receivable Sales

The Company has entered into an accounts receivable securitization arrangement under which TruGreen LawnCare and Terminix 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 million in the pool of

Table of Contents

accounts receivable to one or both of the unrelated 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 business and could, at times, limit the amount available to the Company from the sale of these interests.

The accounts receivable securitization arrangement is a 364-day facility that is renewable annually at the option of Funding, with a final termination date of July 17, 2012. Only one of the Purchasers is required to purchase interests under the arrangement. If this Purchaser were to exercise its right to terminate its participation in the arrangement, which it may do in the third quarter of each year, the amount of cash available to the Company may be reduced or eliminated.

During the first quarter of 2009 and 2008, there were no transfers of interests in the pool of accounts receivables to Purchasers under this arrangement. As of March 31, 2009, the Company had $10.0 million outstanding under the arrangement and had $23.4 million of remaining capacity available under the accounts receivable securitization arrangement. As of March 31, 2008, there were no amounts outstanding under the arrangement.

The Company has recorded its obligation to repay the third party for its interest in the pool of receivables as long-term debt in these condensed consolidated financial statements. The interest rates applicable to the Company s obligation are based on a fluctuating rate of interest measured based on the third party purchaser s pooled commercial paper rate, as defined (0.53% at March 31, 2009). In addition, the Company pays usage fees on its obligations and commitment fees on undrawn amounts committed by the Purchasers. All obligations under the accounts receivable securitization arrangement must be repaid by July 17, 2012, the final termination date of the arrangement.

Note 10. Cash and Marketable Securities

Cash, money market funds and certificates of deposits, with maturities of three months or less, are included in the condensed consolidated statements of financial position caption Cash and cash equivalents. As of March 31, 2009 and December 31, 2008, the Company s investments consist primarily of domestic publicly traded debt of $86.2 million and $90.1 million, respectively and common equity securities of $36.7 million and $43.0 million, respectively.

The aggregate market value of the Company s short-term and long-term investments in debt and equity securities was $122.9 million and $133.1 million, and the aggregate cost basis was $124.3 million and $134.9 million at March 31, 2009 and December 31, 2008, respectively.

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 it competes. The Company recorded an impairment charge of approximately $5.4 million ($3.0 million after-tax) and $5.2 million ($3.7 million after-tax) during the three months ended March 31, 2009 and 2008, respectively, due to other than temporary declines in the value of certain investments. The unrealized gains in the investment portfolio were approximately $3.6 million and $4.2 million as of March 31, 2009 and December 31, 2008, respectively. Unrealized losses were approximately $5.0 million and $6.0 million as of March 31, 2009 and December 31, 2008, respectively. The portion of unrealized losses which have been in a loss position for more than one year at March 31, 2009 and December 31, 2008 was approximately $0.5 million and $0.4 million, respectively. The aggregate fair value of the investments with unrealized losses totaled

$24.3 million and $26.8 million at March 31, 2009 and December 31, 2008, respectively.

Table of Contents

Note 11. Long-Term Debt

Long-term debt at March 31, 2009 and December 31, 2008 is summarized in the following table:

(In thousands)		As of March 31, 2009		As of December 31, 2008
Senior secured term loan facility maturing in 2014	$	2,603,625	$	2,610,250
10.75% /11.50% senior toggle notes maturing in 2015 (1)		1,061,000		1,150,000
Revolving credit facility maturing in 2013		165,000		165,000
7.10% notes maturing in 2018 (2)		62,180		61,698
7.45% notes maturing in 2027 (2)		145,883		145,215
7.25% notes maturing in 2038 (2)		59,218		59,016
Other		69,567		74,913
Less current portion		(220,812)		(221,269)
Total long-term debt	$	3,945,661	$	4,044,823

(1) During the first quarter of 2009, the Company completed open market purchases of $89.0 million in face value of our Permanent Notes for a cost of $41.0 million. The debt acquired by the Company has been retired, and the Company has discontinued the payment of interest. The Company recorded a gain on extinguishment of debt of $46.1 million in its condensed consolidated statement of operations for the first quarter of 2009 related to these retirements. Included in the gain on extinguishment of debt are write-offs of unamortized debt issuance costs related to the extinguished debt of $1.9 million.

(2) The increase in the balance from December 31, 2008 to March 31, 2009 reflects the amortization of fair value adjustments related to purchase accounting, which effectively increases the stated coupon interest rates.

Note 12. Discontinued Operations

Reported loss from discontinued operations, net of income taxes for all periods presented includes the operating results of the sold and discontinued businesses noted in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The operating results and financial position of discontinued operations are as follows:

(In thousands)		Three months ended March 31, 2009		2008
Operating Results:				
Operating revenue	$		$	17,806

Operating loss		(264)		(1,137)
Interest expense				(41)
Loss from discontinued operations, before income taxes		(264)		(1,178)
Benefit for income taxes		(101)		(430)
Loss from discontinued operations, net of income taxes	$	(163)	$	(748)

		As of March 31, 2009		As of December 31, 2008
Financial Position:				
Current assets	$	177	$	412
Total assets	$	177	$	412
Current liabilities	$	2,963	$	4,870
Long-term liabilities		4,126		4,077
Total liabilities	$	7,089	$	8,947

Table of Contents

The table below summarizes the activity for the three months ended March 31, 2009 for the remaining liabilities from operations that were disposed of in years prior to 2009. The remaining obligations primarily relate to long-term self-insurance claims. The Company believes that the remaining reserves continue to be adequate and reasonable.

(In thousands)	Balance at December 31, 2008	Cash Payments or Other	(Income)/ Expense	Balance at March 31, 2009
Remaining liabilities of discontinued operations:				
ARS/AMS	$ 2,331	$	$	$ 2,331
LandCare Construction	869	(37)	(59)	773
LandCare utility line clearing business	1,099	(35)		1,064
Certified Systems, Inc. and other	3,558	(1,154)		2,404
InStar	1,090	(573)		517
	$ 8,947	$ (1,799)	$ (59)	$ 7,089

Note 13. Income Taxes

At December 31, 2008, the Company had $14.2 million of tax benefits primarily reflected in state tax returns that had not been recognized for financial reporting purposes (unrecognized tax benefits). During the first quarter of 2009 unrecognized tax benefits decreased by $3.5 million and accrued estimated interest and tax penalties decreased by $0.7 million. 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 $2.3 million during the next 12 months.

In the first quarter of 2009, the IRS completed the audit of the Company s tax return for the year ended December 31, 2007 with no adjustments or additional payments.

Note 14. Business Segment Reporting

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

In accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information , the Company s reportable segments are strategic business units that offer different services. The TruGreen LawnCare segment provides residential and commercial lawn care services. The TruGreen LandCare segment provides landscaping services primarily to commercial customers. The Terminix segment provides termite and pest control services to residential and commercial customers. The American Home Shield segment provides home warranties to consumers that cover HVAC, plumbing and other home systems and appliances. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids, which provide primarily residential disaster restoration, commercial cleaning, carpet and upholstery cleaning, home inspection services, furniture repair and house cleaning services. The Other Operations and Headquarters segment also includes the Company s headquarters operations, which provide various technology, marketing, finance, legal and other support services to the business units.

13

Table of Contents

Segment information for continuing operations is presented below.

(In thousands)	Three months ended March 31, 2009		2008	
Operating Revenue:				
TruGreen LawnCare	$	134,666	$	134,442
TruGreen LandCare		66,885		78,652
Terminix		263,161		261,648
American Home Shield		130,868		105,418
Other Operations and Headquarters		50,347		52,071
Total Operating Revenue	$	645,927	$	632,231
Operating (Loss) Income:(1),(2)				
TruGreen LawnCare		(19,387)		(34,059)
TruGreen LandCare		5,696		2,091
Terminix		46,491		43,213
American Home Shield		5,454		(17,692)
Other Operations and Headquarters(2)		(9,576)		(3,855)
Total Operating Income (Loss)	$	28,678	$	(10,302)

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

(In thousands)	Three months ended March 31, 2009		2008	
Total Segment Operating Income (Loss)	$	28,678	$	(10,302)
Non-operating expense (income):				
Interest expense		76,666		89,586
Interest and net investment loss		4,761		6,045
Gain on extinguishment of debt		(46,106)		
Other expense		200		132
Loss from Continuing Operations before Income Taxes	$	(6,843)	$	(106,065)

(2) The results include restructuring charges related to (i) Fast Forward, (ii) a branch optimization project at Terminix and (iii) the Company s decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downers Grove, Illinois. The restructuring charges totaled $8.5 million and $3.3 million for the three months ended March 31, 2009 and 2008, respectively.

(In thousands)	Three months ended March 31, 2009		2008	
Restructuring charges:				
TruGreen LawnCare	$		$	281
TruGreen LandCare		(30)		(421)
Terminix		3,219		57
American Home Shield		39		
Other Operations and Headquarters		5,255		3,408

Total Restructuring charges	$	8,483	$	3,325

The results also include Merger charges related to the purchase of ServiceMaster by a group of investors led by CD&R. The Merger related charges totaled $0.3 million and $0.1 million for the three months ended March 31, 2009 and 2008, respectively. All Merger related charges are included in the Other Operations and Headquarters segment.

Note 15. Related Party Transactions

In connection with the 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 in exchange for an annual management fee of $2 million. This fee is payable quarterly. The Company recorded a management fee of $0.5 million and $0.5 million for the three months ended March 31, 2009 and 2008, respectively. The consulting agreement also provides that

Table of Contents

CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions.

The Company was advised by Holdings that, during the first quarter of 2009, Holdings completed open market purchases of $11.0 million in face value of our Permanent Notes for a cost of $4.5 million. As of March 31, 2009, Holdings has completed open market purchases totaling $65.0 million in face value of our Permanent Notes for a cost of $21.4 million. The debt acquired by Holdings has not been retired, and the Company has continued to pay interest in accordance with the terms of the debt. During the first quarter of 2009, the Company recorded interest expense of $1.7 million and made cash payments to Holdings of $3.0 million. Interest accrued by the Company and payable to Holdings as of March 31, 2009 amounted to $1.4 million.

Note 16. Newly Issued Accounting Statements and Positions

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, Fair Value Measurement . This Statement defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. In February 2008, the FASB approved FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), that permits companies to partially defer the effective date of SFAS No. 157 for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-2 does not permit companies to defer recognition and disclosure requirements for financial assets and financial liabilities or for non-financial assets and non-financial liabilities that are re-measured at least annually. SFAS No. 157 therefore is effective for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that are re-measured at least annually for fiscal years beginning after November 15, 2007. It is effective for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for fiscal years beginning after November 15, 2008. In October 2008, the FASB approved FASB Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3), which clarified the application of SFAS No. 157 in cases where the market for the asset is not active. FSP 157-3 was effective upon issuance. The Company considered the guidance provided by FSP 157-3 in the preparation of the accompanying condensed consolidated financial statements. The Company has assessed the impact of this Statement to the Company s condensed consolidated financial position, results of operations and cash flows. The Company adopted this Statement for financial assets and liabilities in 2008 and for non-financial assets and liabilities in the first quarter of 2009. The adoption of this Statement for non-financial assets and liabilities recognized at fair value on a nonrecurring basis did not have a material effect on these condensed consolidated financial statements. In April 2009, the FASB issued FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The Company is currently evaluating the effects of this standard.

In December 2007, the FASB issued SFAS 141(R), Business Combinations . This Statement will significantly change the accounting for business combinations and is effective for business combinations finalized in fiscal years beginning after December 15, 2008. SFAS No. 141(R) changes the method for applying the accounting for business combinations in a number of significant respects including the requirement to expense transaction fees and expected restructuring costs as incurred, rather than including these amounts in the allocated purchase price; the requirement to recognize the fair value of contingent consideration at the acquisition date, rather than the expected amount when the contingency is resolved; the requirement to recognize the fair value of acquired in-process research and development assets at the acquisition date, rather than immediately expensing; and the requirement to recognize a gain in relation to a bargain purchase price, rather than reducing the allocated basis of long-lived assets. In addition, SFAS No. 141(R) requires that changes in the amount of acquired tax attributes be included in the Company s results of operations, rather than adjusting the allocated purchase price. SFAS No. 141(R) was effective on January 1, 2009 and is being applied prospectively to business combinations that have an acquisition date on or after January 1, 2009. While SFAS No. 141(R) applies only to business combinations with an acquisition date after its effective date, the amendments to SFAS No. 109, Accounting for Income Taxes, with respect to deferred tax asset valuation allowances and liabilities for income tax uncertainties, will be applied to all deferred tax valuation allowances and liabilities for income tax uncertainties recognized in prior business combinations. In April 2009, the FASB issued FASB Staff

Position FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP141(R)-1), which amends and clarifies SFAS No. 141(R) to address application on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The provisions of SFAS No. 141(R) and FSP 141

Table of Contents

(R)-1 will not impact the Company s condensed consolidated financial statements for prior periods. The Company adopted SFAS No. 141(R) and FSP 141(R)-1 during the first quarter of 2009. The Company s adoption of these standards did not have a material affect on the Company s condensed consolidated financial statements.

In December 2007, the FASB issued SFAS 160, Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 . This Statement establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years beginning after December 15, 2008, with presentation and disclosure requirements applied retrospectively to comparative financial statements. The Company adopted the provisions of this standard in the first quarter of 2009. The adoption of this standard did not have a material effect on these condensed consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 . This statement requires additional disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS No. 133 and related interpretations, and how derivative instruments and related hedged items affect the entity s financial position, results of operations and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this standard in the first quarter of 2009 (See Note 17).

In April 2008, the FASB approved FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted FSP 142-3 in the first quarter of 2009. The adoption of this standard did not have a material effect on these condensed consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2), which changes existing guidance for determining whether an impairment of debt securities is other than temporary. FSP 115-2 requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it is more likely than not that it will not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting FSP 115-2, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. FSP 115-2 is effective for interim and annual periods ending after June 15, 2009. The Company is currently evaluating the effects of FSP 115-2 and has not yet determined the impact on the Company s condensed consolidated financial statements.

Note 17. Fair Value of Financial Instruments

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 Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting 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.

The Company has historically hedged a significant portion of its annual fuel consumption of approximately 28 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. In accordance with SFAS No. 133, all of the Company s fuel hedges and interest rate swap agreements are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the balance sheet 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 other comprehensive income. Any change in the fair value of the hedging instrument resulting from

Table of Contents

ineffectiveness, as defined by SFAS No. 133 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.

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, interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

The carrying amount and estimated fair value of certain of the Company s financial instruments for the periods presented are as follows:

		As of March 31, 2009				As of December 31, 2008	
			Estimated Fair Value Measurements				
(In thousands)	**Balance Sheet Locations**	**Carrying Value**	**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	$ 9,098	$ 9,098	$	$	$ 9,901	$ 9,901
Investments in marketable securities	Marketable securities and long-term marketable securities	113,757	43,930	69,827		123,161	123,161
Fuel swap contracts:							
Current	Prepaid expenses and other assets	140			140		
Noncurrent	Other assets	1,193			1,193		
Total financial assets		$ 124,188	$ 53,028	$ 69,827	$ 1,333	$ 133,062	$ 133,062
Financial Liabilities:							
Fuel swap contracts							
Current	Other accrued liabilities	$ 21,087	$	$	$ 21,087	$ 23,607	$ 23,607
Noncurrent	Other long-term obligations	1,492			1,492	1,317	1,317
Interest rate swap contracts	Other long-term obligations	63,474		63,474		59,852	59,852
Total financial liabilities		$ 86,053	$	$ 63,474	$ 22,579	$ 84,776	$ 84,776

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

(In thousands)	**Fuel Swap Contract Assets (Liabilities)**
Balance at December 31, 2008	$ (24,924)
Total gains (losses) (realized and unrealized)	
Included in earnings(1)	(6,577)
Included in other comprehensive loss	3,678

Settlements, net		6,577
Balance at March 31, 2009	$	(21,246)

(1) Gains included in earnings are reported in cost of services rendered and products sold. The effect of derivative instruments on the condensed consolidated statement of operations and other comprehensive income for the quarter ended March 31, 2009 is as follows:

Table of Contents

	Three months ended March 31, 2009				
Derivatives in SFAS No. 133 Cash Flow Hedge Relationships		**Effective Portion of Gain Recognized in Other Comprehensive Loss**		**Effective Portion of Loss Reclassified from AOCI into Income**	**Location of Gain (Loss) included in Income**
Fuel swap contracts	$	3,678	$	(6,577)	Cost of services rendered and products sold
Interest rate swap contracts	$	3,622	$	(11,044)	Interest expense

Ineffective portions of derivative instruments designated in SFAS No. 133 cash flow hedge relationships were insignificant during the first quarter of 2009. As of March 31, 2009, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $121.6 million, maturing through 2010. 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. As of March 31, 2009, the Company posted approximately $23.5 million in letters of credit as collateral for these contracts, $5.0 million of which were posted under the Company s Revolving Credit FacilityAs of March 31, 2009, the Company had interest rate swap contracts to pay fixed rates for interest on long-term debt with an aggregate notional amount of $1.430 billion, maturing through 2012. The Company also entered into an additional swap agreement in April 2009 (see Note 18).

Note 18. Subsequent Events

In April 2009, the Company entered into a 2-year interest rate swap agreement effective August 2, 2010 with a notional amount of $530 million. Under the terms of the agreement, the Company will pay a fixed rate of interest of 2.55% on the notional amount of the agreement. The Company will receive a floating rate of interest (based on one month LIBOR) on the notional amount. Therefore, during the term of the swap agreement, the effective interest rate for $530 million of the term loans will be fixed at a rate of 2.55% plus the incremental borrowing margin described in Note 14 in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. In accordance with SFAS No. 133, this interest rate swap agreement is classified as a cash flow hedge and, as such, the hedging instrument will be recorded on the balance sheet as either an asset or liability at fair value, with the effective portion of the changes in fair value attributable to the hedged risks recorded in other comprehensive income.

Note 19. 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.

On July 24, 2008, outstanding amounts under the Interim Loan Facility converted into the Permanent Notes. The payment obligations of the Company under the Permanent Notes are jointly and severally guaranteed on a senior unsecured basis by certain of the Company s domestic subsidiaries excluding certain subsidiaries subject to regulatory requirements in various states (Guarantors). Each of the Guarantors is wholly-owned, directly or indirectly, by the Company, and all guarantees are full and unconditional. All other subsidiaries of the Company, either directly or indirectly owned, do not guarantee the Permanent Notes (Non-Guarantors).

Table of Contents

THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2009

(in thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 506,936	$ 156,284	$ (17,293)	$ 645,927
Operating Costs and Expenses:					
Cost of services rendered and products sold		342,774	68,919	(17,293)	394,400
Selling and administrative expenses	998	99,157	73,608		173,763
Amortization expense	55	31,248	9,006		40,309
Merger related charges	294				294
Restructuring charges		3,190	5,293		8,483
Total operating costs and expenses	1,347	476,369	156,826	(17,293)	617,249
Operating (Loss) Income	(1,347)	30,567	(542)		28,678
Non-operating Expense (Income):					
Interest expense (income)	76,859	3,201	(3,394)		76,666
Interest and net investment loss	1,484	2,075	1,202		4,761
Gain on extinguishment of debt	(46,106)				(46,106)
Other expense, net			200		200