SERVICEMASTER CO
Form 10-Q
May 13, 2010
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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, 2010

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 o No x

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 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 13, 2010, 1,000 shares of the registrant s common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

The ServiceMaster Company is not required to file this Quarterly Report on Form 10-Q with the Securities and Exchange Commission and is doing so on a voluntary basis.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Three months ended March 31,	
	2010	2009
Operating Revenue	$ 639,408	$ 645,927
Operating Costs and Expenses:		
Cost of services rendered and products sold	402,520	394,400
Selling and administrative expenses	183,875	173,763
Amortization expense	40,442	40,309
Restructuring and Merger related charges	3,924	8,777
Total operating costs and expenses	630,761	617,249
Operating Income	8,647	28,678
Non-operating Expense (Income):		
Interest expense	72,681	76,666
Interest and net investment (income) loss	(2,502)	4,761
Gain on extinguishment of debt		(46,106)
Other expense	171	200
Loss from Continuing Operations before Income Taxes	(61,703)	(6,843)
Benefit for income taxes	(29,420)	(7,555)
(Loss) Income from Continuing Operations	(32,283)	712
Loss from discontinued operations, net of income taxes	(377)	(163)
Net (Loss) Income	$ (32,660)	$ 549

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position

(In thousands, except share data)

	As of March 31, 2010 (Unaudited)	As of December 31, 2009 (Audited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 203,043	$ 253,463
Marketable securities	19,566	21,120
Receivables, less allowance of $20,773 and $20,314, respectively	351,642	348,655
Inventories	82,834	76,592
Prepaid expenses and other assets	98,649	36,564
Deferred customer acquisition costs	62,088	36,070
Deferred taxes	26,321	21,595
Assets of discontinued operations	22	42
Total Current Assets	844,165	794,101
Property and Equipment:		
At cost	360,707	345,100
Less: accumulated depreciation	(148,086)	(132,965)
Net property and equipment	212,621	212,135
Other Assets:		
Goodwill	3,126,444	3,119,754
Intangible assets, primarily trade names, service marks and trademarks, net	2,749,445	2,787,237
Notes receivable	23,025	23,490
Long-term marketable securities	117,053	111,066
Other assets	29,954	31,799
Debt issuance costs	63,157	66,807
Total Assets	$ 7,165,864	$ 7,146,389
Liabilities and Shareholder s Equity		
Current Liabilities:		
Accounts payable	$ 93,933	$ 73,471
Accrued liabilities:		
Payroll and related expenses	69,503	74,385
Self-insured claims and related expenses	84,902	87,332
Other	133,059	156,649
Deferred revenue	516,680	449,746
Liabilities of discontinued operations	2,853	2,806
Current portion of long-term debt	63,098	64,395
Total Current Liabilities	964,028	908,784
Long-Term Debt	3,913,680	3,910,549
Other Long-Term Liabilities:		
Deferred taxes	944,186	957,077
Liabilities of discontinued operations	4,101	4,145
Other long-term obligations	183,222	179,503

Total Other Long-Term Liabilities		1,131,509		1,140,725
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		1,448,687		1,446,529
Retained deficit		(269,084)		(236,424)
Accumulated other comprehensive loss		(22,956)		(23,774)
Total Shareholder s Equity		1,156,647		1,186,331
Total Liabilities and Shareholder s Equity	$	7,165,864	$	7,146,389

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three months ended March 31, 2010	2009
Cash and Cash Equivalents at Beginning of Period	$ 253,463	$ 405,587
Cash Flows from Operating Activities from Continuing Operations:		
Net (Loss) Income	(32,660)	549
Adjustments to reconcile net (loss) income to net cash used for operating activities:		
Loss from discontinued operations	377	163
Depreciation expense	15,808	15,614
Amortization expense	40,442	40,309
Amortization of debt issuance costs	3,650	3,768
Gain on extinguishment of debt		(46,106)
Deferred income tax benefit	(16,971)	(2,280)
Stock-based compensation expense	2,158	1,934
Restructuring and Merger related charges	3,924	8,777
Cash payments related to restructuring charges	(4,036)	(4,296)
Change in working capital, net of acquisitions:		
Current income taxes	(17,048)	(3,026)
Receivables	(2,032)	6,001
Inventories and other current assets	(77,589)	(87,560)
Accounts payable	13,476	26,548
Deferred revenue	66,817	58,033
Accrued liabilities	(29,003)	(75,177)
Other, net	3,176	9,141
Net Cash Used for Operating Activities from Continuing Operations	(29,511)	(47,608)
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(8,905)	(18,608)
Sale of equipment and other assets	596	362
Acquisition of The ServiceMaster Company	(156)	(486)
Other business acquisitions, net of cash acquired	(8,363)	(4,871)
Notes receivable, financial investments and securities, net	(1,921)	3,536
Net Cash Used for Investing Activities from Continuing Operations	(18,749)	(20,067)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt	10,000	
Payments of debt	(11,532)	(47,504)
Debt issuance costs paid	(30)	(198)
Net Cash Used for Financing Activities from Continuing Operations	(1,562)	(47,702)
Cash Flows from Discontinued Operations:		
Cash used for operating activities	(598)	(980)
Cash used for investing activities		(914)
Net Cash Used for Discontinued Operations	(598)	(1,894)
Cash Decrease During the Period	(50,420)	(117,271)

Cash and Cash Equivalents at End of Period	$	203,043	$	288,316

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 is a national company serving both residential and commercial customers. Its products and services include lawn care, landscape maintenance, termite and pest control, home service contracts, cleaning and disaster restoration, house cleaning, furniture repair and home inspection. ServiceMaster provides these services through a network of company-owned locations and franchise licenses operating under the following leading brands: TruGreen, TruGreen LandCare, Terminix, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec. ServiceMaster is organized into six principal reportable segments: TruGreen LawnCare, TruGreen LandCare, Terminix, American Home Shield, ServiceMaster Clean, and Other Operations and Headquarters.

The condensed consolidated financial statements include the accounts of The ServiceMaster Company and its majority owned subsidiary partnerships, limited liability companies and corporations, collectively referred to as ServiceMaster , the Company , we , us or our .

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 filed with the SEC for the year ended December 31, 2009. 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.

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, 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. (now operated as Clayton, Dublier & Rice, LLC, CD&R), Citigroup Private Equity LP (together with its affiliate, Citigroup Alternative Investments LLC, Citigroup) BAS Capital Funding Corporation (BAS) and J.P. Morgan Ventures Corporation (JP Morgan) (collectively, the Equity Sponsors).

Equity contributions totaling $1,431.1 million from the Equity Sponsors, together with (i) borrowings under a new $1,150.0 million senior unsecured interim loan facility (Interim Loan Facility), (ii) borrowings under a new $2,650.0 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 $150.0 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 then draw under, a new $500.0 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 (the Permanent Notes). The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of the Permanent Notes, ServiceMaster entered into a registration rights agreement (the Registration Rights Agreement), pursuant to which ServiceMaster filed with the Securities and Exchange Commission (SEC) a registration statement with respect to the resale of the Permanent Notes, which was declared effective on January 16, 2009. ServiceMaster deregistered the Permanent Notes in accordance with the terms of the Registration Rights Agreement, and the effectiveness of the registration statement was terminated on November 19, 2009.

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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, 2009. 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 contractual 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 service contracts, 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 service 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). The Company regularly reviews its estimates of direct costs for its termite bait and home service 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, AmeriSpec, Furniture Medic and Merry Maids 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 reasonably 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 reasonably 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 $15.3 million and $15.8 million for the three months ended March 31, 2010 and 2009, respectively, and consolidated operating income from continuing operations was $8.6 million and $28.7 million for the three months ended March 31, 2010 and 2009, 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 $516.7 million and $449.7 million of deferred revenue at March 31, 2010 and December 31, 2009, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home service contracts, 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 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, 2009 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 service contracts and termite damage claims; the possible outcome of outstanding litigation; accruals for

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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 and Merger Related Charges

The Company incurred restructuring and Merger related charges of $3.9 million ($2.4 million, net of tax) and $8.8 million ($5.4 million, net of tax) for the three months ended March 31, 2010 and 2009, respectively. Restructuring and Merger related charges were comprised of the following:

	Three months ended March 31,			
(In thousands)		**2010**		**2009**
TruGreen LawnCare reorganization and restructuring(1)	$	3,023	$	
Information technology outsourcing(2)				5,274
Terminix branch optimization(3)		46		3,219
Merger related charges(4)		131		294
Other		724		(10)
Total restructuring and Merger related charges	$	3,924	$	8,777

(1) Represents restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. For the three months ended March 31, 2010, these costs included consulting fees of $1.9 million and severance, lease termination and other costs of $1.1 million.

(2) 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. These services were phased in during the first half of 2009. For the three months ended March 31, 2009, these costs included transition fees paid to IBM of $3.8 million, employee retention and severance costs of $0.9 million and consulting and other costs of $0.6 million.

(3) Represents restructuring charges related to a branch optimization project. For the three months ended March 31, 2010, these costs included adjustments to lease termination reserves. For the three months ended March 31, 2009, these costs included lease termination costs of $2.9 million and severance costs of $0.3 million.

(4) Includes legal fees, legal settlements and other costs associated with the Merger.

The pretax charges discussed above are reported in the Restructuring and Merger related charges line in the condensed consolidated statement of operations.

A reconciliation of the beginning and ending balances of accrued restructuring charges is presented as follows:

(In thousands)		Accrued Restructuring and Merger Related Charges
Balance at December 31, 2009	$	12,083
Costs incurred		3,924
Costs paid or otherwise settled		(8,791)
Balance at March 31, 2010	$	7,216

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 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. 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, 2010, the Company s residual value guarantees related to the leased assets totaled $71.4 million for which the Company has recorded a liability for the estimated fair value of these guarantees of approximately $1.5 million in the condensed consolidated statement of financial position.

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The Company maintains lease facilities with banks totaling $65.2 million, which provide for the financing of branch properties to be leased by the Company. At March 31, 2010, approximately $65.2 million was funded under these facilities, including $12.5 million of leases that are accounted for as capital leases and are included on the condensed consolidated statement of financial position as assets with related debt. The balance of the funded amount is accounted for as operating leases. 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 and made a $22.0 million investment in the lease facilities. This $22.0 million investment is included in other assets in the condensed consolidated statement of financial position. The operating lease and capital lease classifications of these leases did not change as a result of the modifications. No later than 120 days prior to the end of the lease term, the Company was required to exercise one of the following three options related to the leased properties: (1) negotiate an extension to the current leasing arrangement; (2) return the properties to the lessor; or (3) purchase the properties for $65.2 million, the total amount funded under the lease facilities. If the properties were returned to the lessor, the lessor would sell the properties and the Company would be obligated to pay the lessor for any shortfall between the sales proceeds and the amount funded under the lease facilities up to 73 percent of fair market value of the properties at the commencement of the lease pursuant to a residual value guarantee. In March 2010, the Company elected the third option noted above and will purchase the properties for $65.2 million on or before July 24, 2010. The Company s $22.0 million investment in the lease facilities will be returned to the Company upon purchase, resulting in a net cash payment of $43.2 million.

In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s current estimate of this shortfall is $15.8 million, which will be expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $5.1 million in the first quarter of 2010 related to this shortfall. The remaining $5.2 million will be recorded over the remainder of the lease term, which expires July 24, 2010.

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 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. As of March 31, 2010 and December 31, 2009, the Company had accrued self-insured claims of $134.1 million and $131.3 million, respectively. During the three months ended March 31, 2010 and 2009, the Company recorded provisions for uninsured claims totaling $9.9 million and $9.2 million, respectively, and the Company paid claims totaling $7.1 million and $12.2 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 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 home service contract 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.

As part of the American Residential Services and American Mechanical Services sale agreements in 2006, the Company continues to be obligated to third parties with respect to operating leases for which the Company has been released as being the primary obligor, as well as certain real estate leased and operated by the buyers. The Company s obligations under these agreements may be limited in terms of time and or amount, and in some cases, the Company may have recourse against the buyers for potential future payments made by the Company. At the present time, the Company does not believe it is probable that the buyers will default on their obligations subject to guarantee. The fair value of the Company s obligations related to these guarantees is not significant and no liability has been recorded.

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, on an individual, collective and class action basis, regulatory, insured and uninsured employment, general, and commercial liability actions and environmental proceedings. Additionally, the Company has entered into settlement agreements in certain cases, including putative class actions, which are subject to court approval. If one or more of these settlements are not finally approved, the Company could have additional or different exposure. At this time, the Company does not expect any of these proceedings to have a material effect on its financial position, results of operations or cash flows; however, the Company can give no assurance that the results of any such proceedings may not be material to its financial position, results of operations and cash flows for any period in which costs, if any, are recognized.

Note 5. Goodwill and Intangible Assets

In accordance with applicable accounting standards, 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

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potential impairment. The Company s annual assessment date is October 1. There was no impairment recorded in the three months ended March 31, 2010.

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

(In thousands)	TruGreen LawnCare	TruGreen LandCare	Terminix	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters	Total
Balance at Dec. 31, 2009	$ 1,178,436	$ 43,901	$ 1,361,698	$ 348,010	$ 135,713	$ 51,996	$ 3,119,754
Acquisitions	1,124		6,280				7,404
Other(1)	(151)	(456)	(163)	(62)	156	(38)	(714)
Balance at Mar. 31, 2010	$ 1,179,409	$ 43,445	$ 1,367,815	$ 347,948	$ 135,869	$ 51,958	$ 3,126,444

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

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

	As of March 31, 2010			As of December 31, 2009		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names(1)	$ 2,380,100	$	$ 2,380,100	$ 2,380,100	$	$ 2,380,100
Customer relationships	672,231	(388,807)	283,424	669,581	(352,605)	316,976
Franchise agreements	88,000	(28,632)	59,368	88,000	(26,418)	61,582
Other	49,630	(23,077)	26,553	49,630	(21,051)	28,579
Total	$ 3,189,961	$ (440,516)	$ 2,749,445	$ 3,187,311	$ (400,074)	$ 2,787,237

(1) Not subject to amortization.

Note 6. Stock-Based Compensation

For the three months ended March 31, 2010 and 2009, the Company recognized stock-based compensation expense of $2.2 million ($1.3 million, net of tax) and $1.9 million ($1.1 million, net of tax), respectively. As of March 31, 2010, there was $17.0 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 2.1 years.

Note 7. Supplemental Cash Flow Information

Supplemental information relating to the condensed consolidated statement of cash flows for the three months ended March 31, 2010 and 2009 is presented in the following table:

	Three months ended March 31,	
(In thousands)	**2010**	**2009**
Cash paid for or (received from):		
Interest expense	$ 103,005	$ 127,710
Interest and dividend income	(1,327)	(2,368)
Income taxes, net of refunds	3,856	(864)

Note 8. Comprehensive Income

Total comprehensive (loss) income was ($31.8) million and $0.1 million for the three months ended March 31, 2010 and 2009, respectively. Total comprehensive (loss) income primarily includes net income (loss), unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translation.

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Note 9. Receivable Sales

The Company has entered into an accounts receivable securitization arrangement under which TruGreen LawnCare and Terminix 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 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 businesses and could, at times, limit the amount available to the Company from the sale of these interests.

During the three months ended March 31, 2010, there were no transfers of interests in the pool of trade accounts receivables to Purchasers under this arrangement. As of March 31, 2010 and December 31, 2009, the Company had $10.0 million outstanding under the arrangement and, as of March 31, 2010, had approximately $31.8 million of eligible receivables and $21.8 million of remaining capacity available under the trade accounts receivable securitization arrangement.

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 under this agreement may be reduced or eliminated. As part of the annual renewal of the facility, which last occurred on July 21, 2009, this Purchaser agreed to continue its participation in the arrangement at least through July 20, 2010.

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 (0.23% at March 31, 2010). 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 when purchased, are included in the condensed consolidated statement of financial position caption Cash and cash equivalents . As of March 31, 2010 and December 31, 2009, the Company s investments consist primarily of domestic publicly traded debt and certificates of deposit totaling $96.6 million and $93.9 million, respectively, and common equity securities of $40.0 million and $38.3 million, respectively.

The aggregate market value of the Company s short-term and long-term investments in debt and equity securities was $136.6 million and $132.2 million, and the aggregate cost basis was $129.7 million and $126.7 million at March 31, 2010 and December 31, 2009, 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 the issuer competes. The Company recorded gross realized gains resulting from sales of available-for-sale securities of $0.5 million ($0.3 million, net of tax) and $0.6 million ($0.4 million, net of tax) for the three months ended March 31, 2010 and 2009, respectively. The Company recorded gross realized losses resulting from sales of available-for-sale securities of $1.2 million ($0.8 million, net of tax) for the three months ended March 31, 2009. The Company recorded impairment charges of $5.4 million ($3.4 million, net of tax) for the three months ended March 31, 2009 due to other than temporary declines in the value of certain investments. The Company had no such realized losses or impairments for the three months ended March 31, 2010. Unrealized gains in the investment portfolio were $8.8 million and $7.7 million as of March 31, 2010 and December 31, 2009, respectively. Unrealized losses were $1.9 million and $2.2 million as of March 31, 2010 and December 31, 2009, respectively. The portion of unrealized losses which had been in a loss position for more than one year at March 31, 2010 and December 31, 2009 was approximately $0.6 million and $0.7 million, respectively. The aggregate fair value of the investments with unrealized losses totaled $19.2 million and $26.8 million at March 31, 2010 and December 31, 2009, respectively.

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Note 11. Long-Term Debt

Long-term debt at March 31, 2010 and December 31, 2009 is summarized in the following table:

(In thousands)		As of March 31, 2010		As of December 31, 2009
Senior secured term loan facility maturing in 2014	$	2,577,125	$	2,583,750
10.75% /11.50% senior toggle notes maturing in 2015		1,061,000		1,061,000
Revolving credit facility maturing in 2013				
7.10% notes maturing in 2018(1)		64,105		63,624
7.45% notes maturing in 2027(1)		148,553		147,885
7.25% notes maturing in 2038(1)		60,026		59,824
Other		65,969		58,861
Less current portion		(63,098)		(64,395)
Total long-term debt	$	3,913,680	$	3,910,549

(1) The increase in the balance from December 31, 2009 to March 31, 2010 reflects the amortization of fair value adjustments related to purchase accounting, which effectively increases the stated coupon interest rates.

The Company had $35.2 million and $70.2 million of accrued interest at March 31, 2010 and December 31, 2009, respectively. Accrued interest is included in Accrued Liabilities Other on the condensed consolidated statements of financial position.

Note 12. Discontinued Operations

Reported loss from discontinued operations, net of income taxes for all periods presented includes the operating results of the sold businesses noted in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The operating results and financial position of discontinued operations are as follows:

	Three months ended March 31,			
(In thousands)		2010		2009
Operating Results:				
Operating revenue	$		$	
Operating loss		(618)		(264)
Interest expense				
Loss from discontinued operations, before income taxes		(618)		(264)
Benefit from income taxes		(241)		(101)
Loss from discontinued operations, net of income taxes	$	(377)	$	(163)

(In thousands)	As of March 31, 2010	As of December 31, 2009
Financial Position:		
Current assets	$ 22	$ 42
Total assets	$ 22	$ 42
Current liabilities	$ 2,853	$ 2,806
Long-term liabilities	4,101	4,145
Total liabilities	$ 6,954	$ 6,951

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The table below summarizes the activity for the three months ended March 31, 2010 for the remaining liabilities from operations that were disposed of in years prior to 2010. 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)	As of December 31, 2009	Cash Payments or Other	(Income)/ Expense	As of March 31, 2010
Remaining liabilities of discontinued operations:				
ARS/AMS	$ 2,921	$ (633)	$ 608	$ 2,896
LandCare Construction	722	(24)	(8)	690
LandCare utility line clearing business	911	(43)		868
Certified Systems, Inc. and other	2,149	108		2,257
InStar	248	(23)	18	243
Total liabilities of discontinued operations	$ 6,951	$ (615)	$ 618	$ 6,954

Note 13. Income Taxes

At March 31, 2010 and December 31, 2009, the Company had $15.4 million of tax benefits primarily reflected in state tax returns that had 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 $6.1 million during the next 12 months.

Note 14. Business Segment Reporting

The business of the Company is conducted through six reportable segments: TruGreen LawnCare, TruGreen LandCare, Terminix, 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 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 service contracts to consumers that cover heating, ventilation, air conditioning, plumbing and other home systems and appliances. The ServiceMaster Clean segment provides residential and commercial disaster restoration and cleaning services primarily under the ServiceMaster and ServiceMaster Clean brand names, on-site 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 provides house cleaning services. The Other Operations and Headquarters segment also includes The ServiceMaster Acceptance Company Limited Partnership (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.

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Segment information for continuing operations is presented below.

(In thousands)	Three months ended March 31, 2010	2009
Operating Revenue:		
TruGreen LawnCare	$ 124,082	$ 134,666
TruGreen LandCare	58,800	66,885
Terminix	270,917	263,161
American Home Shield	133,205	130,868
ServiceMaster Clean	32,262	30,156
Other Operations and Headquarters	20,142	20,191
Total Operating Revenue	$ 639,408	$ 645,927
Operating (Loss) Income:(1),(2)		
TruGreen LawnCare	$ (40,566)	$ (19,387)
TruGreen LandCare	1,284	5,696
Terminix	49,901	46,491
American Home Shield	4,920	5,454
ServiceMaster Clean	12,118	11,504
Other Operations and Headquarters	(19,010)	(21,080)
Total Operating Income	$ 8,647	$ 28,678

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

(In thousands)	Three months ended March 31, 2010	2009
Total Segment Operating Income	$ 8,647	$ 28,678
Non-operating expense (income):		
Interest expense	72,681	76,666
Interest and net investment (income) loss	(2,502)	4,761
Gain on extinguishment of debt		(46,106)
Other expense	171	200
Loss from Continuing Operations before Income Taxes	$ (61,703)	$ (6,843)

(2) Includes (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare, a branch optimization project at Terminix and information technology outsourcing at Other Operations and Headquarters and (ii) Merger related charges. Presented below is a summary of restructuring and Merger related charges by segment.

(In thousands)	Three months ended March 31, 2010	2009
Restructuring and Merger related charges		
TruGreen LawnCare	$ 3,023	$
TruGreen LandCare	571	(30)
Terminix	46	3,219
American Home Shield	(127)	39

ServiceMaster Clean				
Other Operations and Headquarters		411		5,549
Total restructuring and Merger related charges	$	3,924	$	8,777

Note 15. Related Party Transactions

In connection with the Merger and the related transactions, the Company entered into a consulting agreement with CD&R, which was subsequently amended, under which CD&R provided the Company with on-going consulting and management advisory services in exchange for an annual management fee of $2.0 million, which was payable quarterly. On July 30, 2009, the annual management fee payable under the consulting agreement with CD&R was increased from $2.0 million to $6.25 million in order to align our fee structure with current market rates. Under this agreement, the Company recorded a management fee of $1.6 million for

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the three months ended March 31, 2010 and $0.5 million for the three months ended March 31, 2009. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were paid to CD&R in the third quarter of 2009. The amended consulting agreement also provides that CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan, each of which is an Equity Sponsor or an affiliate of an Equity Sponsor. Under the consulting agreements, Citigroup, BAS and JPMorgan each will provide the Company with on-going consulting and management advisory services until June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company will pay annual management fees of $0.5 million, $0.5 million and $0.25 million to Citigroup, BAS and JPMorgan, respectively. The Company recorded consulting fees related to these agreements of $0.3 million for the three months ended March 31, 2010. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were paid to Citigroup, BAS and JPMorgan in the third quarter of 2009.

Between the Merger and March 31, 2010, Holdings has completed open market purchases totaling $65.0 million in face value of the 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. The Company recorded interest expense of $1.7 million for the three months ended March 31, 2010 and 2009 related to the Permanent Notes held by Holdings. The Company made cash payments to Holdings of $3.5 million and $3.0 million during the three months ended March 31, 2010 and 2009, respectively. Interest accrued by the Company and payable to Holdings as of March 31, 2010 and December 31, 2009 amounted to $1.5 million and $3.2 million, respectively.

Note 16. Newly Issued Accounting Statements and Positions

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements , which amends the multiple-element arrangement guidance under ASC 605, Revenue Recognition . This standard amends the criteria for separating consideration received for products or services in multiple-deliverable arrangements. This standard establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation, and requires that total arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this standard significantly expands required disclosures related to a vendor s multiple-deliverable revenue arrangements. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (calendar year 2011). The Company is currently evaluating the effect of this standard on its condensed consolidated financial statements.

In December 2009, the FASB issued ASU 2009-17, Accounting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 formally incorporates into the FASB Codification amendments to FASB Interpretation No. 46(R) made by Statement of Financial Accounting Standards (SFAS) 167 to require that a comprehensive qualitative analysis be performed to determine whether a holder of variable interests in a variable interest entity also has a controlling financial interest in that entity. In addition, the amendments require that the same type of analysis be applied to entities that were previously designated as qualifying special-purpose entities. This standard applies prospectively for fiscal years beginning on or after November 15, 2009. The Company applied the provisions of this standard to these condensed consolidated financial statements and there was no material effect from that application.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements , which amends ASC 820 to add new requirements for disclosures about transfers into and out of Level 1 and 2 measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The ASU also clarifies existing fair value disclosure requirements about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, the ASU amends guidance on employers disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. This standard is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company applied the required provisions of this standard to these condensed consolidated financial statements (see Note 17).

Note 17. Fair Value of Financial Instruments

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 receivables 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 current

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and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net-of-tax as a component of accumulated comprehensive income (loss), or, for certain unrealized losses, reported in interest and net investment income in the condensed consolidated statement of operations if the decline in value is other than temporary. The carrying amount of total debt was $3,976.8 million and $3,974.9 million and the estimated fair value was $3,978.9 million and $3,716.5 million at March 31, 2010 and December 31, 2009, respectively. 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, 2010 and December 31, 2009.

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.

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 the 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 carrying amount and estimated fair value of the Company s financial instruments that are recorded at fair value for the periods presented are as follows:

		As of March 31, 2010				As of December 31, 2009	
			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	$ 10,750	$ 10,750	$	$	$ 9,985	$ 9,985
Investments in marketable securities	Marketable securities and Long-term marketable securities	125,869	47,245	78,624		122,201	122,201
Fuel swap contracts:							
Current		8,821			8,821	7,840	7,840

	Prepaid expenses and other assets						
Noncurrent	Other assets	203			203		
Total financial assets		$ 145,643	$ 57,995	$ 78,624	$ 9,024	$ 140,026	$ 140,026
Financial Liabilities:							
Fuel swap contracts:							
Current	Other accrued liabilities	$ 530	$	$	$ 530	$ 924	$ 924
Interest rate swap contracts	Other long-term obligations	56,944		56,944		54,120	54,120
Total financial liabilities		$ 57,474	$	$ 56,944	$ 530	$ 55,044	$ 55,044

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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, 2009	$	6,916
Total gains (losses) (realized and unrealized)		
Included in earnings(1)		856
Included in other comprehensive income		1,578
Settlements, net		(856)
Balance at March 31, 2010	$	8,494

(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 income		3,678
Settlements, net		6,577
Balance at March 31, 2009	$	(21,246)

(1) Gains (losses) included in earnings are reported in cost of services rendered and products sold.

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.

The Company has historically hedged a significant portion of its annual fuel consumption of approximately 25 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. Substantially 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 statement 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 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 statement of cash flows.

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The effect of derivative instruments on the condensed consolidated statement of operations and other comprehensive income for the three months ended March 31, 2010 and 2009, respectively, is presented as follows:

(In thousands) Derivatives designated as Cash Flow Hedge Relationships	**Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)**	**Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income**	**Location of Gain (Loss) included in Income**
	Three months ended March 31, 2010		
Fuel swap contracts	$ 1,578	$ 856	Cost of services rendered and products sold
Interest rate swap contracts	$ (2,824)	$ (13,660)	Interest expense

Derivatives designated as Cash Flow Hedge Relationships	**Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)**	**Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income**	**Location of Gain (Loss) included in Income**
	Three months ended March 31, 2009		
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 accordance with accounting standards as cash flow hedge relationships were insignificant during the three months ended March 31, 2010. As of March 31, 2010, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $48.8 million, maturing through 2011. Under the terms of its fuel swap contracts, the Company is required to post collateral in certain circumstances, including in the event that the fair value of the contracts exceeds a certain agreed upon liability level. As of March 31, 2010, the Company had posted $2.5 million in letters of credit as collateral for these contracts, none of which were issued under the Company s Revolving Credit FacilityAs of March 31, 2010, the Company had interest rate swap contracts to pay fixed rates for interest on long-term debt with an aggregate notional amount of $1.43 billion, maturing through 2012.

The effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments is recorded in 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 swaps. 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 $21.3 million, net of tax, at March 31, 2010. 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.

Note 18. 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 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).

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended March 31, 2010 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 496,945	$ 159,088	$ (16,625)	$ 639,408
Operating Costs and Expenses:					
Cost of services rendered and products sold		346,818	72,327	(16,625)	402,520
Selling and administrative expenses	2,263	104,902	76,710		