SERVICEMASTER CO, LLC
Form 10-Q
May 02, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from to

Commission file number 1-14762

THE SERVICEMASTER COMPANY, LLC

(Exact name of registrant as specified in its charter)

Delaware	**90-1036521**
(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 x 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.

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 Exchange Act). Yes o No x

The registrant is a privately held limited liability company and its membership interests are not publicly traded. At May 2, 2014, all of the registrant s membership interests were owned by CDRSVM Holding, LLC.

The ServiceMaster Company, LLC 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, LLC

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(In millions)

	Three months ended March 31, 2014		Three months ended March 31, 2013	
Operating Revenue	$	533	$	514
Cost of services rendered and products sold		288		270
Selling and administrative expenses		151		158
Amortization expense		13		13
Impairment of software and other related costs		48		
Restructuring charges		5		3
Interest expense		61		60
Interest and net investment income		(6)		(2)
(Loss) Income from Continuing Operations before Income Taxes		(27)		12
(Benefit) Provision for income taxes		(9)		6
(Loss) Income from Continuing Operations		(18)		6
Loss from discontinued operations, net of income taxes		(95)		(29)
Net Loss	$	(113)	$	(23)
Total Comprehensive Loss	$	(116)	$	(20)

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THE SERVICEMASTER COMPANY, LLC

Condensed Consolidated Statements of Financial Position (Unaudited)

(In millions)

	As of March 31, 2014	As of December 31, 2013
Assets:		
Current Assets:		
Cash and cash equivalents	$ 421	$ 476
Marketable securities	23	27
Receivables, less allowances of $25 and $26, respectively	393	394
Inventories	38	39
Prepaid expenses and other assets	57	56
Deferred customer acquisition costs	28	30
Deferred taxes	107	107
Assets of discontinued operations		76
Total Current Assets	1,067	1,205
Property and Equipment:		
At cost	345	381
Less: accumulated depreciation	(211)	(204)
Net Property and Equipment	134	177
Other Assets:		
Goodwill	2,055	2,018
Intangible assets, primarily trade names, service marks and trademarks, net	1,729	1,721
Notes receivable	37	37
Long-term marketable securities	90	122
Other assets	51	49
Debt issuance costs	38	41
Assets of discontinued operations		542
Total Assets	$ 5,201	$ 5,912
Liabilities and Shareholder s (Deficit) Equity:		
Current Liabilities:		
Accounts payable	$ 92	$ 92
Accrued liabilities:		
Payroll and related expenses	54	70
Self-insured claims and related expenses	86	78
Accrued interest payable	16	51
Other	55	55
Deferred revenue	487	448
Liabilities of discontinued operations	7	139
Current portion of long-term debt	41	39
Total Current Liabilities	838	972
Long-Term Debt	3,863	3,867
Other Long-Term Liabilities:		
Deferred taxes	696	690
Liabilities of discontinued operations		162

Other long-term obligations, primarily self-insured claims		146		169
Total Other Long-Term Liabilities		842		1,021
Commitments and Contingencies (See Note 4)				
Shareholder s (Deficit) Equity:				
Membership Interest				
Additional paid-in capital		1,477		1,475
Retained deficit		(1,821)		(1,430)
Accumulated other comprehensive income		2		7
Total Shareholder s (Deficit) Equity		(342)		52
Total Liabilities and Shareholder s (Deficit) Equity	$	5,201	$	5,912

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THE SERVICEMASTER COMPANY, LLC

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Three months ended March 31, 2014	2013
Cash and Cash Equivalents at Beginning of Period	$ 476	$ 412
Cash Flows from Operating Activities from Continuing Operations:		
Net Loss	(113)	(23)
Adjustments to reconcile net loss to net cash provided from operating activities:		
Loss from discontinued operations, net of income taxes	95	29
Depreciation expense	12	12
Amortization expense	13	13
Amortization of debt issuance costs	2	2
Impairment of software and other related costs	48	
Deferred income tax provision	(6)	8
Stock-based compensation expense	1	1
Restructuring charges	5	3
Cash payments related to restructuring charges	(3)	(4)
Change in working capital, net of acquisitions:		
Current income taxes	(5)	(4)
Receivables	13	15
Inventories and other current assets		(16)
Accounts payable	6	14
Deferred revenue	17	10
Accrued liabilities	(57)	(37)
Other, net	(7)	
Net Cash Provided from Operating Activities from Continuing Operations	21	23
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(14)	(9)
Other business acquisitions, net of cash acquired	(41)	(3)
Notes receivable, financial investments and securities, net	38	(4)
Net Cash Used for Investing Activities from Continuing Operations	(17)	(16)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt		1
Payments of debt	(11)	(11)
Discount paid on issuance of debt		(12)
Debt issuance costs paid		(5)
Contribution to TruGreen Holding Corporation	(35)	
Net Cash Used for Financing Activities from Continuing Operations	(46)	(27)
Cash Flows from Discontinued Operations:		
Cash used for operating activities	(8)	(34)
Cash used for investing activities	(2)	(10)
Cash used for financing activities	(3)	(2)
Net Cash Used for Discontinued Operations	(13)	(46)
Cash Decrease During the Period	(55)	(66)

Cash and Cash Equivalents at End of Period	$	421	$	346

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THE SERVICEMASTER COMPANY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The ServiceMaster Company, LLC (ServiceMaster, the Company, we, us or our) is a leading provider of essential residential and commercia services. ServiceMaster s services include termite and pest control, home warranties, disaster restoration, janitorial, residential cleaning, furniture repair and home inspection. ServiceMaster provides these services through an extensive service network of company-owned, franchised and licensed locations operating primarily under the following leading brands: Terminix, American Home Shield, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec.

The condensed consolidated financial statements include the accounts of ServiceMaster and its majority-owned subsidiary partnerships, limited liability companies and corporations. All consolidated ServiceMaster subsidiaries are wholly owned. ServiceMaster is organized into four principal reportable segments: Terminix, American Home Shield, Franchise Services Group and Other Operations and Headquarters. During the first quarter of 2014, the Company changed the composition of its reportable segments. See Note 14 for further details. Intercompany transactions and balances have been eliminated.

The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The Company recommends that the quarterly condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC (the 2013 Form 10-K). The condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not indicative of the results that might be achieved for a full year.

On July 24, 2007 (the 2007 Closing Date), ServiceMaster was acquired pursuant to a merger transaction (the 2007 Merger), and, immediately following the completion of the 2007 Merger, all of the outstanding common stock of ServiceMaster Global Holdings, Inc. (Holdings), the ultimate parent company of ServiceMaster, was owned by investment funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC (CD&R), Citigroup Private Equity LP (Citigroup), BAS Capital Funding Corporation (BAS) and JPMorgan Chase Funding Inc. (JPMorgan). C September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that owned shares of common stock of Holdings to StepStone Group LP (StepStone , and the investment funds managed by StepStone Group, the StepStone Funds). As of December 22, 2011, Holdings purchased from BAS 7.5 million shares of its common stock. On March 30, 2012, an affiliate of BAS sold 7.5 million shares of Holdings common stock to Ridgemont Partners Secondary Fund I, L.P, (Ridgemont). On July 24, 2012, BACSVM-A L.P., an affiliate of BAS, distributed 2.5 million shares of Holdings common stock to Charlotte Investor IV, L.P., its sole limited partner.

On January 14, 2014, the Company completed a separation transaction (the TruGreen Spin-off) resulting in the spin-off of the assets and certain liabilities of the business that comprises the lawn, tree and shrub care services previously conducted by the Company primarily under the TruGreen brand name (collectively, the TruGreen Business) through a tax-free, pro rata dividend to Holdings stockholders. As a result of the completion of the TruGreen Spin-off, TruGreen Holding Corporation (New TruGreen) operates the TruGreen Business as a private independent company. The historical results of the TruGreen Business, including the results of operations, cash flows and related assets and liabilities, are reported as discontinued operations for all periods presented herein.

Pursuant to an agreement and plan of merger entered into by ServiceMaster in connection with the TruGreen Spin-off, on January 14, 2014, the company formerly known as The ServiceMaster Company (Old ServiceMaster) was merged with and into ServiceMaster, with ServiceMaster continuing as the surviving entity in such merger. Pursuant to the terms of the merger agreement, all of the capital stock of Old ServiceMaster issued and outstanding immediately prior to the effective time of the merger was cancelled, and the sole stockholder of Old ServiceMaster immediately prior to the effective time of the merger (CDRSVM Holding, Inc., now known as CDRSVM Holding, LLC) was admitted as the sole member of ServiceMaster.

Note 2. Significant Accounting Policies

The Company s significant accounting policies are included in the 2013 Form 10-K. The following selected accounting policies should be read in conjunction with the 2013 Form 10-K.

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Revenue. Revenues from pest control services, as well as liquid and fumigation termite applications, are recognized as the services are provided. The Company eradicates termites through the use of non-baiting methods (e.g., fumigation or liquid treatments) and baiting systems. Termite services using baiting systems and termite inspection and protection contracts are frequently sold through annual contracts. Service costs for these 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 contracts and termite inspection and protection contracts and adjusts the estimates when appropriate.

Home warranty contracts are typically one year in duration. Home warranty claims costs 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 claims costs and adjusts the estimates when appropriate.

The Company has franchise agreements in its Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. Franchise revenue (which in the aggregate represents approximately six percent of annual consolidated operating revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee s customer-level revenue. Monthly fee revenue is recognized when the related customer-level revenue generating activity is performed by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise or a license. These initial franchise or license fees are pre-established fixed amounts and are recognized as revenue when collectability is reasonably assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations were $17 million and $18 million for the three months ended March 31, 2014 and 2013, 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 $487 million and $448 million of deferred revenue as of March 31, 2014 and December 31, 2013, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection and pest control services.

Deferred Customer Acquisition Costs. Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to $28 million and $30 million as of March 31, 2014 and December 31, 2013, respectively.

Advertising. On an interim basis, certain advertising costs are deferred and recognized approximately in proportion to the revenue over the year and are not deferred beyond the calendar year-end. Certain other advertising costs are expensed when the advertising occurs. The cost of direct-response advertising at Terminix, consisting primarily of direct-mail promotions, is capitalized and amortized over its expected period of future benefits. Deferred advertising costs are included in Prepaid expenses and other assets on our condensed consolidated statements of financial position.

Property and Equipment and Intangible Assets. Fixed assets and intangible assets with finite lives are depreciated and amortized on a straight-line basis over their estimated useful lives. These lives are based on the Company s previous experience for similar assets, potential market obsolescence and other industry and business data. As required by accounting standards for the impairment or disposal of long-lived assets, the Company s long-lived assets, including fixed assets and intangible assets (other than goodwill), are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, an impairment loss would be recognized equal to the difference between the carrying amount and the fair value of the asset. Changes in the estimated useful lives or in the asset values could cause the Company to adjust its book value or future expense accordingly.

The Company recorded an impairment charge of $48 million ($29 million, net of tax) in the first quarter of 2014 relating to its decision to abandon its efforts to deploy a new operating system at American Home Shield. Included in this charge are the impairment of the capitalized software of $45 million and the recognition of the remaining liabilities associated with the termination of lease, maintenance and hosting agreements totaling $3 million. This impairment represented an adjustment of the carrying value of the asset to its estimated fair value of zero on a non-recurring basis.

Use of Estimates. 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 2013 Form 10-K presented the significant areas requiring the use of management estimates and discussed how management formed its judgments. The areas discussed include 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

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home warranties and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets.

Newly Issued Accounting Statements and Positions

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists to eliminate the diversity in practice associated with the presentation of unrecognized tax benefits in instances where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 generally requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a material impact on the Company s condensed consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity to change the criteria for reporting discontinued operations and enhance the convergence of the FASB s and the International Standard Board s reporting requirements for discontinued operations. The changes in ASU 2014-08 amend the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity s operations and financial results. ASU 2014-08 requires expanded disclosures for discontinued operations and also requires an entity to disclose the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. The amendments in ASU 2014-08 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The Company anticipates the adoption of this standard will not have a material impact on the Company s condensed consolidated financial statements.

Note 3. Restructuring Charges

The Company incurred restructuring charges of $5 million ($3 million, net of tax) and $3 million ($2 million, net of tax) for the three months ended March 31, 2014 and 2013, respectively. Restructuring charges were comprised of the following:

	Three months ended March 31,	
(In millions)	**2014**	**2013**
Terminix branch optimization(1)	$ 1	$ 1
Centers of excellence initiative(2)	4	2
Total restructuring charges	$ 5	$ 3

(1) For the three months ended March 31, 2014, these charges included severance costs. For the three months ended March 31, 2013, these charges included lease termination costs.

(2) Represents restructuring charges related to an initiative to enhance capabilities and reduce costs in the Company s headquarters functions that provide Company-wide administrative services for our operations that we refer to as centers of excellence. For the three months ended March 31, 2014, these charges included professional fees of $1 million and severance and other costs of $3 million. For the three months ended March 31, 2013, these charges included professional fees of $1 million and severance and other costs of $1 million. During the remainder of 2014, the Company will continue to assess the mix and cost of its Company-wide administrative services in light of the TruGreen Spin-off. The Company does not expect additional charges related to this initiative to be significant.

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

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

(In millions)		Accrued Restructuring Charges
Balance as of December 31, 2013	$	1
Costs incurred		5
Costs paid or otherwise settled		(3)
Balance as of March 31, 2014	$	3

Note 4. Commitments and Contingencies

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. 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.

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

(In millions)		Accrued Self-insured Claims, Net
Balance as of December 31, 2013	$	101
Provision for self-insured claims		19
Cash payments		(17)
Balance as of March 31, 2014	$	103

(In millions)		Accrued Self-insured Claims, Net
Balance as of December 31, 2012	$	103
Provision for self-insured claims		11
Cash payments		(11)
Balance as of March 31, 2013	$	103

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

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

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of any such proceedings will not materially affect its reputation, business, financial position, results of operations and cash flows.

Note 5. Goodwill and Intangible Assets

Goodwill and intangible assets that are not amortized are subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company s annual assessment date is October 1. There were no goodwill or trade name impairment charges recorded in continuing operations in the three months ended March 31, 2014 and 2013.

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

(In millions)	Terminix	American Home Shield	Franchise Services Group	Total
Balance as of December 31, 2013	$ 1,480	$ 347	$ 191	$ 2,018
Acquisitions	6	31		37
Balance as of March 31, 2014	$ 1,486	$ 378	$ 191	$ 2,055

There were no accumulated impairment losses recorded in continuing operations as of March 31, 2014.

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

	Estimated Remaining Useful Lives	As of March 31, 2014			As of December 31, 2013		
(In millions)	(Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names(1)	N/A	$ 1,608	$	$ 1,608	$ 1,608	$	$ 1,608
Customer relationships	3 10	530	(457)	73	512	(447)	65
Franchise agreements	20 25	88	(55)	33	88	(54)	34
Other	4 30	44	(29)	15	41	(27)	14
Total		$ 2,270	$ (541)	$ 1,729	$ 2,249	$ (528)	$ 1,721

(1) Not subject to amortization.

In the three months ended March 31, 2014, the TruGreen Business recorded an impairment change of $139 million ($84 million, net of tax) in discontinued operations, net of income taxes.

Note 6. Stock-Based Compensation

For the three months ended March 31, 2014 and 2013, the Company recognized stock-based compensation expense of $1 million ($1 million, net of tax) and $1 million ($1 million, net of tax), respectively. As of March 31, 2014, there was $20 million of total unrecognized compensation costs related to non-vested stock options and restricted share units granted by Holdings under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan. These remaining costs are expected to be recognized over a weighted-average period of 3.14 years.

Note 7. Comprehensive Income (Loss)

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

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

(In millions)	Unrealized Gains on Derivatives	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2013	$ 1	$ 7	$ (1)	$ 7
Other comprehensive income (loss) before reclassifications:				
Pre-tax amount		1	(1)	
Tax provision (benefit)				
After tax amount		1	(1)	
Amounts reclassified from accumulated other comprehensive income (loss) (1)		(3)		(3)
Spin-off of the TruGreen Business			(2)	(2)
Net current period other comprehensive loss		(2)	(3)	(5)
Balance as of March 31, 2014	$ 1	$ 5	$ (4)	$ 2

(In millions)	Unrealized Losses on Derivatives	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2012	$ (2)	$ 6	$ 3	$ 7
Other comprehensive income (loss) before reclassifications:				
Pre-tax amount	1	4	(1)	4
Tax provision (benefit)		2		2
After tax amount	1	2	(1)	2
Amounts reclassified from accumulated other comprehensive income (loss)(1)	1			1
Net current period other comprehensive income (loss)	2	2	(1)	3
Balance as of March 31, 2013	$	$ 8	$ 2	$ 10

(1) Amounts are net of tax. See reclassifications out of accumulated other comprehensive income below for further details.

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

(In millions)	Amount Reclassified from Accumulated Other Comprehensive Income As of March 31, 2014	2013	Condensed Consolidated Statements of Operations and Comprehensive Loss Location
Losses on derivatives:			
Fuel swap contracts	$	$	Cost of services rendered and products sold
Interest rate swap contracts		2	Interest expense
Net losses on derivatives		2	

Impact of income taxes				1	(Benefit) Provision for income taxes
Total reclassifications related to derivatives	$		$	1	
Gains on available-for-sale securities	$	(4)	$		Interest and net investment income
Impact of income taxes		1			(Benefit) Provision for income taxes
Total reclassifications related to securities	$	(3)	$		
Total reclassifications for the period	$	(3)	$	1	

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Note 8. Supplemental Cash Flow Information

Supplemental information relating to the condensed consolidated statements of cash flows is presented in the following table:

(In millions)	Three months ended March 31, 2014	2013
Cash paid for or (received from):		
Interest expense	$ 92	$ 89
Interest and dividend income	(1)	(1)
Income taxes, net of refunds	2	2

The Company acquired $2 million and $6 million of property and equipment through capital leases and other non-cash financing transactions in the three months ended March 31, 2014 and 2013, respectively, which have been excluded from the condensed consolidated statements of cash flows as non-cash investing and financing activities.

Note 9. Cash and Marketable Securities

Cash, money market funds and certificates of deposits with maturities of three months or less when purchased are included in Cash and cash equivalents on the condensed consolidated statements of financial position. As of March 31, 2014 and December 31, 2013, the Company s investments consisted primarily of domestic publicly traded debt and certificates of deposit (Debt securities) and common equity securities (Equity securities). The amortized cost, fair value and gross unrealized gains and losses of the Company s short- and long-term investments in Debt and Equity securities as of March 31, 2014 and December 31, 2013 were as follows:

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, March 31, 2014:				
Debt securities	$ 71	$ 1	$	$ 72
Equity securities	34	7		41
Total securities	$ 105	$ 8	$	$ 113

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, December 31, 2013:				
Debt securities	$ 97	$ 3	$ (1)	$ 99
Equity securities	41	9		50
Total securities	$ 138	$ 12	$ (1)	$ 149

There were no unrealized losses which had been in a loss position for more than one year as of March 31, 2014 and December 31, 2013. The aggregate fair value of the investments with unrealized losses was $18 million and $30 million as of March 31, 2014 and December 31, 2013, 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 table below summarizes proceeds and gross realized gains resulting from sales of available-for-sale securities. There were no gross realized losses or impairment charges due to other than temporary declines in the value of certain investments for the three months ended March 31, 2014 and 2013.

	Three months ended March 31,	
(In millions)	**2014**	**2013**
Proceeds from sale of securities	$ 42	$ 4
Gross realized gains, pre-tax	5	1
Gross realized gains, net of tax	3	

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Note 10. Long-Term Debt

Long-term debt as of March 31, 2014 and December 31, 2013 is summarized in the following table:

(In millions)		As of March 31, 2014		As of December 31, 2013
Senior secured term loan facility maturing in 2017 (Tranche B)	$	988	$	991
Senior secured term loan facility maturing in 2017 (Tranche C)(1)		1,196		1,198
7.00% senior notes maturing in 2020		750		750
8.00% senior notes maturing in 2020(2)		602		602
Revolving credit facility maturing in 2017				
7.10% notes maturing in 2018(3)		72		71
7.45% notes maturing in 2027		159		159
7.25% notes maturing in 2038		63		63
Vehicle capital leases(4)		32		32
Other		42		40
Less current portion		(41)		(39)
Total long-term debt	$	3,863	$	3,867

(1) As of March 31, 2014 and December 31, 2013, presented net of $9 million and $10 million, respectively, in unamortized original issue discount paid as part of the 2013 amendment (the 2013 Term Loan Facility Amendment).

(2) As of March 31, 2014 and December 31, 2013, includes $2 million in unamortized premium received on the sale of $100.0 million aggregate principal amount of such notes.

(3) The increase in the balance from December 31, 2013 to March 31, 2014 reflects the amortization of fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.

(4) The Company has entered into a fleet management services agreement (the Fleet Agreement) which, among other things, allows the Company to obtain fleet vehicles through a leasing program. All leases under the Fleet Agreement are capital leases for accounting purposes. The lease rental payments include an interest component calculated using a variable rate based on one-month LIBOR plus other contractual adjustments and a borrowing margin totaling 2.45 percent as of March 31, 2014.

Note 11. Acquisitions

Acquisitions have been accounted for using the acquisition method and, accordingly, the results of operations of the acquired businesses have been included in the Company s condensed consolidated financial statements since their dates of acquisition. The assets and liabilities of these businesses were recorded in the financial statements at their estimated fair values as of the acquisition dates.

On February 28, 2014, the Company acquired Home Security of America, Inc. (HSA), based in Madison, Wisconsin. The total net purchase price for this acquisition was $32 million. The Company recorded goodwill of $30 million and other intangibles of $17 million related to this acquisition. As of March 31, 2014, the purchase price allocation for this acquisition has not been finalized.

During the three months ended March 31, 2014, the Company completed several pest control and termite acquisitions. The total net purchase price for these acquisitions was $11 million. The Company recorded goodwill of $7 million and other intangibles of $4 million related to these acquisitions.

During the three months ended March 31, 2013, the Company completed several pest control and termite acquisitions. The total net purchase price for these acquisitions was $4 million. The Company recorded goodwill of $3 million and other intangibles of $1 million related to these acquisitions.

Supplemental cash flow information regarding the Company s acquisitions is as follows:

	Three months ended March 31,	
(In millions)	**2014**	**2013**
Purchase price (including liabilities assumed)	$ 71	$ 4
Less liabilities assumed	(28)	
Net purchase price	$ 43	$ 4
Net cash paid for acquisitions	$ 41	$ 3
Seller financed debt	2	1
Payment for acquisitions	$ 43	$ 4

Note 12. Discontinued Operations

TruGreen Spin-off

On January 14, 2014, the Company completed the TruGreen Spin-off resulting in the spin-off of the assets and certain liabilities of the TruGreen Business through a tax-free, pro rata dividend to Holdings stockholders. As a result of the completion of the TruGreen Spin-off, New TruGreen operates the TruGreen Business as a private independent company. The TruGreen Business experienced a significant downturn in recent years. Since 2011, the TruGreen Business lost 400,000 customers, or 19 percent of its customer base. The TruGreen Business s operating margins also eroded during this time-frame due to production inefficiencies, higher chemical costs and inflationary pressures, compounded by lower fixed cost leverage as falling customer counts drove revenue down. The TruGreen Business experienced operating revenue and Adjusted EBITDA declines of 18.6 percent and 87.6 percent, respectively, from 2011 to 2013. In light of these developments, the Company made the decision to effect the TruGreen Spin-off, which we expect will enable the Company s management to increase its focus on Terminix, American Home Shield and the Franchise Services Group segment while providing New TruGreen, as an independently operated, private company, the time and focus required to execute a turnaround.

As a result of the TruGreen Spin-off, we were required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions were developed with the view of the TruGreen Business as a stand-alone company, resulting in an increase in the assumed discount rate of 350 basis points (bps) as compared to the discount rate used in the October 1, 2013 impairment test for the TruGreen trade name. This interim impairment analysis resulted in a pre-tax non-cash trade name impairment charge of $139 million ($84 million, net of tax) to reduce the carrying value of the TruGreen trade name to its estimated fair value. This impairment charge was recorded in Loss from discontinued operations, net of income taxes, in the three months ended March 31, 2014. The impairment of the TruGreen trade name represented an adjustment of the carrying value of the asset to its estimated fair value on a non-recurring basis using significant unobservable inputs on the date of the TruGreen Spin-off.

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The following is a summary of the assets and liabilities distributed to New TruGreen as part of the TruGreen spin-off on January 14, 2014:

(In millions)		
Assets:		
Cash and cash equivalents	$	57
Receivables, net		22
Inventories and other current assets		40
Property and equipment, net		181
Intangible assets, net		216
Other long-term assets		6
Total Assets	$	522
Liabilities:		
Current liabilities	$	149
Long-term debt and other long-term liabilities		93
Total Liabilities	$	242
Net assets distributed to New TruGreen	$	280

The historical results of the TruGreen Business, including the results of operations, cash flows and related assets and liabilities, are reported as discontinued operations for all periods presented herein.

In connection with the TruGreen Spin-off, the Company and TruGreen Limited Partnership (TGLP), an indirect wholly owned subsidiary of New TruGreen, entered into a transition services agreement pursuant to which the Company and its subsidiaries provide TGLP with specified communications, public relations, finance and accounting, tax, treasury, internal audit, human resources operations and benefits, risk management and insurance, supply management, real estate management, marketing, facilities, information technology and other support services. The charges for the transition services allow the Company to fully recover the allocated direct costs of providing the services, plus specified margins and any out-of-pocket costs and expenses. The services provided under the transition services agreement will terminate at various specified times, and in no event later than January 14, 2016 (except certain information technology services, which the Company expects to provide to TGLP beyond the two-year period). TGLP may terminate the transition services agreement (or certain services under the transition services agreement) for convenience upon 90 days written notice, in which case TGLP will be required to reimburse the Company for early termination costs.

Under this transition services agreement, in the three months ended March 31, 2014, the Company recorded $10 million of fees due from TGLP, which is included, net of costs incurred, in Selling and administrative expenses in the consolidated statement of operations and comprehensive loss. As of March 31, 2014, all amounts owed by TGLP under this agreement have been paid.

During the three months ended March 31, 2014, the Company processed certain of TGLP s accounts payable transactions. Through this process, in the three months ended March 31, 2014, $44 million was paid on TGLP s behalf, of which $41 million was repaid by TGLP. As of March 31, 2014, the Company recorded a $3 million receivable due from TGLP, which is included in Receivables on the condensed consolidated statement of financial position.

In addition, the Company, Holdings, New TruGreen and TGLP entered into (1) a separation and distribution agreement containing key provisions relating to the separation of the TruGreen Business and the distribution of New TruGreen common stock to Holdings stockholders (including relating to specified TruGreen legal matters with respect to which we have agreed to retain liability, as well as insurance coverage, non-competition, indemnification and other matters), (2) an employee matters agreement allocating liabilities and responsibilities relating to employee benefit plans and programs and other related matters and (3) a tax matters agreement governing the respective rights, responsibilities and obligations of the parties thereto with respect to taxes, including allocating liabilities for income taxes attributable to New TruGreen and its subsidiaries generally to the Company for tax periods (or portions thereof) ending on or before January 14, 2014 and generally to New TruGreen for tax periods (or portions thereof) beginning after that date.

Financial Information for Discontinued Operations

Loss from discontinued operations, net of income taxes, for all periods presented includes the operating results of the TruGreen Business and the previously sold businesses noted in the 2013 Form 10-K.

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The operating results of discontinued operations are as follows:

(In millions)	Three months ended March 31, 2014		2013	
Operating Revenue	$	6	$	94
Loss before income taxes(1)		(155)		(50)
Benefit for income taxes(1)		(60)		(21)
Loss from discontinued operations, net of income taxes(1)	$	(95)	$	(29)

(1) During the first quarter of 2014, a pre-tax non-cash trade name impairment charge of $139 million ($84 million, net of tax) was recorded to reduce the carrying value of the TruGreen trade name to its estimated fair value.

Assets and liabilities of discontinued operations are summarized below:

(In millions)	As of March 31, 2014		As of December 31, 2013	
Assets:				
Cash and cash equivalents	$		$	10
Receivables, net				28
Inventories				17
Prepaid expenses and other current assets				21
Total Current Assets				76
Property and equipment, net				181
Intangible assets, net				355
Other long-term assets				6
Total Assets	$		$	618
Liabilities:				
Accounts payable	$		$	19
Accrued liabilities		7		17
Deferred revenue				91
Current portion of long-term debt				12
Total Current Liabilities		7		139
Long-term debt				37
Deferred taxes and other long-term liabilities				125
Total Liabilities	$	7	$	301

At March 31, 2014, the liabilities of discontinued operations relate primarily to accruals for legal and other reserves. At December 31, 2013, these balances also reflect the historical assets and liabilities of the TruGreen Business, which was spun off in the three months ended March 31, 2014.

Note 13. Income Taxes

As of March 31, 2014 and December 31, 2013, the Company had $7 million and $8 million, respectively, of tax benefits primarily reflected in state tax returns that have not been recognized for financial reporting purposes (unrecognized tax benefits). The Company currently estimates that, as a result of pending tax settlements and expiration of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately $1 million during the next 12 months.

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

The effective tax rate on (loss) income from continuing operations was a benefit of 33.2 percent for the three months ended March 31, 2014 compared to a provision of 48.3 percent for the three months ended March 31, 2013. The effective tax rate on loss from continuing operations for the three months ended March 31, 2014 was affected by various discrete events, including an adjustment to deferred state taxes resulting from a change in the Company s state apportionment factors primarily attributable to the

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TruGreen Spin-off. The effective tax rate on income from continuing operations for the three months ended March 31, 2013 was affected by the reclassification of the TruGreen Business to discontinued operations and the resulting impact on the allocation of the full year effective tax rate on income from continuing operations to interim periods.

Note 14. Business Segment Reporting

The business of the Company is conducted through four reportable segments: Terminix, American Home Shield, Franchise Services Group and Other Operations and Headquarters.

In accordance with accounting standards for segments, the Company s reportable segments are strategic business units that offer different services. The Terminix segment provides termite and pest control services to residential and commercial customers and distributes pest control products. The American Home Shield segment provides home warranties for household systems and appliances. The Franchise Services Group segment provides residential and commercial disaster restoration, janitorial and cleaning services through franchises primarily under the ServiceMaster, ServiceMaster Restore and ServiceMaster Clean brand names, home cleaning services through franchises and Company-owned locations primarily under the Merry Maids brand name, on-site wood furniture repair and restoration services primarily under the Furniture Medic brand name and home inspection services primarily under the AmeriSpec brand name. The Other Operations and Headquarters segment includes The 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 (substantially all of which costs are allocated to the Company s other segments), which provide various technology, marketing, finance, legal and other support services to the business units.

During the first quarter of 2014, the Company changed the composition of its reportable segments. Merry Maids, previously reported within the Other Operations and Headquarters segment, is now included in the Franchise Services Group segment with the franchise businesses previously reported as the ServiceMaster Clean segment. The composition of our reportable segments is consistent with that used by our chief operating decision maker (the CODM) to evaluate performance and allocate resources. The changes in the composition of the Company s reportable segments have been reflected in the historical results for all periods presented herein.

Information regarding the accounting policies used by the Company is described in Note 2. The Company derives substantially all of its revenue from customers and franchisees in the United States with less than two percent generated in foreign markets. Operating expenses of the business units consist of direct costs and indirect costs allocated from the Other Operations and Headquarters segment. During the first quarter of 2014, the Company changed its methodology for allocating general corporate overhead expenses. In prior periods, allocations were limited to corporate support services incurred directly on behalf of each reportable segment. Under the new method, certain expenses related to general corporate support services previously reflected in the Other Operations and Headquarters segment are now allocated to each reportable segment. In periods prior to the TruGreen Spin-off, expenses which are allocated to TruGreen under the new method but are not reflected in discontinued operations are included in the Other Operations and Headquarters segment. Such expenses amounted to $9 million in the three months ended March 31, 2013. This change has no impact to the Company s consolidated Net Income or Adjusted EBITDA.

The Company uses Adjusted EBITDA as its measure of segment profitability. Accordingly, the CODM evaluates performance and allocates resources based primarily on Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before: income (loss) from discontinued operations, net of income taxes; provision (benefit) for income taxes; gain (loss) on extinguishment of debt; interest expense; depreciation and amortization expense; non-cash goodwill and trade name impairment; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; non-cash stock-based compensation expense; restructuring charges; management and consulting fees;

and non-cash effects attributable to the application of purchase accounting. The Company s definition of Adjusted EBITDA may not be calculated or comparable to similarly titled measures of other companies.

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Segment information for continuing operations is presented below:

(In millions)	Three months ended March 31, 2014	2013
Operating Revenue:		
Terminix	$ 320	$ 313
American Home Shield	151	143
Franchise Services Group	60	56
Other Operations and Headquarters	2	2
Total Operating Revenue	$ 533	$ 514
Adjusted EBITDA:(1)		
Terminix	$ 78	$ 75
American Home Shield	23	21
Franchise Services Group	18	17
Other Operations and Headquarters	(4)	(10)
Total Adjusted EBITDA	$ 115	$ 103

(1) Presented below is a reconciliation of Adjusted EBITDA to Net Loss:

(In millions)	Three months ended March 31, 2014	2013
Adjusted EBITDA:		
Terminix	$ 78	$ 75