SERVICEMASTER CO
Form 10-Q
August 07, 2012
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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 June 30, 2012

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

For the transition period from to

Commission file number 1-14762

THE SERVICEMASTER COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-3858106** (IRS Employer Identification No.)

860 Ridge Lake Boulevard, Memphis, Tennessee 38120

(Address of principal executive offices) (Zip Code)

901-597-1400

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 corporation and its equity shares are not publicly traded. At August 7, 2012, 1,000 shares of the registrant s common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

(In thousands)

	Three months ended June 30, 2012		Three months ended June 30, 2011	
Operating Revenue	$	962,165	$	967,440
Operating Costs and Expenses:				
Cost of services rendered and products sold		532,954		520,634
Selling and administrative expenses		241,929		259,148
Amortization expense		17,802		26,387
Trade name impairment		67,700		
Restructuring charges		5,026		94
Total operating costs and expenses		865,411		806,263
Operating Income		96,754		161,177
Non-operating Expense (Income):				
Interest expense		59,700		68,378
Interest and net investment income		(1,396)		(1,398)
Other expense		177		173
Income from Continuing Operations before Income Taxes		38,273		94,024
Provision for income taxes		16,028		33,462
Equity in losses of joint venture		(111)		
Income from Continuing Operations		22,134		60,562
Income (loss) from discontinued operations, net of income taxes		838		(3,842)
Net Income	$	22,972	$	56,720
Total Comprehensive Income	$	22,414	$	55,510

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

(In thousands)

	Six months ended June 30, 2012	Six months ended June 30, 2011
Operating Revenue	$ 1,616,854	$ 1,582,111
Operating Costs and Expenses:		
Cost of services rendered and products sold	919,542	891,203
Selling and administrative expenses	433,299	450,453
Amortization expense	35,791	52,750
Trade name impairment	67,700	
Restructuring charges	9,016	2,683
Total operating costs and expenses	1,465,348	1,397,089
Operating Income	151,506	185,022
Non-operating Expense (Income):		
Interest expense	124,514	136,893
Interest and net investment income	(4,038)	(3,591)
Loss on extinguishment of debt	39,193	
Other expense	351	348
(Loss) Income from Continuing Operations before Income Taxes	(8,514)	51,372
(Benefit) Provision for income taxes	(1,653)	16,105
Equity in losses of joint venture	(111)	
(Loss) Income from Continuing Operations	(6,972)	35,267
Loss from discontinued operations, net of income taxes	(86)	(24,943)
Net (Loss) Income	$ (7,058)	$ 10,324
Total Comprehensive (Loss) Income	$ (364)	$ 20,312

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position (Unaudited)

(In thousands, except share data)

	As of June 30, 2012	As of December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 299,954	$ 328,930
Marketable securities	35,161	12,026
Receivables, less allowance of $18,844 and $20,362, respectively	461,955	374,200
Inventories	58,888	59,643
Prepaid expenses and other assets	87,086	38,295
Deferred customer acquisition costs	51,065	30,403
Deferred taxes	91,237	90,609
Assets of discontinued operations		17
Total Current Assets	1,085,346	934,123
Property and Equipment:		
At cost	596,624	541,817
Less: accumulated depreciation	(261,449)	(235,058)
Net property and equipment	335,175	306,759
Other Assets:		
Goodwill	3,172,313	3,161,980
Intangible assets, primarily trade names, service marks and trademarks, net	2,443,002	2,543,539
Notes receivable	22,109	23,322
Long-term marketable securities	117,606	130,456
Other assets	6,255	8,846
Debt issuance costs	37,058	37,798
Total Assets	$ 7,218,864	$ 7,146,823
Liabilities and Shareholder s Equity		
Current Liabilities:		
Accounts payable	$ 114,496	$ 81,641
Accrued liabilities:		
Payroll and related expenses	73,861	85,346
Self-insured claims and related expenses	82,453	73,071
Accrued interest payable	54,823	67,011
Other	72,404	70,103
Deferred revenue	526,499	473,242
Liabilities of discontinued operations	939	805
Current portion of long-term debt	55,640	51,838
Total Current Liabilities	981,115	903,057
Long-Term Debt	3,825,951	3,824,032
Other Long-Term Liabilities:		
Deferred taxes	1,035,887	1,036,693
Liabilities of discontinued operations		2,070
Other long-term obligations, primarily self-insured claims	124,898	133,052
Total Other Long-Term Liabilities	1,160,785	1,171,815

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		1,467,751		1,464,293
Retained deficit		(217,220)		(210,162)
Accumulated other comprehensive income (loss)		482		(6,212)
Total Shareholder s Equity		1,251,013		1,247,919
Total Liabilities and Shareholder s Equity	$	7,218,864	$	7,146,823

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)

	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash and Cash Equivalents at Beginning of Period	$ 328,930	$ 252,698
Cash Flows from Operating Activities from Continuing Operations:		
Net (Loss) Income	(7,058)	10,324
Adjustments to reconcile net (loss) income to net cash provided from operating activities:		
Loss from discontinued operations	86	24,943
Equity in losses of joint venture	111	
Depreciation expense	37,756	35,574
Amortization expense	35,791	52,750
Amortization of debt issuance costs	6,528	7,080
Loss on extinguishment of debt	39,193	
Call premium paid on retirement of debt	(32,250)	
Premium received on issuance of debt	3,000	
Deferred income tax (benefit) provision	(3,787)	391
Stock-based compensation expense	3,458	4,171
Trade name impairment	67,700	
Restructuring charges	9,016	2,683
Cash payments related to restructuring charges	(7,326)	(3,145)
Change in working capital, net of acquisitions:		
Current income taxes	(4,612)	11,592
Receivables	(79,724)	(76,105)
Inventories and other current assets	(61,944)	(65,376)
Accounts payable	38,204	40,146
Deferred revenue	52,344	86,230
Accrued liabilities	(18,470)	9,390
Other, net	16,576	2,462
Net Cash Provided from Operating Activities from Continuing Operations	94,592	143,110
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(48,362)	(57,834)
Sale of equipment and other assets	434	951
Acquisition of The ServiceMaster Company		(35)
Other business acquisitions, net of cash acquired	(11,495)	(11,886)
Purchase of other intangibles		(1,900)
Notes receivable, financial investments and securities, net	(14,613)	(4,341)
Net Cash Used for Investing Activities from Continuing Operations	(74,036)	(75,045)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt	600,000	
Payments of debt	(633,045)	(20,437)
Debt issuance costs paid	(12,700)	(280)
Net Cash Used for Financing Activities from Continuing Operations	(45,745)	(20,717)
Cash Flows from Discontinued Operations:		
Cash used for operating activities	(238)	(1,818)

Cash (used for) provided from investing activities:				
Proceeds from sale of businesses		(3,549)		27,523
Other investing activities				(1,617)
Net Cash (Used for) Provided from Discontinued Operations		(3,787)		24,088
Cash (Decrease) Increase During the Period		(28,976)		71,436
Cash and Cash Equivalents at End of Period	$	299,954	$	324,134

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

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

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

The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The Company recommends that the quarterly condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC (the 2011 Form 10-K). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not indicative of the results that might be achieved for a full year.

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

Equity contributions totaling $1.431 billion, together with (i) borrowings under a then new $1.150 billion senior unsecured interim loan facility (the Interim Loan Facility), (ii) borrowings under a then new $2.650 billion 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 then 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 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% senior notes maturing in 2015 (the 2015 Notes).

Note 2. Significant Accounting Policies

The Company s significant accounting policies are included in the 2011 Form 10-K. The following selected accounting policies should be read in conjunction with the 2011 Form 10-K.

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

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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 warranties and adjusts the estimates when appropriate.

The Company has franchise agreements in its Terminix, TruGreen, ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids businesses. Franchise revenue (which in the aggregate represents approximately four percent of 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 initial franchise 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 $16.8 million and $33.6 million for the three and six months ended June 30, 2012, respectively, and $17.7 million and $34.1 million for the three and six months ended June 30, 2011, respectively. Consolidated operating income from continuing operations was $96.8 million and $151.5 million for the three and six months ended June 30, 2012, respectively, and $161.2 million and $185.0 million for the three and six months ended June 30, 2011, 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 $526.5 million and $473.2 million of deferred revenue as of June 30, 2012 and December 31, 2011, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection, pest control and lawn care services.

Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to $51.1 million and $30.4 million as of June 30, 2012 and December 31, 2011, respectively.

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

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

The Company s total comprehensive income (loss) consists primarily of net income (loss), unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translations.

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 2011 Form 10-K presented the significant areas requiring the use of management estimates and discussed how management formed its judgments. The areas discussed included revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers compensation, auto and general liability insurance claims; accruals for home warranties and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets.

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Note 3. Restructuring Charges

The Company incurred restructuring charges of $5.0 million ($3.1 million, net of tax) and $0.1 million ($0.1 million, net of tax) for the three months ended June 30, 2012 and 2011, respectively and $9.0 million ($5.5 million, net of tax) and $2.7 million ($1.6 million, net of tax) for the six months ended June 30, 2012 and 2011, respectively. Restructuring charges (credits) were comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Terminix branch optimization (1)	$ 697	$ (73)	$ 2,817	$ 2,467
TruGreen reorganization and restructuring (2)	149		820	
ServiceMaster Clean reorganization (3)	467		467	
Centers of excellence initiative(4)	3,713		4,912	
Other(5)		167		216
Total restructuring charges	$ 5,026	$ 94	$ 9,016	$ 2,683

(1) Represents restructuring charges (credits) related to a branch optimization project. For the three and six months ended June 30, 2012, these charges included lease termination costs. For the three months ended June 30, 2011, these credits included adjustments to lease termination reserves. For the six months ended June 30, 2011, these charges included lease termination costs of $2.4 million and severance costs of $0.1 million.

(2) Represents restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. For the three months ended June 30, 2012, these charges included severance costs. For the six months ended June 30, 2012, these charges included severance and lease termination costs of $0.3 million and $0.5 million, respectively.

(3) Represents restructuring charges related to a reorganization of leadership. For the three and six months ended June 30, 2012, these charges included severance costs.

(4) Represents restructuring charges related to an initiative to enhance capabilities and reduce costs in the Company s headquarters functions that provide company-wide administrative services for our operations that we refer to as centers of excellence. For the three months ended June 30, 2012, these charges included professional fees of $0.7 million and severance and other costs of $3.0 million. For the six months ended June 30, 2012, these charges included professional fees of $1.4 million and severance and other costs of $3.5 million.

(5) For the three and six months ended June 30, 2011, these charges included reserve adjustments associated with previous restructuring initiatives.

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

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

(In thousands)		Accrued Restructuring Charges
Balance as of December 31, 2011	$	3,890
Costs incurred		9,016
Costs paid or otherwise settled		(7,500)
Balance as of June 30, 2012	$	5,406

Note 4. Commitments and Contingencies

A portion of the Company s vehicle fleet and some equipment are leased through month-to-month operating leases, cancelable at the Company s option. There are residual value guarantees by the Company (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. As of June 30, 2012, the

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Company s residual value guarantees related to the leased assets totaled $25.9 million for which the Company has recorded a liability for the estimated fair value of these guarantees of $0.5 million in the condensed consolidated statements of financial position.

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, is presented as follows:

(In thousands)		Accrued Self-insured Claims
Balance as of December 31, 2011	$	108,082
Provision for self-insured claims		19,515
Cash payments		(18,921)
Balance as of June 30, 2012	$	108,676

(In thousands)		Accrued Self-insured Claims
Balance as of December 31, 2010	$	121,692
Provision for self-insured claims(1)		15,229
Cash payments		(16,509)
Balance as of June 30, 2011	$	120,412

(1) For the six months ending June 30, 2011, provisions for uninsured claims of $2.0 million were included in loss from discontinued operations, net of income taxes, in the condensed consolidated statements of operations and comprehensive income.

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

The Company has guarantees on certain bonds issued on behalf of divested companies associated with TruGreen LandCare, primarily performance type bonds. The maximum payments the Company could be required to make if the buyer of the divested companies is unable to fulfill their obligations was approximately $1.5 million as of June 30, 2012. The TruGreen LandCare purchase agreement requires that the buyer replace the bonds at the bonds expiration date. Substantially all of the bonds are scheduled to expire prior to 2015, but may be extended depending on the completion of the related projects. 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 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

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give no assurance that the results of any such proceedings will not materially affect its reputation, business, financial position, results of operations and cash flows.

Note 5. Goodwill and Intangible Assets

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 potential impairment. The Company s annual assessment date is October 1. The results for the three and six months ended June 30, 2012 include a non-cash impairment charge of $67.7 million to reduce the carrying value of the TruGreen trade name as a result of the Company s interim impairment testing of indefinite-lived intangible assets. There were no similar trade name impairment charges included in continuing operations for the three and six months ended June 30, 2011.

Based on the revenue results at TruGreen in the first six months of 2012 and a lower revenue outlook for the remainder of 2012 and future years, the Company concluded that there was an impairment indicator requiring the performance of an interim indefinite-lived intangible asset impairment test for the TruGreen trade name as of June 30, 2012.

The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a discounted cash flow (DCF) valuation analysis. The DCF methodology used to value trade names is known as the relief from royalty method and entails identifying the hypothetical cash flows generated by an assumed royalty rate that a third party would pay to license the trade names and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates and hypothetical royalty rates, estimating the amount and timing of future revenue attributable to the trade names over a defined projection period and identification of appropriate long-term revenue growth rate assumptions after the defined projection period. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

As a result of the aforementioned impairment indicators and in accordance with applicable accounting standards, the Company performed an impairment analysis on its indefinite-lived intangible asset related to TruGreen s trade name to determine the fair value as of June 30, 2012. Based on the lower projected revenue for TruGreen as discussed above, the Company determined the fair value attributable to the TruGreen trade name was less than its carrying value by $67.7 million, which was recorded as a trade name impairment in the second quarter of 2012.

The impairment charge in the second quarter of 2012 was primarily attributable to a decrease in projected future growth in revenue at TruGreen over a defined projection period as of June 30, 2012 compared to the projections used in the last annual impairment assessment performed on October 1, 2011. Although the Company projected future growth in revenue at TruGreen as part of its June 30, 2012 impairment analysis, such growth was lower than the revenue growth projected at the time the trade name was tested for impairment in 2011. The long-term revenue growth rates used in the impairment tests at June 30, 2012 and October 1, 2011 were the same and in line with historical U.S. gross domestic product growth rates. The discount rate used in the June 30, 2012 impairment test was 50 basis points (bps) lower than the discount rate used in the October 1, 2011 impairment test for the TruGreen trade name. The decrease in the discount rate is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets since the last analysis. Had the Company used a discount rate in assessing the impairment of its TruGreen trade name that was 100 bps higher (holding all other assumptions unchanged), the Company would have recorded an additional impairment charge of approximately $93.7 million in the second quarter of 2012.

As a result of the trade name impairment recorded in the second quarter of 2012, the carrying value of the TruGreen trade name was adjusted to its estimated fair value as of June 30, 2012. Any further decline in the estimated fair value of this trade name will result in additional trade name impairment. It is possible that such impairment, if required, could be material and may need to be recorded prior to the fourth quarter of 2012 (i.e., during the third quarter) if the Company s results of operations or other factors require such assets to be tested for impairment at an interim date.

Although the TruGreen reporting unit has lowered its projected revenue as compared with previous forecasts, the Company does not believe such changes would more likely than not reduce the fair value of the TruGreen reporting unit below its carrying amount. As such, the Company did not perform an interim goodwill impairment test for the TruGreen reporting unit.

The Company determined that there were no impairment indicators for the goodwill or other indefinite-lived intangible assets of any reporting units other than TruGreen as of June 30, 2012.

During the six months ended June 30, 2012, the increase in goodwill and other intangible assets related primarily to tuck-in acquisitions completed throughout the period by Terminix, TruGreen and Merry Maids.

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

(In thousands)	Terminix	TruGreen	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters	Total
Balance as of December 31, 2011	$ 1,424,518	$ 1,201,922	$ 347,573	$ 135,677	$ 52,290	$ 3,161,980
Acquisitions	8,728	2,674			130	11,532
Other(1)	(883)	(202)	(47)	(60)	(7)	(1,199)
Balance as of June 30, 2012	$ 1,432,363	$ 1,204,394	$ 347,526	$ 135,617	$ 52,413	$ 3,172,313

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

There were no accumulated impairment losses as of June 30, 2012.

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

	As of June 30, 2012			As of December 31, 2011		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names(1)	$ 2,265,800	$	$ 2,265,800	$ 2,333,500	$	$ 2,333,500
Customer relationships	688,781	(568,056)	120,725	683,324	(539,638)	143,686
Franchise agreements	88,000	(45,528)	42,472	88,000	(42,406)	45,594
Other	55,962	(41,957)	14,005	58,471	(37,712)	20,759
Total	$ 3,098,543	$ (655,541)	$ 2,443,002	$ 3,163,295	$ (619,756)	$ 2,543,539

(1) Not subject to amortization. Includes a non-cash impairment charge of $67.7 million recorded in the six months ended June 30, 2012 to reduce the carrying value of the TruGreen trade name as a result of the Company s interim impairment testing of indefinite-lived intangible assets.

Note 6. Stock-Based Compensation

For the three months ended June 30, 2012 and 2011, the Company recognized stock-based compensation expense of $1.8 million ($1.1 million, net of tax) and $1.8 million ($1.1 million, net of tax), respectively. For the six months ended June 30, 2012 and 2011, the Company recognized stock-based compensation expense of $3.5 million ($2.1 million, net of tax) and $4.2 million ($2.6 million, net of tax), respectively. As of June 30, 2012, there was $14.1 million of total unrecognized compensation cost related to non-vested stock options and restricted share units granted by Holdings under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan (the MSIP). These remaining costs are expected to be recognized over a weighted-average period of 2.6 years.

Note 7. Supplemental Cash Flow Information

Supplemental information relating to the condensed consolidated statements of cash flows for the six months ended June 30, 2012 and 2011 is presented in the following table:

(In thousands)	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash paid for or (received from):		
Interest expense	$ 125,607	$ 126,620
Interest and dividend income	(2,575)	(2,462)
Income taxes, net of refunds	6,766	8,366

The Company acquired $27.7 million and $5.3 million of property and equipment through capital leases and other non-cash financing transactions in the six months ended June 30, 2012 and 2011, respectively, which has been excluded from the condensed consolidated statements of cash flows as non-cash investing and financing activities.

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Note 8. Receivable Sales

The Company has an accounts receivable securitization arrangement under which Terminix and TruGreen may sell certain eligible trade accounts receivable to ServiceMaster Funding Company LLC (Funding), the Company s wholly owned, bankruptcy-remote subsidiary, which is consolidated for financial reporting purposes. Funding, in turn, may transfer, on a revolving basis, an undivided percentage ownership interest of up to $50.0 million in the pool of accounts receivable to one or both of the purchasers who are parties to the accounts receivable securitization arrangement (Purchasers). The amount of the eligible receivables varies during the year based on seasonality of the businesses and could, at times, limit the amount available to the Company from the sale of these interests. As of June 30, 2012, the amount of eligible receivables was $50.0 million.

During the six months ended June 30, 2012, there were no transfers of interests in the pool of trade accounts receivables to Purchasers under this arrangement. As of June 30, 2012 and December 31, 2011, the Company had $10.0 million outstanding under the arrangement and, as of June 30, 2012, had $40.0 million of remaining capacity available under the accounts receivable securitization arrangement.

The accounts receivable securitization arrangement is a 364-day facility that was scheduled to mature on July 17, 2012. In July 2012, the maturity date of the accounts receivable securitization arrangement was extended to September 17, 2012. The Company is currently in negotiations with the Purchasers to extend the arrangement until September 2013. The Company has recorded its obligation to repay the Purchasers for their interest in the pool of receivables within the current portion of long-term debt on the condensed consolidated statements of financial position. The interest rates applicable to the Company s obligation are based on a fluctuating rate of interest based on the Purchasers pooled commercial paper rate (0.24 percent as of June 30, 2012). In addition, the Company pays usage fees on its obligations and commitment fees on undrawn amounts committed by the Purchasers. Unless the arrangement is renegotiated or extended prior to its expiration, all obligations under the accounts receivable securitization arrangement must be repaid by September 17, 2012.

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 June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011 were as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, June 30, 2012:				
Debt securities	$ 104,790	$ 6,187	$ (62)	$ 110,915
Equity securities	39,571	4,061	(1,780)	41,852
Total securities	$ 144,361	$ 10,248	$ (1,842)	$ 152,767

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

Available-for-sale and trading securities, December, 31, 2011:				
Debt securities	$ 95,135	$ 5,795	$ (68)	$ 100,862
Equity securities	40,558	2,953	(1,891)	41,620
Total securities	$ 135,693	$ 8,748	$ (1,959)	$ 142,482

The portion of unrealized losses which had been in a loss position for more than one year was $1.7 million as of June 30, 2012 and December 31, 2011. The aggregate fair value of the investments with unrealized losses was $17.2 million and $13.6 million as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012 and December 31, 2011, $258.4 million and $226.2 million, respectively, of the cash and short- and long-term marketable securities balance were associated with regulatory requirements at American Home Shield and for other purposes. Such amounts are identified as being potentially unavailable to be paid to the Company by its subsidiaries. American Home Shield s investment portfolio has been invested in a combination of high quality, short duration fixed income securities and equities.

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Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income in the period they are realized. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes. The table below summarizes proceeds, gross realized gains and gross realized losses, each resulting from sales of available-for-sale securities. There were no impairment charges due to other than temporary declines in the value of certain investments for the three and six months ended June 30, 2012 and 2011.

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Proceeds from sale of securities	$ 5,251	$ 1,580	$ 7,730	$ 5,373
Gross realized gains, pre-tax	493	104	879	611
Gross realized gains, net of tax	304	64	542	374
Gross realized losses, pre-tax	(20)	(21)	(20)	(36)
Gross realized losses, net of tax	(12)	(13)	(12)	(22)

Note 10. Long-Term Debt

Long-term debt as of June 30, 2012 and December 31, 2011 is summarized in the following table:

(In thousands)	**As of June 30, 2012**	**As of December 31, 2011**
Senior secured term loan facility maturing in 2014	$ 2,508,292	$ 2,530,750
8.00% senior notes maturing in 2020(1)	602,895	
10.75% senior notes maturing in 2015	396,000	996,000
Revolving credit facility maturing in 2017		