

SERVICEMASTER GLOBAL HOLDINGS INC

Form 10-K

March 02, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

or

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

Commission file number 001-36507

ServiceMaster Global Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
Commission file number 001-14762

20-8738320
(IRS Employer Identification No.)

The ServiceMaster Company, LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
860 Ridge Lake Boulevard, Memphis, Tennessee 38120

90-1036521
(IRS Employer Identification No.)

(Address of principal executive offices) (Zip Code)

901-597-1400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

ServiceMaster Global Holdings, Inc.: Common stock, par value
\$0.01 per share

New York Stock Exchange

The ServiceMaster Company, LLC

None
(Name of Each Exchange on which
Registered)

(Title of Each Class)

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Securities registered pursuant to Section 12 (g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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.

ServiceMaster Global Holdings, Inc. Yes No
The ServiceMaster Company, LLC Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

ServiceMaster Global Holdings, Inc. Yes No
The ServiceMaster Company, LLC Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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.

ServiceMaster Global Holdings, Inc.

Large accelerated filer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				Smaller reporting company
			(Do not check if a smaller reporting company)	

The ServiceMaster Company, LLC

Large accelerated filer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				Smaller reporting company
			(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

ServiceMaster Global Holdings, Inc. Yes No

The ServiceMaster Company, LLC Yes No

As of June 30, 2014, there were 91,903,152 shares of common stock of Holdings outstanding (as Holdings’ initial public offering did not close until July 1, 2014 when Holdings issued an additional 41,285,000 shares), and the aggregate market value of the voting stock held by non-affiliates of Holdings (assuming only for purposes of this computation that the CD&R Funds and the StepStone Funds (each as defined below), directors and executive officers may be affiliates) was approximately \$321 million based on the closing price of Holdings’ common stock on the NYSE on June 30, 2014.

The number of shares of the registrants’ common stock outstanding as of February 25, 2015:

ServiceMaster Global Holdings, Inc. 134,476,512 shares of common stock, par value \$0.01 per share

The ServiceMaster Company, LLC is a privately held limited liability company, and its membership interests are not publicly traded. At February 25, 2015, all of the registrant’s membership interests were owned by CDRSVM Holding, LLC.

The ServiceMaster Company, LLC meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format applicable to The ServiceMaster Company, LLC.

Documents incorporated by reference:

Portions of ServiceMaster Global Holdings, Inc.’s proxy statement to be filed with the Securities and Exchange Commission in connection with ServiceMaster Global Holdings, Inc.’s 2015 annual meeting of stockholders (the “Proxy Statement”) are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of ServiceMaster Global Holdings, Inc.’s fiscal year ended December 31, 2014.

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EXPLANATORY NOTE

This Form 10-K is a combined annual report being filed separately by two registrants: ServiceMaster Global Holdings, Inc. and The ServiceMaster Company, LLC. Unless the context indicates otherwise, any reference in this report to “Holdings” refers to ServiceMaster Global Holdings, Inc., any reference to “SvM” refers to The ServiceMaster Company, LLC, the indirect wholly-owned subsidiary of Holdings, and any references to “ServiceMaster,” the “Company,” “we,” “us,” and “our” refer to ServiceMaster Global Holdings, Inc. together with its direct and indirect subsidiaries, including SvM. Each registrant hereto is filing on its own behalf all of the information contained in this annual report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

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PART I

ITEM 1. BUSINESS

The following discussion of our business contains "forward-looking statements," as discussed in Part II, Item 7 below. Our business, operations and financial condition are subject to various risks as set forth in Part I, Item 1A below. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and related notes and the Risk Factors included elsewhere in this Annual Report on Form 10-K.

Overview

ServiceMaster is a leading provider of essential residential and commercial services, operating through an extensive service network of more than 8,000 company owned locations and franchise and license agreements. Our mission is to simplify and improve the quality of our customers' lives by delivering services that help them protect and maintain their homes or businesses, typically their most highly valued assets. We have leading market positions across the majority of the markets we serve, as measured by customer level revenue. Our portfolio of well recognized brands includes Terminix (termite and pest control), American Home Shield (home warranties), ServiceMaster Restore (disaster restoration), ServiceMaster Clean (janitorial), Merry Maids (residential cleaning), Furniture Medic (furniture repair) and AmeriSpec (home inspections). We serve our residential and commercial customers through an employee base of approximately 13,000 company associates.

Approximately 98 percent of our 2014 revenue was generated by sales in the United States. A significant portion of our assets is located in the United States, and the consolidated value of all assets located outside of the United States is not material. Organized in Delaware in 2013, ServiceMaster is the successor to various entities dating back to 1947. Financial information for each reportable segment and Corporate for 2014, 2013 and 2012 is contained in Note 3 to the consolidated financial statements.

We believe that our customers understand the financial and reputational risks associated with inadequate maintenance of their homes or businesses and that our high quality, professional services are low cost expenditures when compared to the alternative of failing to perform essential maintenance. We strive to be the service provider of choice and believe our customers have recognized our value proposition, as evidenced by our long standing customer relationships and the high rate at which our customers renew their contracts from year to year. As of December 31, 2014, in Terminix, our customer retention rate for termite and other services was 85 percent and our pest control customer retention rate was 79 percent, and in our American Home Shield segment, our customer retention rate was 75 percent.

We have significant size and scale, which we believe give us a number of competitive advantages. Terminix is the largest termite and pest control business in the United States, as measured by customer level revenue, and serves approximately 2.8 million customers across 47 states and the District of Columbia through approximately 285 company owned locations and approximately 25 franchise agreements. Additionally, we estimate American Home Shield to be approximately four to five times larger than its nearest competitors, as measured by revenue. American Home Shield serves approximately 1.5 million residential customers across all 50 states and the District of Columbia through a network of approximately 11,000 pre screened independent home service contractor firms. Our Franchise Services Group serves both residential and commercial customers across all 50 states and the District of Columbia through approximately 4,300 franchise agreements and approximately 70 company owned locations. We believe our significant size and scale provide a competitive advantage in our purchasing power, route density, and marketing and operating efficiencies compared to smaller local and regional competitors. Our scale also facilitates the

standardization of processes, shared learning and talent development, across our entire organization.

We believe our businesses are strategically positioned to benefit from a number of favorable demographic and secular trends. These trends include growth in population, household formation and new and existing home sales. In addition, we believe there is increasing demand for outsourced services, fueled by a trend toward “do it for me” as a result of an aging population and shifts in household structure and behaviors, such as dual income families and consumers with “on the go” lifestyles.

Reverse Stock Split

On June 13, 2014, we effected a 2-for-3 reverse stock split of our common stock. Holdings’ accompanying consolidated financial statements and notes thereto give retroactive effect to the reverse stock split for all periods presented.

Initial Public Offering

On June 25, 2014, our registration statement on Form S-1 for Holdings’ initial public offering was declared effective by the U.S. Securities and Exchange Commission (the “SEC”). On July 1, 2014, we completed the offering of 41,285,000 shares of our common stock at a price of \$17.00 per share.

Secondary Public Offering

On February 4, 2015, Holdings’ registration statement on Form S-1 was declared effective by the SEC for a secondary offering of its common stock. Holdings registered on behalf of certain stockholders the offering and sale of 25,000,000 shares of common stock and an additional 3,750,000 shares of common stock sold to the underwriters pursuant to an option to purchase additional shares. On February 10, 2015, the selling stockholders completed the offering of 25,000,000 shares of common stock at a

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price of \$29.50 per share. On February 13, 2015, the selling stockholders completed the offering of an additional 3,750,000 shares of common stock at a price of \$29.50 per share pursuant to the underwriters' option to purchase additional shares. Holdings did not receive any of the proceeds from the aggregate 28,750,000 shares of common stock sold by the selling stockholders.

Refinancing of Indebtedness

On July 1, 2014, in connection with Holdings' initial public offering, SvM terminated its existing credit agreements governing its then-existing term loan facility, the pre-funded letter of credit facility (together, the "Old Term Facilities") and the then-existing revolving credit facility (the "Old Revolving Credit Facility" and, together with the Old Term Facilities, the "Old Credit Facilities") and entered into a new credit agreement with respect to a new \$1,825 million term loan facility maturing July 1, 2021 (the "Term Loan Facility") and a new \$300 million revolving credit facility maturing July 1, 2019 (the "Revolving Credit Facility") (together with the Term Loan Facility, the "Credit Facilities"). Borrowings under the Term Loan Facility, together with \$243 million of available cash and \$120 million of net proceeds of the initial public offering, were used to repay in full the \$2,187 million outstanding under the Old Term Facilities. In addition, \$42 million of available cash was used to pay debt issuance costs of \$24 million and to pay original issue discount of \$18 million in connection with the Term Loan Facility.

On July 16, 2014, SvM used proceeds from Holdings' initial public offering to redeem \$210 million of its outstanding 8% senior notes due 2020 (the "8% 2020 Notes") and \$263 million of its outstanding 7% senior notes due 2020 (the "7% 2020 Notes") (together with the 8% 2020 Notes, the "2020 Notes"). In connection with the partial redemption of the 8% 2020 Notes and the 7% 2020 Notes, SvM was required to pay a pre-payment premium of \$17 million and \$18 million, respectively, and accrued interest of \$7 million and \$8 million, respectively.

In connection with the partial redemption of the 8% 2020 Notes and 7% 2020 Notes and the repayment of the Old Term Facilities, we recorded a loss on extinguishment of debt of \$65 million in the year ended December 31, 2014, which included the pre-payment premiums on the 8% 2020 Notes and 7% 2020 Notes of \$17 million and \$18 million, respectively, and the write-off of \$30 million of debt issuance costs.

On February 17, 2015, SvM redeemed \$190 million in aggregate principal amount of its 8% 2020 Notes at a redemption price of 106.0% of the principal amount using available cash. In connection with the partial redemption, we expect to record a loss on extinguishment of debt of approximately \$13 million in the first quarter of 2015, which includes a pre-payment premium of \$11 million and the write-off of approximately \$2 million of debt issuance costs.

On March 2, 2015, SvM issued a conditional notice of redemption to redeem \$200 million in aggregate principal amount of the 8% 2020 Notes at a redemption price of 106.0% of the principal amount thereof on April 1, 2015, assuming the conditions are satisfied on or prior to April 1, 2015. SvM intends to fund the redemption using incremental commitments under SvM's Term Loan Facility. In connection with the redemption, we expect to record a loss on extinguishment of debt of approximately \$14 million in the second quarter of 2015, which includes a pre payment premium of \$12 million and the write off of approximately \$2 million of debt issuance costs.

Ownership

On July 24, 2007, we were taken private pursuant to a merger transaction, and, following the completion of the merger and other subsequent transactions and prior to Holdings' initial public offering, the significant majority of Holdings' outstanding common stock was owned by investment funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC ("CD&R" or the "CD&R Funds"), JPMorgan Chase Funding Inc. ("JPMorgan"), StepStone Group LP

("StepStone"), the investment funds managed by StepStone (the "StepStone Funds") and Ridgemont Partners Secondary Fund I, L.P. ("Ridgemont") (collectively, the "Equity Sponsors"). Upon completion of Holdings' initial public offering on July 1, 2014 and the secondary public offering in February 2015, the Equity Sponsors continued to hold approximately 42 percent of Holdings' common stock. See "—Initial Public Offering" and "—Secondary Offering" for further details on our ownership structure.

Our Market Opportunity

Termite and Pest Control Industry

The outsourced market for residential and commercial termite and pest control services in the United States was approximately \$7 billion in 2013, according to Specialty Products Consultants, LLC. We estimate that there are approximately 20,000 U.S. termite and pest control companies, nearly all of which have fewer than 100 employees.

Termites are responsible for an estimated \$5 billion in home damage in the United States annually, according to the National Pest Management Association's 2012 survey. The termite control industry provides treatment and inspection services to residential and commercial property owners for the remediation and prevention of termite infestations. We believe homeowners value quality and reliability over price in choosing professional termite control services, as the cost of most professional treatments is well below the potential cost of inaction or ineffective treatment. As a result, we believe the demand for termite remediation services is relatively insulated from changes in consumer spending. In addition to remediation services, the termite control industry offers periodic termite inspections and preventative treatments to residential and commercial property owners in areas with high termite activity, typically through annual contracts. These annual contracts may carry guarantees that protect the property owner against the cost of structural damage caused by a termite infestation. Termites can cause significant damage to a structure before becoming visible to the untrained

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eye, highlighting the value proposition of professional preventative termite services. As a result, the termite control industry experiences high renewal rates on annual preventative inspection and treatment contracts, and revenues from such contracts are generally stable and recurring.

Pest infestations may damage a home or business while also carrying the risk of the spread of diseases. Moreover, for many commercial facilities, pest control is essential to regular operations and regulatory compliance (e.g., hotels, restaurants and healthcare facilities). As a result of these dynamics, the pest control industry experiences high rates of renewal for its pest inspection and treatment contracts. Pest control services are often delivered on a contracted basis through regularly scheduled service visits, which include an inspection of premises and application of pest control materials. According to the National Pest Management Association's 2014 survey, approximately 35 percent of U.S. households currently use a professional pest exterminator.

Both termite and pest activity are affected by weather. Termite activity peaks during the springtime "swarm," the timing and intensity of which varies based on weather. Similarly, pest activity tends to accelerate in the spring months when warmer temperatures arrive in many U.S. regions. However, the high proportion of termite and pest control services which are contracted and recurring, as well as the high renewal rates for those services, limit the effect of weather anomalies on the termite and pest control industry in any given year.

Home Warranty Industry

We estimate that the U.S. home warranty market had total revenue of approximately \$2 billion in 2014. The home warranty market is characterized by low household penetration, which we estimate to be approximately three to four percent. The home warranty industry offers plans that protect a homeowner against costly repairs or replacement of household systems and appliances. Typically having a one year term, coverage varies based on a menu of plan options. The most commonly covered items include electrical, plumbing, central heating and air conditioning (HVAC) systems, water heaters, refrigerators, dishwashers and ovens/cook tops. The home warranty industry is characterized by a high level of customer interaction and service requirements. This combination of a high touch/high service business model and the peace of mind it delivers to the customer has led to high renewal rates in the home warranty industry.

As consumer demand shifts towards more outsourced services, we believe that there is an opportunity for American Home Shield, a reliably scaled service provider with a national, pre screened contractor network, to increase market share and household penetration. Additionally, we believe that increasingly complex household systems and appliances may further highlight the value proposition of professional repair services and, accordingly, the coverage offered by a home warranty.

One of the drivers of sales of new home warranties is the number of existing homes sold in the United States, since a home warranty is often recommended by a real estate sales professional or offered by the seller of a home in conjunction with a real estate resale transaction. According to the National Association of Realtors, existing home resales, as measured in units, increased by approximately nine percent in 2013. Approximately 20 percent of the revenue of American Home Shield for the year ended December 31, 2014 was tied directly to existing home resale transactions.

Key Franchise Services Group Industries

Disaster Restoration (ServiceMaster Restore). We estimate that the U.S. disaster restoration market is approximately \$39 billion, approximately two thirds of which is related to residential customers and the remainder related to

commercial customers. Most emergency response work results from emergency situations for residential and commercial customers, such as fires and flooding. Extreme weather events and natural disasters also provide demand for emergency response work. Critical factors in the selection of an emergency response firm are the firm's reputation, relationships with insurers, available resources, proper insurance and credentials, quality of service, timeliness and responsiveness. This market is highly fragmented, with two large players, including ServiceMaster Restore, and we believe there are opportunities for growth for scaled service providers.

Janitorial (ServiceMaster Clean). We estimate that the U.S. janitorial services market was approximately \$50 billion in 2013. The market is highly fragmented with more than 800,000 companies competing in the janitorial space, a significant majority of which have five or fewer employees.

Residential Cleaning (Merry Maids). We estimate that the U.S. residential professional cleaning services market was approximately \$3.7 billion in 2013. Competition in this market comes mainly from local, independently owned firms, and from a few national companies.

Our Competitive Strengths

#1 Market Positions in Large, Fragmented and Growing Markets. We are the leading provider of essential residential and commercial services in the majority of markets in which we operate. Our markets are generally large, growing and highly fragmented, and we believe we have significant advantages over smaller local and regional competitors. We have spent decades developing a reputation built on reliability and superior quality and service. As a result, we enjoy high unaided brand awareness and a reputation for high quality customer service, which serve as key drivers of our customer acquisition efforts. Our nationwide presence also allows our brands to effectively serve both local residential customers and large national commercial accounts and to capitalize on lead generation sources that include large real estate agencies, financial institutions and insurance carriers. We believe our significant size and scale also provide a competitive advantage in our purchasing power, route density, and marketing and operating efficiencies

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compared to smaller local and regional competitors. Our scale also facilitates the standardization of processes, shared learning and talent development across our entire organization.

Diverse Revenue Streams Across Customers and Geographies. ServiceMaster is diversified in terms of customers and geographies. We operate in all 50 states and the District of Columbia. Our Terminix business, which accounted for 56 percent of our revenue in 2014 served approximately 2.8 million customers. American Home Shield, which accounted for 34 percent of our revenue in 2014 responded to nearly three million service requests from approximately 1.5 million customers. Our diverse customer base and geographies help to mitigate the effect of adverse market conditions and other risks in any particular geography or customer segment we serve. We therefore believe that the size and scale of our company provide us with added protection from risk relative to our smaller local and regional competitors.

High Value Service Offerings Resulting in High Retention and Recurring Revenues. We believe our high annual customer retention demonstrates the highly valued nature of the services we offer and the high level of execution and customer service that we provide. As of December 31, 2014, in Terminix, our customer retention rate for termite and other services was 85 percent and our pest control customer retention rate was 79 percent, and in our American Home Shield segment, our customer retention rate was 75 percent. Many of our technicians have built long standing, personal relationships with their customers. We believe these personal bonds, often forged over decades, help to drive customer loyalty and retention. As a result of our strong retention rates and long standing customer relationships, we enjoy significant visibility and stability in our business, and these factors limit the effect of adverse economic cycles on our revenue base. We experienced these advantages during the most recent downturn, when we were able to grow revenue in each year from 2008 to 2014.

Multi Channel Marketing Approach Supported by Sophisticated Customer Analytic Modeling Capabilities. Our multi channel marketing approach focuses on building the value of our brands and generating revenue by understanding the decisions customers make at each stage in the purchase of residential and commercial services. The effectiveness of our marketing efforts is demonstrated by an increase in lead generation and online sales, as well as an improvement in close rates over the last few years. For example, in our direct to consumer channel at American Home Shield, new home warranty lead generation, marketing yield and close rates have benefited from increased spending on marketing as well as improved digital marketing. We have also been deploying increasingly sophisticated customer analytics models that allow us to more effectively segment our prospective customers and tailor campaigns towards them. In addition, we are seeing success with newer ways of reaching and marketing to consumers via content marketing, promotions and social media channels.

Operational and Customer Service Excellence Driven by Superior People Development. We are constantly focused on improving customer service. The customer experience is at the foundation of our business model, and we believe that each employee is an extension of ServiceMaster's reputation. We employ rigorous hiring and training practices and continuously analyze our operating metrics to identify potential improvements in service and productivity. Technicians in our Terminix branches exhibit low levels of turnover, with an average tenure of seven years, creating continuity in customer relationships and ensuring the development of best practices based on on the ground experience. We also provide our field personnel with access to sophisticated data management and mobility tools which enable them to drive efficiencies, improve customer service and ultimately grow our customer base and profitability.

Resilient Financial Model with Track Record of Consistent Performance.

· Solid revenue and Adjusted EBITDA growth through business cycles. Our consolidated revenue and Adjusted EBITDA compound annual growth rates from 2009 through 2014 were five percent and 10 percent, respectively.

We believe that our strong performance through the recent economic and housing downturns is attributable to the essential nature of our services, our strong value proposition and our management's focus on driving results.

· Solid margins with attractive operating leverage and productivity improvement initiatives. Our business model enjoys inherent operating leverage stemming from route density and fixed investments in infrastructure and technology, among other factors. We have demonstrated our ability to expand our margins through a variety of initiatives, including metric driven continuous improvement in our customer call centers, application of consistent process guidelines at the branch level, leveraging size and scale to improve the sourcing of labor and materials, and driving productivity in centralized services. We have also deployed mobility solutions and routing and scheduling systems across many of our businesses in order to enhance overall efficiency and reduce operating costs.

Capital Light Business Model. Our business model is characterized by strong Adjusted EBITDA margins, negative working capital and limited capital expenditure requirements. In 2014, 2013 and 2012, our net cash provided from operating activities from continuing operations was \$253 million, \$208 million and \$104 million, respectively, and our property additions were \$35 million, \$39 million and \$44 million, respectively. Pre Tax Unlevered Free Cash Flow was \$525 million, \$428 million and \$364 million in 2014, 2013 and 2012, respectively. We intend to utilize a meaningful portion of our future cash flow to repay debt. For a reconciliation of Pre Tax Unlevered Free Cash Flow to net cash provided from operating activities from continuing operations, which we consider to be the most directly comparable financial measure presented in accordance with accounting principles generally accepted in the United States ("GAAP"), see "Selected Historical Financial Data."

Experienced Management Team. We have assembled a management team of highly experienced leaders with significant industry expertise. Our senior leaders have track records of producing profitable growth in a wide variety of industries and economic

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conditions. We also believe that we have a deep bench of talent across each of our business units, including long tenured individuals with significant expertise and knowledge of the businesses they operate. Our management team is highly focused on execution and driving growth and profitability across our company. Our compensation structure, including incentive compensation, is tied to key performance metrics and is designed to incentivize senior management to seek the long term success of our business.

Our Strategy

Grow Our Customer Base. We are focused on the growth of our businesses through the introduction and delivery of high value services to new and existing customers. We drive growth in recurring and new sales via three primary channels:

- Direct to consumer through our company owned branches;
- Indirectly through partnerships with high quality contractors in our home warranty business; and
- Through trusted service providers who are franchisees.

To accelerate new customer growth, we make strategic investments in sales, marketing and advertising to drive new business leads, brand awareness and market penetration. In addition, we are executing multiple initiatives to improve customer satisfaction and service delivery, which we believe will lead to improved retention and growth in our customer base across our business segments.

Develop and Expand New Service Offerings. We intend to continue to leverage our existing sales channels and local coverage to deliver additional value added services to our customers. Our product development teams draw upon the experience of our technicians in the field, combined with in house scientific expertise, to create innovative customer solutions for both our existing customer base and identified service/category adjacencies. We have a strong history of new product introductions, such as Terminix's crawlspace encapsulation, mosquito control and wildlife exclusion services, that we believe will appeal to new potential customers as well as our existing customer base. As of December 31, 2014, mosquito, wildlife exclusion and crawl space encapsulation are being offered in substantially all U.S. geographic markets where we believe substantial market opportunity exists. We are now focusing our efforts on increasing our market share in these product lines.

Expand Our Geographic Markets. Through detailed assessments of local economic conditions and demographics, we have identified target markets for expansion, both in existing markets, where we have capacity to increase our local market position, and in new markets, where we see opportunities. In addition to geographic expansion opportunities within the United States, we intend to grow our international presence through strategic franchise expansions and additional licensing agreements.

Grow Our Commercial Business. Our revenue from commercial customers comprised approximately 13 percent of our 2014 revenue. We believe we are well positioned to leverage our national coverage, brand strength and broad service offerings to target large multi regional accounts. We believe these capabilities provide us with a meaningful competitive advantage, especially compared to smaller local and regional competitors. We recognize that many of these large accounts seek to outsource or reduce the number of vendors used for certain services, and, accordingly, we have reenergized our marketing approach in this channel. At Terminix, for example, we have hired a dedicated sales team to focus on the development of commercial sales. Our commercial expansion strategy targets industries with a demonstrated need for our services, including healthcare, manufacturing, warehouses, hotels and commercial real estate.

Enhance Our Profitability. We have and will continue to invest in initiatives designed to improve our margins and drive profitable growth. We have been able to increase productivity across our segments through actions such as continuous process improvement, targeted systems investments, sales force initiatives and technician mobility tools. We are also focusing on strategically leveraging the \$1.4 billion that we have spent annually with our vendors to capitalize on purchasing power and achieve more favorable pricing and terms. In addition, we have rolled out tools and processes to centralize and systematize pricing decisions. These tools and processes enable us to optimize pricing at the geographic market and product level while creating a flexible and scalable pricing architecture that can grow with the business. We intend to leverage these investments as well as identify further opportunities to enhance profitability across our businesses.

Pursue Selective Acquisitions. Since 2008, we have completed over 200 acquisitions. We anticipate that the highly fragmented nature of our markets will continue to create opportunities for further consolidation. As we have in the past, we will continue to take advantage of tuck in as well as strategic acquisition opportunities, particularly in underserved markets where we can enhance and expand our service capabilities. We seek to use acquisitions, cost effectively grow our customer count and enter high growth geographies. We may also pursue acquisitions as vehicles for strategic international expansion.

Our Reportable Segments

Our operations are organized into three reportable segments: Terminix, American Home Shield and the Franchise Services Group (which includes ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec).

Terminix

Terminix is the leading provider of termite and pest control services in the United States, with a market share of approximately 21 percent for 2014, as measured by customer level revenue. In addition, Terminix is the most recognized brand in the industry with approximately 1.5x the unaided brand awareness of our next largest competitor, based on a study by Decision

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Analyst, Inc. periodically commissioned by us as part of our ongoing marketing efforts. Terminix specializes in protection against termite damage, rodents, insects and other pests, including cockroaches, spiders, wood destroying ants, ticks, fleas and bed bugs. Our services include termite remediation, annual termite inspection and prevention treatments with damage claim guarantees, periodic pest control services and insulation services. Our recent new product introductions include mosquito control, crawlspace encapsulation and wildlife exclusion.

For the year ended December 31, 2014, 55 percent of our Terminix revenue was generated from pest control services, which includes mosquito control, and 40 percent was generated from termite and other services, which includes crawlspace encapsulation, wildlife exclusion and insulation services, with the remaining five percent from distribution of pest control products. For the year ended December 31, 2014, 70 percent and 30 percent of pest control revenue was related to residential services and commercial services, respectively, and 92 percent and eight percent of revenue from termite and other services was related to residential and commercial services, respectively. A significant portion of our Terminix revenue base is recurring, with 72 percent of 2014 revenue derived from services delivered through annual contracts. Additionally, as of December 31, 2014, our customer retention rate for termite and other services was 85 percent, and the pest control retention rate was 79 percent.

We believe that the strength of the Terminix brand, along with our history of providing a high level of consistent service, allows us to enjoy a competitive advantage in attracting, retaining and growing our customer base. We believe our investments in systems and processes, such as routing and scheduling optimization, robust reporting capabilities and mobile customer management solutions, enable us to deliver a higher level of customer service when compared to smaller regional and local competitors.

Our focus on attracting and retaining customers begins with our associates in the field, who interact with our customers every day. Our associates bring a strong level of passion and commitment to the Terminix brand, as evidenced by the 11 year and 7 year average tenure of our branch managers and technicians, respectively. Our field organization is supported by dedicated customer service and call center personnel. Our culture of continuous improvement drives an intense focus on the quality of the services delivered, which we believe produces high levels of customer satisfaction and, ultimately, customer retention and referrals.

The Terminix national branch structure includes approximately 285 company-owned locations and approximately 25 franchise agreements, which serve approximately 2.8 million customers in 47 states and the District of Columbia. Terminix's over 8,000 employees made a daily average of 50,000 visits to residential and commercial customer locations during 2014. Terminix also provides termite and pest control services through subsidiaries in Canada, Mexico, the Caribbean and Central America, as well as a joint venture in India. In addition, licensees of Terminix provide these services in Japan, China, South Korea, Southeast Asia, Central America, the Caribbean and the Middle East. In 2014, substantially all of Terminix revenue was generated in the United States, with approximately two percent derived from international markets, with a presence in a total of 21 countries outside the United States through subsidiaries, a joint venture and licensing arrangements. Franchise fees from Terminix franchisees represented less than one percent of Terminix revenue in 2014. We estimate that customer level revenue for this segment was approximately \$1,600 million for the year ended December 31, 2014. Customer level revenue represents the total of our estimate of sales generated by our franchisees, a portion of which is included in our reported revenue from royalty fees, and sales generated by our company owned operations.

Terminix Competitive Strengths

- #1 market position and #1 recognized brand in U.S. termite and pest control services
- Track record of high customer retention rates

- Passionate and committed associates focused on delivering superior customer service
- Expansive scale and deep market presence across a national footprint
- Effective multi channel customer acquisition strategy
- History of innovation leadership and introducing new products and services

American Home Shield

American Home Shield founded the home warranty industry in 1971 and remains the leading provider of home warranty plans for household systems and appliances in the United States, with approximately 42 percent market share, as measured by revenue. We estimate American Home Shield to be approximately four to five times larger than its nearest competitors, as measured by revenue. We believe that, as the market leader, American Home Shield can drive increasing use of home warranties given the low industry household penetration of approximately three to four percent.

American Home Shield provides home warranty plans that cover the repair or replacement of up to 21 major household systems and appliances, including electrical, plumbing, central heating and air conditioning (HVAC) systems, water heaters, refrigerators, dishwashers and ovens/cook tops. Our warranty plans are generally structured as one year contracts with annual renewal options and, as a result, a significant portion of our revenue base in this segment is recurring, with approximately 56 percent of our revenue base representing customers in the direct to consumer sales market. As of December 31, 2014, our retention rate was 75 percent. For the year ended December 31, 2014, 66 percent of our American Home Shield revenue was derived from existing contract renewals (of which 64 percent was from the direct to consumer channel and 36 percent was from the home resale channel), while

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percent and 14 percent were derived from sales made in conjunction with existing home resale transactions and direct to consumer sales, respectively. We estimate that our share of the new sales market for contracts written in connection with existing home resales and direct to consumer sales in 2014 was 23 percent and 50 percent, respectively.

We believe that we have one of the largest contractor networks in the United States, comprised of approximately 11,000 independent home service contractor firms. We carefully screen our contractors and closely monitor their performance based on a number of criteria, including through feedback from customer satisfaction surveys. On an annual basis, our contractors respond to nearly three million service requests from approximately 1.5 million customers across all 50 states and the District of Columbia. Additionally, American Home Shield operates and takes service calls 24 hours a day, seven days a week. Furthermore, as a result of our large contractor network and sophisticated IT systems, approximately 90 percent of the time we successfully assign contractors to a job within 15 minutes or less.

American Home Shield Competitive Strengths

- #1 market position in the industry with 42 percent market share, estimated to be four to five times the size of the next largest competitors
- Track record of high customer retention rates
- Large and pre-qualified national contractor network
- Strong partnerships with leading national residential real estate firms
- Core competency around direct to consumer marketing and lead generation

Franchise Services Group

Through December 31, 2013, we reported the Merry Maids business in Corporate and the ServiceMaster Restore, ServiceMaster Clean, Furniture Medic and AmeriSpec businesses in the ServiceMaster Clean segment. Beginning with the reporting period for the three months ended March 31, 2014, we have combined the Merry Maids business with our ServiceMaster Clean segment in a new reportable segment titled Franchise Services Group.

ServiceMaster's Franchise Services Group consists of the ServiceMaster Restore (disaster restoration), ServiceMaster Clean (janitorial), Merry Maids (residential cleaning), Furniture Medic (furniture repair) and AmeriSpec (home inspection) businesses. Our businesses in this segment operate principally through franchisees. In 2014 we began converting company-owned Merry Maids locations to franchises. Approximately half of our revenue in this segment consists of ongoing monthly royalty fees based upon a percentage of our franchisees' customer-level revenue. We estimate that the customer-level revenue for this segment was approximately \$2,600 million for the year ended December 31, 2014. We believe that each business holds a leading market position in its respective category and that our scale and national presence create competitive advantages for us in attracting and retaining franchisees. We are able to invest in best-in-class systems, training and process development, provide multiple levels of marketing support and direct new business leads to our franchisees through our relationships with major insurance carriers and national account customers. The depth of our franchisee support is evidenced by the long average tenure of our franchisees, many of whom have partnered with ServiceMaster for over 25 years. Our Franchise Services Group serves both residential and commercial customers across all 50 states and the District of Columbia through approximately 4,300 franchise agreements and approximately 70 company-owned locations with additional locations in 16 other countries.

Franchise Services Group Competitive Strengths

- Strong and trusted brands with leading market positions in their respective categories

- Attractive value proposition to franchisees
 - Exceptional focus on customer service evidenced by strong net promoter scores (“NPS”)
 - Infrastructure and scale supporting our ability to service national accounts
 - National network and 24/7/365 service availability supports mission critical nature of the ServiceMaster Restore business
 - Long standing and strong relationships with the majority of the top 20 insurance carriers
- TruGreen Spin Off

On January 14, 2014, we 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 ServiceMaster 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 its results of operations, cash flows and related assets and liabilities, are reported in discontinued operations for all periods presented.

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We have historically incurred the cost of certain corporate level activities which we performed on behalf of the TruGreen Business, including 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. Beginning with the TruGreen Spin Off, where it was practicable, employees who historically provided such services to the TruGreen Business were separated from us and transferred to New TruGreen as of the date of the TruGreen Spin Off. For certain support services for which it was not practicable to separate employees and transfer them to New TruGreen beginning with the TruGreen Spin Off, a transition services agreement was entered into pursuant to which SvM and its subsidiaries provide specified services to New TruGreen while an orderly transition of employees and other support arrangements from SvM to New TruGreen is executed. The charges for the transition services are designed to allow us to fully recover the 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 for certain information technology services, which SvM expects to provide to New TruGreen beyond the two year period). New TruGreen may terminate the transition services agreement (or certain services under the transition services agreement) for convenience upon 90 days written notice, in which case New TruGreen will be required to reimburse us for early termination costs. As a result of the transfer of employees to New TruGreen, in combination with the fees we received under the transition services agreement, we achieved an approximate \$25 million reduction in annual costs in 2014. We do not expect an incremental change in our annual costs in 2015 related to fees under the transition services agreement or the transfer of employees to New TruGreen.

Sales and Marketing

Terminix

Terminix markets its services to both homeowners and businesses through a national sales team and sales professionals in our branches and call centers. We generate leads for these sales professionals through advertising campaigns on television, online, in direct mail and in the yellow pages.

American Home Shield

In our American Home Shield segment, we market our services primarily through the internet, direct mail, television and radio advertising, print advertisements, marketing partnerships, telemarketing and various social media channels. Additionally, we market our services through a national sales team and various participants in the residential real estate marketplace, such as real estate brokerages, as well as some financial institutions and insurance carriers. American Home Shield focuses its marketing efforts on direct to consumer sales.

Franchise Services Group

In our Franchise Services Group segment, we market our services primarily through our franchise network, branch operations and a national sales team to a combination of business to business and business to consumer audiences. These services are advertised on a national and local level and include such media as television, radio, internet, direct mail, print advertisements, sales collateral materials and yellow page advertisements.

Service Marks, Trademarks and Trade Names

We hold various service marks, trademarks and trade names, such as ServiceMaster, Terminix, American Home Shield, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec, that we deem

particularly important to the advertising activities conducted by each of our reportable segments as well as the franchising activities conducted by certain reportable segments. As of December 31, 2014, we had marks that were protected by registration (either by direct registration or by treaty) in the United States and approximately 95 other countries. In connection with the TruGreen Spin Off, on January 14, 2014, all of the service marks, trademarks and trade names related to the TruGreen Business were transferred to New TruGreen and its subsidiaries.

Franchises

Franchises are important to the Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. In 2014, 2013 and 2012, total franchise fees (monthly royalty fees as well as initial fees from sales of franchises and licenses) were \$146 million, \$137 million and \$126 million, respectively, related franchise operating expenses were \$75 million, \$69 million and \$65 million, respectively, and total profits from our franchised operations were \$71 million, \$68 million and \$61 million, respectively. Nearly all of the franchise fees received by our Franchise Services Group segment are derived from the ServiceMaster Restore, ServiceMaster Clean and Merry Maids businesses. Franchise fees from our Terminix franchisees represented less than one percent of Terminix revenue for each of those years. We evaluate the performance of our franchise businesses based primarily on operating profit before corporate general and administrative expenses, interest expense and amortization of intangible assets. Franchise agreements entered into in the course of these businesses are generally for a term of five to 10 years. The majority of these franchise agreements are renewed prior to expiration. Internationally, we have license agreements, whereby licensees provide services under our brand names that would ordinarily be provided by franchisees in the United States. The majority of international licenses are for 10 year terms.

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Customers and Geographies

We have no single customer that accounts for more than two percent of our consolidated revenue. Additionally, no reportable segment has a single customer that accounts for more than three percent of its revenue. None of our reportable segments is dependent on a single customer or a few customers, the loss of which would have a material adverse effect on the segment.

A significant percentage of our revenues is concentrated in the southern and western regions of the United States. In our Terminix segment, California, Texas and Florida collectively accounted for approximately one third of the revenue in 2014. In our American Home Shield segment, Texas and California collectively accounted for approximately one third of our revenue in 2014.

Competition

We compete in residential and commercial services industries, focusing on termite and pest control, home warranties, disaster restoration, janitorial, residential cleaning, furniture repair and home inspection. We compete with many other companies in the sale of our services, franchises and products. The principal methods of competition in our businesses include quality and speed of service, name recognition and reputation, customer satisfaction, brand awareness, pricing and promotions, professional sales forces and referrals. While we compete with a broad range of competitors in each discrete segment, we do not believe that any of our competitors provides all of the services we provide in all of the market segments we serve. All of the primary segments in which we operate are highly fragmented.

Termite and Pest Control

Competition in the segment for professional termite and pest control services in the United States comes primarily from smaller regional and local, independently operated firms, as well as from Orkin, Inc., a subsidiary of Rollins, Inc., and Ecolab, Inc., both of which compete nationally.

Home Warranties

Competition for home warranties that cover household systems and appliances comes mainly from regional providers. Our two largest competitors are First American Financial Corporation and Old Republic International Corporation.

Disaster Restoration, Emergency Response and Related Services

Competition in the markets for disaster restoration, emergency response and related services comes mainly from local, independently owned firms and a few national professional cleaning companies, such as Servpro Industries, Inc., Belfor, a subsidiary of Belfor Europe GmbH, BMS CAT, Inc., Stanley Steemer International, Inc., and Sears Holdings Corporation.

Janitorial

Competition in the market for janitorial services comes mainly from local, independently owned firms and a few national professional janitorial firms such as ABM Industries Incorporated and Jani King International, Inc.

Residential Cleaning

Competition in the market segment for residential cleaning services comes mainly from local, independently owned firms, and from a few national companies such as The Maids International, Inc., Molly Maid, Inc. and The Cleaning Authority, LLC.

Insurance

We maintain insurance coverage that we believe is appropriate for our business, including workers' compensation, auto liability, general liability, umbrella and property insurance. In addition, we provide various insurance coverages, including deductible reimbursement policies, to our business units through our wholly owned captive insurance company, which is domiciled in Vermont.

Information Technology

We have invested in information systems and software packages designed to allow us to grow efficiently, deliver and implement nationally, while retaining local and regional flexibility. We believe this provides us with a competitive advantage in our operations. Our sophisticated IT systems enable us to provide a high level of convenience and service to our customers. Terminix is able to provide a two hour service window to customers. Similarly, American Home Shield's call centers, which operate and take service calls 24 hours a day, seven days a week, successfully assign contractors to a job within 15 minutes or less approximately 90 percent of the time.

Employees

The average number of persons employed by our continuing operations during 2014 was approximately 13,000. None of our employees in the United States are represented by collective bargaining agreements.

Regulatory Compliance

Our businesses are subject to various international, federal, state, provincial and local laws and regulations, compliance with which increases our operating costs, limits or restricts the services provided by our reportable segments or the methods by which our businesses offer, sell and fulfill those services or conduct their respective businesses, or subjects us and our reportable segments to the

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possibility of regulatory actions or proceedings. Noncompliance with these laws and regulations can subject us to fines or various forms of civil or criminal prosecution, any of which could have a material adverse effect on our reputation, business, financial position, results of operations and cash flows.

These international, federal, state, provincial and local laws and regulations include laws relating to consumer protection, wage and hour, deceptive trade practices, permitting and licensing, state contractor laws, real estate settlements, workers' safety, tax, healthcare reforms, franchise related issues, collective bargaining and other labor matters, environmental and employee benefits. The Terminix business must also meet certain Department of Transportation and Federal Motor Carrier Safety Administration requirements with respect to certain vehicles in its fleet. Terminix is regulated by federal, state and local laws, ordinances and regulations which are enforced by Pest Control Boards, Departments of Environmental Conservation and similar government entities. American Home Shield is regulated in certain states by the applicable state insurance regulatory authority and by the Real Estate Commission in Texas. ServiceMaster Clean and Merry Maids use products containing ingredients regulated by the U.S. Environmental Protection Agency (the "EPA") and ServiceMaster Clean is subject to licensing and certification requirements for applying disinfectants, sanitizers and other EPA registered products in certain states. AmeriSpec is regulated by various state and local home inspection laws and regulations.

Environmental, Health and Safety Matters

Our businesses are subject to various international, federal, state and local laws and regulations regarding environmental, health and safety matters. Among other things, these laws regulate the emission or discharge of materials into the environment, govern the use, storage, treatment, disposal and management of hazardous substances and wastes and protect the health and safety of our employees. These laws also impose liability for the costs of investigating and remediating, and damages resulting from, present and past releases of hazardous substances, including releases by prior owners or operators of sites we currently own or operate.

Compliance with environmental, health and safety laws increases our operating costs, limits or restricts the services provided by our reportable segments or the methods by which they offer, sell and fulfill those services or conduct their respective businesses, or subjects us and our reportable segments to the possibility of regulatory or private actions or proceedings.

Terminix is regulated under many federal and state environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (the "CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 (the "Superfund"), the Federal Environmental Pesticide Control Act of 1972, the Federal Insecticide, Fungicide and Rodenticide Act of 1947, the Resource Conservation and Recovery Act of 1976, the Clean Air Act, the Emergency Planning and Community Right to Know Act of 1986, the Oil Pollution Act of 1990 and the Clean Water Act of 1977, each as amended.

We cannot predict the effect of possible future environmental laws on our operations. Changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, may lead to additional compliance or other costs. During 2014 there were no material capital expenditures for environmental control facilities, and there are no material expenditures anticipated for 2015 or 2016 related to such facilities.

Consumer Protection and Solicitation Matters

We are subject to international, federal, state, provincial and local laws and regulations designed to protect consumers, including laws governing consumer privacy and fraud, the collection and use of consumer data, telemarketing and other forms of solicitation.

The telemarketing rules adopted by the Federal Communications Commission pursuant to the Federal Telephone Consumer Protection Act and the Federal Telemarketing Sales Rule issued by the Federal Trade Commission govern our telephone sales practices. In addition, some states and local governing bodies have adopted laws and regulations targeted at direct telephone sales and “do not knock,” “do not mail” and “do not leave” activities. The implementation of telemarketing regulations requires us to rely more extensively on other marketing methods and channels. In addition, if we were to fail to comply with any applicable law or regulation, we could be subject to substantial fines or damages, be involved in lawsuits, enforcement actions and other claims by third parties or governmental authorities, suffer losses to our reputation and our business or suffer the loss of licenses or penalties that may affect how the business is operated, which, in turn, could have a material adverse effect on our financial position, results of operations and cash flows.

In April 2014, the Bureau of Consumer Financial Protection (the “CFPB”) issued a Civil Investigative Demand to American Home Shield seeking documents and information to determine whether home warranty providers or other unnamed persons have engaged or are engaging in unlawful acts and practices in connection with referral arrangements and relationships in violation of Real Estate Settlement Procedures Act and its implementing regulation (“RESPA”) and other laws enforceable by the CFPB. American Home Shield believes that it has complied with RESPA and other laws applicable to American Home Shield’s home warranty business. If the CFPB determines to bring an enforcement action, it could include demands for money penalties, changes to certain of American Home Shield’s business practices and customer restitution or disgorgement.

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Franchise Matters

Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec are subject to various international, federal, state, provincial and local laws and regulations governing franchise sales, marketing and licensing and franchise trade practices generally, including applicable rules and regulations of the Federal Trade Commission. These laws and regulations generally require disclosure of business information in connection with the sale and licensing of franchises. Certain state regulations also affect the ability of the franchisor to revoke or refuse to renew a franchise. We seek to comply with regulatory requirements and deal with franchisees and licensees in good faith. From time to time, we and one or more franchisees may become involved in a dispute regarding the franchise relationship, including payment of royalties or fees, location of branches, advertising, purchase of products by franchisees, non competition covenants, compliance with our standards and franchise renewal criteria. There can be no assurance that compliance problems will not be encountered from time to time or that significant disputes with one or more franchisees will not arise.

From time to time, we receive communications from our franchisees regarding complaints, disputes or questions about our practices and standards in relation to our franchised operations and certain economic terms of our franchise arrangements. If franchisees or groups representing franchisees were to bring legal proceedings against us, we would vigorously defend against the claims in any such proceeding, but our reputation, business, financial position, results of operations and cash flows could be materially adversely impacted and the price of our common stock could decline.

Available Information

ServiceMaster maintains a website at <http://www.servicemaster.com> that includes a hyperlink to a website maintained by a third party where ServiceMaster's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge as soon as reasonably practicable following the time that they are filed with or furnished to the SEC. The information found on the Company's website is not a part of this or any other report filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

You should carefully consider the factors described below, in addition to the other information set forth in the Annual Report on Form 10-K. These risk factors are important to understanding the contents of this Annual Report on Form 10-K and of other reports. Our reputation, business, financial position, results of operations and cash flows are subject to various risks. The risks and uncertainties described below are not the only ones relevant to us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also adversely impact our reputation, business, financial position, results of operations and cash flows.

Risks Related to Our Business and Our Industry

Weakening in general economic conditions, especially as they may affect home sales, unemployment or consumer confidence or spending levels, may adversely impact our business, financial position, results of operations and cash flows.

A substantial portion of our results of operations is dependent upon spending by consumers. Deterioration in general economic conditions and consumer confidence, particularly in California, Texas and Florida, which collectively represented approximately one third of our revenue in 2014 in our Terminix and American Home Shield segments, could affect the demand for our services. Consumer spending and confidence tend to decline during times of declining

economic conditions. A worsening of macroeconomic indicators, including weak home sales, higher home foreclosures, declining consumer confidence or rising unemployment rates, could adversely affect consumer spending levels, reduce the demand for our services and adversely impact our business, financial position, results of operations and cash flows. These factors could also negatively impact the timing or the ultimate collection of accounts receivable, which would adversely impact our business, financial position, results of operations and cash flows.

We may not successfully implement our business strategies, including achieving our growth objectives.

We may not be able to fully implement our business strategies or realize, in whole or in part within the expected time frames, the anticipated benefits of our various growth or other initiatives. Our various business strategies and initiatives, including growth of our customer base, introduction of new service offerings, geographic expansion, growth of our commercial business and enhancement of profitability, are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control.

In addition, we may incur certain costs to achieve efficiency improvements and growth in our business and we may not meet anticipated implementation timetables or stay within budgeted costs. As these efficiency improvement and growth initiatives are undertaken, we may not fully achieve our expected cost savings and efficiency improvements or growth rates, or these initiatives could adversely impact our customer retention or our operations. Also, our business strategies may change from time to time in light of our ability to implement our new business initiatives, competitive pressures, economic uncertainties or developments, or other factors.

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Adverse credit and financial market events and conditions could, among other things, impede access to or increase the cost of financing or cause our commercial and governmental customers to incur liquidity issues that could lead to some of our services not being purchased or being cancelled, or result in reduced revenue and lower Adjusted EBITDA, any of which could have an adverse impact on our business, financial position, results of operations and cash flows.

Disruptions in credit or financial markets could, among other things, lead to impairment charges, make it more difficult for us to obtain, or increase our cost of obtaining, financing for our operations or investments or to refinance our indebtedness, cause our lenders to depart from prior credit industry practice and not give technical or other waivers under our Credit Facilities to the extent we may seek them in the future, thereby causing SvM to be in default under one or more of our Credit Facilities. These disruptions also could cause our commercial customers to encounter liquidity issues that could lead to some of our services being cancelled or reduced, or that could result in an increase in the time it takes our customers to pay us, or that could lead to a decrease in pricing for our services and products, any of which could adversely affect our accounts receivable, among other things, and, in turn, increase our working capital needs. Volatile swings in the commercial real estate segment could also impact the demand for our services as landlords cut back on services provided to their tenants. In addition, adverse developments at federal, state and local levels associated with budget deficits resulting from economic conditions could result in federal, state and local governments decreasing their purchasing of our products or services and/or increasing taxes or other fees on businesses, including us, to generate more tax revenues, which could negatively impact spending by commercial customers and municipalities on our services.

Our market segments are highly competitive. Competition could reduce our share of the market segments served by us and adversely impact our reputation, business, financial position, results of operations and cash flows.

We operate in highly competitive market segments. Changes in the source and intensity of competition in the market segments served by us impact the demand for our services and may also result in additional pricing pressures. The relatively low capital cost of entry into certain of our business categories has led to strong competitive market segments, including competition from smaller regional and local owner operated companies. Regional and local competitors operating in a limited geographic area may have lower labor, employee benefits and overhead costs. The principal methods of competition in our businesses include name recognition, quality and speed of service, customer satisfaction, reputation and pricing. We may be unable to compete successfully against current or future competitors, and the competitive pressures that we face may result in reduced market segment share, reduced pricing or adversely impact our reputation, business, financial position, results of operations and cash flows.

Weather conditions and seasonality affect the demand for our services and our results of operations and cash flows.

The demand for our services and our results of operations are affected by weather conditions, including, without limitation, potential impacts, if any, from climate change, known and unknown, and by the seasonal nature of our termite and pest control services, home inspection services, home warranties and disaster restoration services. Adverse weather conditions (e.g., cooler temperatures or droughts), whether created by climate change factors or otherwise, can impede the development of the termite swarm and lead to lower demand for our termite remediation services. For example, colder weather conditions in early 2014 adversely affected our traditional termite revenue in the year ended December 31, 2014. Severe winter storms can also impact our home cleaning business if personnel cannot travel to service locations due to hazardous road conditions. In addition, extreme temperatures can lead to an increase in service requests related to household systems and appliances in our American Home Shield business, resulting in higher claim frequency and costs and lower profitability. These or other weather conditions could adversely impact our business, financial position, results of operations and cash flows.

Increases in raw material prices, fuel prices and other operating costs could adversely impact our business, financial position, results of operations and cash flows.

Our financial performance is affected by the level of our operating expenses, such as fuel, chemicals, refrigerants, appliances and equipment, parts, raw materials, wages and salaries, employee benefits, health care, vehicle maintenance, self insurance costs and other insurance premiums as well as various regulatory compliance costs, all of which may be subject to inflationary pressures. In particular, our financial performance is adversely affected by increases in these operating costs. In recent years, fuel prices have fluctuated widely, and previous increases in fuel prices increased our costs of operating vehicles and equipment. Although in the first few weeks of 2015 fuel prices have decreased significantly, there can be no assurances that rates will not return to historical levels. We cannot predict what effect global events or any future Middle East, Russia or other crisis could have on fuel prices, but it is possible that such events could lead to higher fuel prices. With respect to fuel, our Terminix fleet, which consumes approximately 11 million gallons annually, has been negatively impacted by significant increases in fuel prices in the past and could be negatively impacted in the future. Although we hedge a significant portion of our fuel costs, we do not hedge all of those costs. In 2014, we used approximately 11 million gallons of fuel. As of December 31, 2014, a 10 percent change in fuel prices would result in a change of approximately \$4 million in our annual fuel cost before considering the impact of fuel swap contracts. Fuel price increases can also result in increases in the cost of chemicals and other materials used in our business. We cannot predict the extent to which we may experience future increases in costs of fuel, chemicals, refrigerants, appliances and equipment, parts, raw materials, wages and salaries, employee benefits, health care, vehicle, self insurance costs and other insurance premiums as well as various regulatory compliance costs and other operating costs. To the extent such costs increase, we may be prevented, in whole or in part, from passing these cost increases through to our existing and prospective customers, and the rates we pay to our subcontractors and suppliers may increase, any of which could have a material adverse impact on our business, financial position, results of operations and cash flows.

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We may not be able to attract and retain qualified key executives or transition smoothly to new leadership, which could adversely impact us and our businesses and inhibit our ability to operate and grow successfully.

The execution of our business strategy and our financial performance will continue to depend in significant part on our executive management team and other key management personnel. Any inability to attract in a timely manner other qualified key executives, retain our leadership team and recruit other important personnel could have a material adverse impact on our business, financial position, results of operations and cash flows.

Our franchisees and third party distributors and vendors could take actions that could harm our business.

For the year ended December 31, 2014, \$146 million of our consolidated revenue was received in the form of franchise revenues. Accordingly, our financial results are dependent in part upon the operational and financial success of our franchisees. Our franchisees, third party distributors and vendors are contractually obligated to operate their businesses in accordance with the standards set forth in our agreements with them. Each franchising brand also provides training and support to franchisees. However, franchisees, third party distributors and vendors are independent third parties that we do not control, and who own, operate and oversee the daily operations of their businesses. As a result, the ultimate success of any franchise operation rests with the franchisee. If franchisees do not successfully operate their businesses in a manner consistent with required standards, royalty payments to us will be adversely affected and our brands' image and reputation could be harmed, which in turn could adversely impact our business, financial position, results of operations and cash flows. Similarly, if third party distributors, vendors and franchisees do not successfully operate their businesses in a manner consistent with required laws, standards and regulations, we could be subject to claims from regulators or legal claims for the actions or omissions of such third party distributors, vendors and franchisees. In addition, our relationship with our franchisees, third party distributors and vendors could become strained (including resulting in litigation) as we impose new standards or assert more rigorous enforcement practices of the existing required standards. These strains in our relationships or claims could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

From time to time, we receive communications from our franchisees regarding complaints, disputes or questions about our practices and standards in relation to our franchised operations and certain economic terms of our franchise arrangements. If franchisees or groups representing franchisees were to bring legal proceedings against us, we would vigorously defend against the claims in any such proceeding, but our reputation, business, financial position, results of operations and cash flows could be materially adversely impacted and the price of our common stock could decline.

Disruptions or failures in our information technology systems could create liability for us or limit our ability to effectively monitor, operate and control our operations and adversely impact our reputation, business, financial position, results of operations and cash flows.

Our information technology systems facilitate our ability to monitor, operate and control our operations. Changes or modifications to our information technology systems could cause disruption to our operations or cause challenges with respect to our compliance with laws, regulations or other applicable standards. As the development and implementation of our information technology systems (including our operating systems) evolve, we may elect to modify, replace or abandon certain technology initiatives, which could result in write downs. For example, in February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. We recorded an impairment charge of \$47 million in the year ended December 31, 2014 relating to this decision.

Any disruption in, capacity limitations, instability or failure to operate as expected of, our information technology systems, could, depending on the magnitude of the problem, adversely impact our business, financial position, results of operations and cash flows, including by limiting our capacity to monitor, operate and control our operations effectively. Failures of our information technology systems could also lead to violations of privacy laws, regulations, trade guidelines or practices related to our customers and associates. If our disaster recovery plans do not work as anticipated, or if the third party vendors to which we have outsourced certain information technology, contact center or other services fail to fulfill their obligations to us, our operations may be adversely impacted, and any of these circumstances could adversely impact our reputation, business, financial position, results of operations and cash flows.

Changes in the services we deliver or the products we use could impact our reputation, business, financial position, results of operations and cash flows and our future plans.

Our financial performance is affected by changes in the services and products we offer our customers. For example, Terminix recently introduced new products relating to mosquito control, crawlspace encapsulation and wildlife exclusion. There can be no assurance that our new strategies or product offerings will succeed in increasing revenue and growing profitability. An unsuccessful execution of new strategies, including the rollout or adjustment of our new services or products or sales and marketing plans, could cause us to re-evaluate or change our business strategies and could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows and our future plans.

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If we fail to protect the security of personal information about our customers, associates and third parties, we could be subject to interruption of our business operations, private litigation, reputational damage and costly penalties.

We rely on, among other things, commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information of customers, associates and third parties, such as payment card and personal information. The systems currently used for transmission and approval of payment card transactions, and the technology utilized in payment cards themselves, all of which can put payment card data at risk, are central to meeting standards set by the payment card industry (“PCI”). We continue to evaluate and modify our systems and protocols for PCI compliance purposes, and such PCI standards may change from time to time. Activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our systems. Any compromises, breaches or errors in applications related to our systems or failures to comply with standards set by the PCI could cause damage to our reputation and interruptions in our operations, including our customers’ ability to pay for our services and products by credit card or their willingness to purchase our services and products and could result in a violation of applicable laws, regulations, orders, industry standards or agreements and subject us to costs, penalties and liabilities which could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business.

Our ability to compete effectively depends in part on our rights to service marks, trademarks, trade names and other intellectual property rights we own or license, particularly our registered brand names, ServiceMaster, Terminix, American Home Shield, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec. We have not sought to register or protect every one of our marks either in the United States or in every country in which they are or may be used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States. If we are unable to protect our proprietary information and brand names, we could suffer a material adverse impact on our reputation, business, financial position, results of operations and cash flows. Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products, services or activities infringe their intellectual property rights.

Future acquisitions or other strategic transactions could impact our reputation, business, financial position, results of operations and cash flows.

We may pursue strategic transactions in the future, which could involve acquisitions or dispositions of businesses or assets. Any future strategic transaction could involve integration or implementation challenges, business disruption or other risks, or change our business profile significantly. Any inability on our part to consolidate and manage growth from acquired businesses or successfully implement other strategic transactions could have an adverse impact on our reputation, business, financial position, results of operations and cash flows. Any acquisition that we make may not provide us with the benefits that were anticipated when entering into such acquisition. The process of integrating an acquired business may create unforeseen difficulties and expenses, including the diversion of resources needed to integrate new businesses, technologies, products, personnel or systems; the inability to retain associates, customers and suppliers; the assumption of actual or contingent liabilities (including those relating to the environment); failure to effectively and timely adopt and adhere to our internal control processes and other policies; write offs or impairment charges relating to goodwill and other intangible assets; unanticipated liabilities relating to acquired businesses; and potential expense associated with litigation with sellers of such businesses. Any future disposition transactions could

also impact our business and may subject us to various risks, including failure to obtain appropriate value for the disposed businesses, post closing claims being levied against us and disruption to our other businesses during the sale process or thereafter.

Laws and government regulations applicable to our businesses and lawsuits, enforcement actions and other claims by third parties or governmental authorities could increase our legal and regulatory expenses, and impact our business, financial position, results of operations and cash flows.

Our businesses are subject to significant international, federal, state, provincial and local laws and regulations. These laws and regulations include laws relating to consumer protection, wage and hour requirements, franchising, the employment of immigrants, labor relations, permitting and licensing, building code requirements, workers' safety, the environment, insurance and home warranties, employee benefits, marketing (including, without limitation, telemarketing) and advertising, the application and use of pesticides and other chemicals. In particular, we anticipate that various international, federal, state, provincial and local governing bodies may propose additional legislation and regulation that may be detrimental to our business or may substantially increase our operating costs, including increases in the minimum wage, environmental regulations related to chemical use, climate change, equipment efficiency standards, refrigerant production and use and other environmental matters; other consumer protection laws or regulations; health care coverage; or "do not knock," "do not mail," "do not leave" or other marketing regulations. It is difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our businesses and changes to such requirements may adversely affect our business, financial position, results of operations and cash flows. In addition, if we were to fail to comply with any applicable law or regulation, we could be subject to substantial fines or damages, be involved in lawsuits, enforcement actions and other claims by third parties or governmental authorities, suffer losses to our reputation, suffer the loss of licenses or incur penalties that may affect how our business is operated, which, in turn, could have a material adverse impact on our business, financial position, results of operations and cash flows.

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In April 2014, the CFPB issued a Civil Investigative Demand to American Home Shield seeking documents and information to determine whether home warranty providers or other unnamed persons have engaged or are engaging in unlawful acts and practices in connection with referral arrangements and relationships in violation of RESPA and other laws enforceable by the CFPB. American Home Shield believes that it has complied with RESPA and other laws applicable to American Home Shield's home warranty business. If the CFPB determines to bring an enforcement action, it could include demands for money penalties, changes to certain of American Home Shield's business practices and customer restitution or disgorgement.

Public perceptions that the products we use and the services we deliver are not environmentally friendly or safe may adversely impact the demand for our services.

In providing our services, we use, among other things, pesticides and other chemicals. Public perception that the products we use and the services we deliver are not environmentally friendly or safe or are harmful to humans or animals, whether justified or not, or our improper application of these chemicals, could reduce demand for our services, increase regulation or government restrictions or actions, result in fines or penalties, impair our reputation, involve us in litigation, damage our brand names and otherwise have a material adverse impact on our business, financial position, results of operations and cash flows.

We may be required to recognize additional impairment charges.

In the first quarter of 2014, we incurred impairment charges with respect to fixed assets, and we have also incurred impairment charges in the past in connection with our disposition activities. We have significant amounts of goodwill and intangible assets, such as trade names. 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 annually, or more frequently if there are indicators of impairment, including:

- significant adverse changes in the business climate, including economic or financial conditions;
- significant adverse changes in expected operating results;
- adverse actions or assessments by regulators;
- unanticipated competition;
- loss of key personnel; and
- a current expectation that it is more likely than not that a reporting unit or intangible asset will be sold or otherwise disposed of.

In February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. We recorded an impairment charge of \$47 million in the year ended December 31, 2014 relating to this decision.

Based upon future economic and financial market conditions, the operating performance of our reporting units and other factors, including those listed above, we may incur impairment charges in the future. It is possible that such impairment, if required, could be material. Any future impairment charges that we are required to record could have a material adverse impact on our results of operations.

Compliance with, or violation of, environmental, health and safety laws and regulations, including laws pertaining to the use of pesticides could result in significant costs that adversely impact our reputation, business, financial position, results of operations and cash flows.

International, federal, state, provincial and local laws and regulations relating to environmental, health and safety matters affect us in several ways. In the United States, products containing pesticides generally must be registered with EPA and similar state agencies before they can be sold or applied. The failure to obtain or the cancellation of any such registration, or the withdrawal from the market place of such pesticides, could have an adverse effect on our business, the severity of which would depend on the products involved, whether other products could be substituted and whether our competitors were similarly affected. The pesticides we use are manufactured by independent third parties and are evaluated by the EPA as part of its ongoing exposure risk assessment. The EPA may decide that a pesticide we use will be limited or will not be re-registered for use in the United States. We cannot predict the outcome or the severity of the effect of the EPA's continuing evaluations.

In addition, the use of certain pesticide products is regulated by various international, federal, state, provincial and local environmental and public health agencies. Although we strive to comply with such regulations and have processes in place designed to achieve compliance, given our dispersed locations, distributed operations and numerous associates, we may be unable to prevent violations of these or other regulations from occurring. Even if we are able to comply with all such regulations and obtain all necessary registrations and licenses, the pesticides or other products we apply or use, or the manner in which we apply or use them, could be alleged to cause injury to the environment, to people or to animals, or such products could be banned in certain circumstances. The regulations may also apply to third party vendors who are hired to repair or remediate property and who may fail to comply with environmental laws, health and safety regulations and subject us to risk of legal exposure. The costs of compliance,

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non compliance, remediation, combating unfavorable public perceptions or defending products liability lawsuits could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

International, federal, state, provincial and local agencies regulate the disposal, handling and storage of waste, discharges from our facilities and the investigation and clean up of contaminated sites. We could incur significant costs, including investigation and clean up costs, fines, penalties and civil or criminal sanctions and claims by third parties for property damage and personal injury, as a result of violations of, or liabilities under, these laws and regulations. In addition, potentially significant expenditures could be required to comply with environmental, health and safety laws and regulations, including requirements that may be adopted or imposed in the future.

We are subject to various restrictive covenants that could adversely impact our business, financial position, results of operations and cash flows.

From time to time, we enter into noncompetition agreements or other restrictive covenants (e.g., exclusivity, take or pay and non solicitation), including in connection with business dispositions or strategic contracts, that restrict us from entering into lines of business or operating in certain geographic areas into which we may desire to expand our business. We also are subject to various non solicitation and no hire covenants that may restrict our ability to solicit potential customers or associates. If we do not comply with such restrictive covenants, or if a dispute arises regarding the scope and interpretation thereof, litigation could ensue, which could have an adverse impact on our business, financial position, results of operations and cash flows. Further, to the extent that such restrictive covenants prevent us from taking advantage of business opportunities, our business, financial position, results of operations and cash flows may be adversely impacted.

Our business process outsourcing initiatives have increased our reliance on third party contractors and may expose our business to harm upon the termination or disruption of our third party contractor relationships.

Our strategy to increase profitability, in part, by reducing our costs of operations includes the implementation of certain business process outsourcing initiatives. Any disruption, termination or substandard performance of these outsourced services, including possible breaches by third party vendors of their agreements with us, could adversely affect our brands, reputation, customer relationships, financial position, results of operations and cash flows. Also, to the extent a third party outsourcing provider relationship is terminated, there is a risk that we may not be able to enter into a similar agreement with an alternate provider in a timely manner or on terms that we consider favorable, and even if we find an alternate provider, or choose to insource such services, there are significant risks associated with any transitioning activities. In addition, to the extent we decide to terminate outsourcing services and insource such services, there is a risk that we may not have the capabilities to perform these services internally, resulting in a disruption to our business, which could adversely impact our reputation, business, financial position, results of operations and cash flows. We could incur costs, including personnel and equipment costs, to insource previously outsourced services like these, and these costs could adversely affect our results of operations and cash flows.

In addition, when a third party provider relationship is terminated, there is a risk of disputes or litigation and that we may not be able to enter into a similar agreement with an alternate provider in a timely manner or on terms that we consider favorable, and even if we find an alternate provider, there are significant risks associated with any transitioning activities.

Our future success depends on our ability to attract, retain and maintain positive relations with trained workers and third party contractors.

Our future success and financial performance depend substantially on our ability to attract, train and retain workers, attract and retain third party contractors and ensure third party contractor compliance with our policies and standards. Our ability to conduct our operations is in part impacted by our ability to increase our labor force, including on a seasonal basis, which may be adversely impacted by a number of factors. In the event of a labor shortage, we could experience difficulty in delivering our services in a high quality or timely manner and could be forced to increase wages in order to attract and retain associates, which would result in higher operating costs and reduced profitability. New decisions and rules by the National Labor Relations Board, including “expedited elections” and restrictions on appeals, could lead to increased organizing activities at our subsidiaries or franchisees. If these labor organizing activities were successful, it could further increase labor costs, decrease operating efficiency and productivity in the future, or otherwise disrupt or negatively impact our operations. In addition, potential competition from key associates who leave ServiceMaster could impact our ability to maintain our market segment share in certain geographic areas.

Risks Related to Our Substantial Indebtedness

We have substantial indebtedness and may incur substantial additional indebtedness, which could adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and satisfy our obligations.

As of December 31, 2014, we had approximately \$3.057 billion of total long-term consolidated indebtedness outstanding. On February 17, 2015, SvM redeemed \$190 million in aggregate principal amount of its 8% 2020 Notes at a redemption price of 106.0% of the principal amount using available cash. On July 1, 2014, in connection with Holdings’ initial public offering, SvM terminated the Old Credit Facilities and entered into the Credit Facilities. As of December 31, 2014, there was \$136 million of letters of credit outstanding and \$164 million of available borrowing capacity under the Revolving Credit Facility. In addition, we are able to incur additional indebtedness in the future, subject to the limitations contained in the agreements governing our indebtedness. Our substantial indebtedness could have important consequences to you. Because of our substantial indebtedness:

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- our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing is limited;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and our ability to satisfy our obligations with respect to our indebtedness may be impaired in the future;