SERVICEMASTER GLOBAL HOLDINGS INC
Form 10-Q
November 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-36507

ServiceMaster Global Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-8738320
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Commission file number 001-14762

The ServiceMaster Company, LLC

(Exact name of registrant as specified in its charter)

Delaware	90-1036521
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

860 Ridge Lake Boulevard, Memphis, Tennessee 38120

(Address of principal executive offices) (Zip Code)

901-597-1400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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 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	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	
The ServiceMaster Company, LLC			
Large accelerated filer	Accelerated filer	Non-accelerated filer	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

The number of shares of the registrant’s common stock outstanding as of November 3, 2014:

ServiceMaster Global Holdings, Inc. 133,594,797 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 November 3, 2014, all of the registrant’s membership interests were owned by CDRSVM Holding, LLC.

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EXPLANATORY NOTE

This Form 10-Q is a combined quarterly 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 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 quarterly 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. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

(In millions, except per share data)

	Holdings Three Months Ended September 30,		SvM Three Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$ 664	$ 615	$ 664	$ 615
Cost of services rendered and products sold	344	324	344	324
Selling and administrative expenses	176	181	176	180
Amortization expense	13	13	13	13
Consulting agreement termination fees	21	—	21	—
Restructuring charges	1	1	1	1
Interest expense	49	63	49	63
Interest and net investment income	—	(2)	—	(2)
Loss on extinguishment of debt	65	—	65	—
(Loss) Income from Continuing Operations before Income Taxes	(5)	35	(5)	36
(Benefit) Provision for income taxes	(3)	12	(3)	12
(Loss) Income from Continuing Operations	(3)	23	(2)	24
(Loss) income from discontinued operations, net of income taxes	(1)	22	(1)	22
Net (Loss) Income	$ (4)	$ 45	$ (3)	$ 46
Total Comprehensive (Loss) Income	$ (8)	$ 47	$ (8)	$ 48
Weighted-average common shares outstanding - Basic	133.2	91.3		
Weighted-average common shares outstanding - Diluted	133.2	91.5		
Basic (Loss) Earnings Per Share:				
(Loss) Income from Continuing Operations	$ (0.02)	$ 0.25		
(Loss) income from discontinued operations, net of income taxes	(0.01)	0.24		
Net (Loss) Income	(0.03)	0.49		
Diluted (Loss) Earnings Per Share:				

(Loss) Income from Continuing Operations	$ (0.02)	$ 0.25
(Loss) income from discontinued operations, net of income taxes	(0.01)	0.24
Net (Loss) Income	(0.03)	0.49

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(In millions, except per share data)

	Holdings Nine Months Ended September 30,		SvM Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$ 1,880	$ 1,760	$ 1,880	$ 1,760
Cost of services rendered and products sold	983	924	983	924
Selling and administrative expenses	505	527	504	526
Amortization expense	39	38	39	38
Impairment of software and other related costs	47	—	47	—
Consulting agreement termination fees	21	—	21	—
Restructuring charges	7	4	7	4
Interest expense	171	186	171	186
Interest and net investment income	(7)	(6)	(7)	(6)
Loss on extinguishment of debt	65	—	65	—
Income from Continuing Operations before Income Taxes	48	88	49	89
Provision for income taxes	26	43	26	43
Income from Continuing Operations	22	44	22	45
Loss from discontinued operations, net of income taxes	(98)	(533)	(98)	(533)
Net Loss	$ (76)	$ (489)	$ (76)	$ (488)
Total Comprehensive Loss	$ (82)	$ (488)	$ (81)	$ (487)
Weighted-average common shares outstanding - Basic	105.8	91.6		
Weighted-average common shares outstanding - Diluted	106.7	92.4		
Basic Earnings (Loss) Per Share:				
Income from Continuing Operations	$ 0.20	$ 0.48		
Loss from discontinued operations, net of income taxes	(0.93)	(5.82)		
Net Loss	(0.72)	(5.33)		
Diluted Earnings (Loss) Per Share:				
Income from Continuing Operations	$ 0.20	$ 0.48		
Loss from discontinued operations, net of income taxes	(0.92)	(5.77)		
Net Loss	(0.72)	(5.29)		

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Financial Position (Unaudited)

(In millions, except per share data)

	Holdings		SvM	
	As of September 30, 2014	As of December 31, 2013	As of September 30, 2014	As of December 31, 2013
Assets:				
Current Assets:				
Cash and cash equivalents	$ 275	$ 484	$ 263	$ 476
Marketable securities	22	27	22	27
Receivables, less allowances of $28 and $26, respectively	477	394	478	394
Inventories	38	39	38	39
Prepaid expenses and other assets	53	56	52	56
Deferred customer acquisition costs	38	30	38	30
Deferred taxes	107	107	107	107
Assets of discontinued operations	—	76	—	76
Total Current Assets	1,010	1,213	998	1,205
Property and Equipment:				
At cost	363	381	363	381
Less: accumulated depreciation	(228)	(204)	(228)	(204)
Net Property and Equipment	135	177	135	177
Other Assets:				
Goodwill	2,067	2,018	2,067	2,018
Intangible assets, primarily trade names, service marks and trademarks, net	1,706	1,721	1,706	1,721
Notes receivable	24	22	24	37
Long-term marketable securities	90	122	90	122
Other assets	44	49	44	49
Debt issuance costs	35	41	35	41
Assets of discontinued operations	—	542	—	542
Total Assets	$ 5,112	$ 5,905	$ 5,100	$ 5,912
Liabilities and Shareholders' Equity:				
Current Liabilities:				
Accounts payable	$ 96	$ 92	$ 96	$ 92
Accrued liabilities:				
Payroll and related expenses	71	70	71	70
Self-insured claims and related expenses	95	78	95	78
Accrued interest payable	11	51	11	51

Other	50	55	50	55
Deferred revenue	511	448	511	448
Liabilities of discontinued operations	8	139	8	139
Current portion of long-term debt	39	39	39	39
Total Current Liabilities	880	972	880	972
Long-Term Debt	3,020	3,867	3,020	3,867
Other Long-Term Liabilities:				
Deferred taxes	746	712	723	690
Liabilities of discontinued operations	—	162	—	162
Other long-term obligations, primarily self-insured claims	139	169	139	169
Total Other Long-Term Liabilities	885	1,043	863	1,021
Commitments and Contingencies (See Note 4)				
Shareholders’ Equity:				
Common stock $0.01 par value (authorized 2,000,000,000 shares with 140,987,217 shares issued and 133,349,047 outstanding at September 30, 2014 and 98,915,432 shares issued and 91,669,470 outstanding at December 31, 2013)	2	1	—	—
Additional paid-in capital	2,197	1,523	2,126	1,475
Retained deficit	(1,750)	(1,390)	(1,789)	(1,430)
Accumulated other comprehensive (loss) income	(1)	7	(1)	7
Less common stock held in treasury, at cost (7,638,170 shares at September 30, 2014 and 7,245,962 shares at December 31, 2013)	(122)	(118)	—	—
Total Shareholders' Equity	327	23	337	52
Total Liabilities and Shareholders' Equity	$ 5,112	$ 5,905	$ 5,100	$ 5,912

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Holdings Nine Months Ended September 30,		SvM Nine Months Ended September 30,	
	2014	2013	2014	2013
Cash and Cash Equivalents at Beginning of Period	$ 484	$ 418	$ 476	$ 412
Cash Flows from Operating Activities from Continuing Operations:				
Net Loss	(76)	(489)	(76)	(488)
Adjustments to reconcile net loss to net cash provided from operating activities:				
Loss from discontinued operations, net of income taxes	98	533	98	533
Depreciation expense	36	35	36	35
Amortization expense	39	38	39	38
Amortization of debt issuance costs	6	7	6	7
Impairment of software and other related costs	47	—	47	—
Loss on extinguishment of debt	65	—	65	—
Call premium paid on retirement of debt	(35)	—	(35)	—
Deferred income tax provision	19	34	19	34
Stock-based compensation expense	5	3	5	3
Gain on sales of marketable securities	(4)	(1)	(4)	(1)
Other	3	2	3	2
Change in working capital, net of acquisitions:				
Receivables	(62)	(53)	(63)	(50)
Inventories and other current assets	(7)	(14)	(7)	(15)
Accounts payable	11	28	11	28
Deferred revenue	36	30	36	30
Accrued liabilities	(4)	7	(4)	7
Accrued interest payable	(40)	(30)	(40)	(30)
Accrued restructuring charges	—	(3)	—	(3)
Current income taxes	(5)	(3)	(5)	(3)
Net Cash Provided from Operating Activities from Continuing Operations	132	127	132	130
Cash Flows from Investing Activities from Continuing Operations:				
Property additions	(29)	(38)	(29)	(38)
Sale of equipment and other assets	2	1	2	1
Other business acquisitions, net of cash acquired	(52)	(22)	(52)	(22)
Notes receivable, financial investments and securities, net	30	(22)	30	(22)
Notes receivable from affiliate	—	—	14	(12)
Net Cash Used for Investing Activities from Continuing Operations	(51)	(81)	(37)	(93)
Cash Flows from Financing Activities from Continuing Operations:				

Borrowings of debt	1,825	1	1,825	1
Payments of debt	(2,687)	(32)	(2,687)	(32)
Discount paid on issuance of debt	(18)	(12)	(18)	(12)
Debt issuance costs paid	(24)	(6)	(24)	(6)
Contribution to TruGreen Holding Corporation	(35)	—	(35)	—
Contribution from Holdings	—	—	646	—
Repurchase of common stock and RSU vesting	(5)	(14)	—	—
Issuance of common stock	671	4	—	—
Net Cash Used for Financing Activities from Continuing Operations	(274)	(60)	(294)	(49)
Cash Flows from Discontinued Operations:				
Cash used for operating activities	(11)	(23)	(11)	(23)
Cash used for investing activities	(2)	(20)	(2)	(20)
Cash used for financing activities	(3)	(9)	(3)	(9)
Net Cash Used for Discontinued Operations	(15)	(52)	(15)	(52)
Cash Decrease During the Period	(208)	(66)	(213)	(65)
Cash and Cash Equivalents at End of Period	$ 275	$ 352	$ 263	$ 347

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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SERVICEMASTER GLOBAL HOLDINGS, INC. AND THE SERVICEMASTER COMPANY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The unaudited condensed consolidated financial statements of ServiceMaster Global Holdings, Inc. include the accounts of ServiceMaster Global Holdings, Inc. ("Holdings") and its majority-owned subsidiary partnerships, limited liability companies and corporations (collectively, the "Company," "we," "us, and "our"), including The ServiceMaster Company, LLC ("SvM"). The unaudited condensed consolidated financial statements of The ServiceMaster Company, LLC include the accounts of SvM and its majority-owned subsidiary partnerships, limited liability companies and corporations. All consolidated Company subsidiaries are wholly-owned. Intercompany transactions and balances have been eliminated.

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

The unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States ("GAAP") and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The Company recommends that the quarterly unaudited condensed consolidated financial statements of Holdings be read in conjunction with the audited consolidated financial statements and the notes thereto included in Holdings' Registration Statement on Form S-1 (File No. 333-194772), as amended (the "2014 Form S-1"), and the unaudited quarterly condensed consolidated financial statements of SvM be read in conjunction with the audited consolidated financial statements and the notes thereto included in SvM's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC (the "2013 Form 10-K"). The unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not indicative of the results that might be achieved for a full year.

TruGreen Spin-off

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

Reverse Stock Split

On June 13, 2014, Holdings effected a 2-for-3 reverse stock split of its common stock. Holdings' accompanying unaudited condensed 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, Holdings' registration statement on Form S-1 was declared effective by the SEC for an initial public offering of its common stock. Holdings registered the offering and sale of 35,900,000 shares of its common stock and an additional 5,385,000 shares of its common stock sold to the underwriters pursuant to an option to purchase additional shares. On July 1, 2014, Holdings completed the offering of 41,285,000 shares of its common stock at a price of $17.00 per share. The net proceeds and use of proceeds in connection with the offering are summarized in the table below:

(In millions)	
Net Proceeds	
Gross proceeds	$ 702
Underwriting discounts and commissions	(35)
Offering expenses	(4)
Net Proceeds	$ 663

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(In millions)	
Use of Proceeds	
Partial redemption of 8% 2020 Notes(1)	$ 234
Partial redemption of 7% 2020 Notes(1)	289
Principal payment of Old Term Facilities(1)	120
Consulting agreement termination fees(2)	21
Use of Proceeds	$ 663

(1) See Note 10 for further details of the total debt reduction of $835 million in July 2014.

(2) See Note 15 for further details on the termination of the consulting agreements.

Note 2. Significant Accounting Policies

Summary: The preparation of the unaudited condensed consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. The more significant areas requiring the use of management estimates relate to revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers' compensation, auto and general liability insurance claims; accruals for home warranties and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; share based compensation; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets. In 2014, there have been no changes in the significant areas that require estimates or in the underlying methodologies used in determining the amounts of these associated estimates.

The allowance for receivables is developed based on several factors including overall customer credit quality, historical write-off experience and specific account analyses that project the ultimate collectability of the outstanding balances. As such, these factors may change over time causing the reserve level to vary.

The Company carries insurance policies on insurable risks at levels which it believes to be appropriate, including workers' compensation, auto and general liability risks. The Company purchases insurance from third-party insurance carriers. These policies typically incorporate significant deductibles or self-insured retentions. The Company is responsible for all claims that fall within the retention limits. In determining the Company's accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual include both known claims, as well as incurred but not reported claims. The Company adjusts its estimate of accrued self-insured claims when required to reflect changes based on factors such as changes in health care costs, accident frequency and claim severity.

The Company seeks to reduce the potential amount of loss arising from self-insured claims by insuring certain levels of risk. While insurance agreements are designed to limit the Company's losses from large exposure and permit recovery of a portion of direct unpaid losses, insurance does not relieve the Company of its ultimate liability. Accordingly, the accruals for insured claims represent the Company's total unpaid gross losses. Insurance recoverables, which are reported within Prepaid expenses and other assets and Other assets, relate to estimated insurance recoveries on the insured claims reserves.

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

The Company records deferred income tax balances based on the net tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and income tax purposes. The Company records its deferred tax items based on the estimated value of the tax basis. The Company adjusts tax estimates when required to reflect changes based on factors such as changes in tax laws, relevant court decisions, results of tax authority reviews and statutes of limitations. The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes potential interest and penalties related to its uncertain tax positions in income tax expense.

Revenue. Revenues from pest control services, as well as liquid and fumigation termite applications, are recognized as the services are provided. The Company eradicates termites through the use of non-baiting methods (e.g., fumigation or liquid treatments) and baiting systems. Termite services using baiting systems and termite inspection and protection contracts are frequently sold through annual contracts. Service costs for these contracts are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Those costs bear a direct relationship to the fulfillment of the Company's obligations under the contracts and are representative of the relative value provided to the customer (proportional performance

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method). The Company regularly reviews its estimates of direct costs for its termite bait contracts and termite inspection and protection contracts and adjusts the estimates when appropriate.

Home warranty contracts are typically one year in duration. Home warranty claims costs are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Those costs bear a direct relationship to the fulfillment of the Company's obligations under the contracts and are representative of the relative value provided to the customer (proportional performance method). The Company regularly reviews its estimates of claims costs and adjusts the estimates when appropriate.

The Company has franchise agreements in its Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. Franchise revenue (which in the aggregate represents approximately six percent of annual consolidated revenue from continuing operations in 2013) consists principally of continuing monthly fees based upon the franchisee's customer-level revenue. Monthly fee revenue is recognized when the related customer-level revenue generating activity is performed by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise or a license. These initial franchise or license fees are pre-established fixed amounts and are recognized as revenue when collectability is reasonably assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations were $18 million for each of the three month periods ended September 30, 2014 and 2013, and $54 million and $51 million for the nine months ended September 30, 2014 and 2013, respectively. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company's unaudited condensed consolidated financial statements for all periods.

Revenues are presented net of sales taxes collected and remitted to government taxing authorities on the unaudited condensed consolidated statements of operations and comprehensive income (loss).

The Company had $511 million and $448 million of deferred revenue as of September 30, 2014 and December 31, 2013, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection and pest control services.

Deferred Customer Acquisition Costs: Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to $38 million and $30 million as of September 30, 2014 and December 31, 2013, respectively.

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

Inventory: Inventories are recorded at the lower of cost (primarily on a weighted average cost basis) or market. The Company's inventory primarily consists of finished goods to be used on the customers' premises or sold to franchisees.

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

Depreciation of property and equipment, including depreciation of assets held under capital leases, was $12 million and $11 million for the three months ended September 30, 2014 and 2013, respectively, and $36 and $35 million for the nine months ended September 30, 2014 and 2013, respectively.

The Company recorded an impairment charge of $47 million ($28 million, net of tax) in the nine months ended September 30, 2014 relating to its decision in the first quarter of 2014 to abandon its efforts to deploy a new operating system at American Home Shield. Included in this charge are the impairment of the capitalized software of $45 million and the recognition of the remaining liabilities associated with the termination of lease, maintenance and hosting agreements totaling $2 million. This impairment represented an adjustment of the carrying value of the asset to its estimated fair value of zero on a non-recurring basis.

Fair Value of Financial Instruments and Credit Risk: See Note 16 for information relating to the fair value of financial instruments.

Financial instruments, which potentially subject the Company to financial and credit risk, consist principally of investments and receivables. Investments consist primarily of publicly traded debt and common equity securities. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which it competes. The majority of the Company's receivables have little concentration of credit risk due to the large number of customers with relatively small balances and their dispersion across geographical areas. The Company maintains an allowance for losses based upon the expected collectability of receivables.

Income Taxes: The Company and its subsidiaries file consolidated U.S. federal income tax returns. State and local returns are filed both on a separate company basis and on a combined unitary basis with the Company. Current and deferred income taxes are provided for on a separate company basis. The Company accounts for income taxes using an asset and liability approach for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income taxes are provided to reflect the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in its tax return. The Company recognizes potential interest and penalties related to its uncertain tax positions in income tax expense.

Stock-Based Compensation: The Company accounts for stock-based compensation under accounting standards for share based payments, which require that stock options, restricted stock units and restricted share grants be measured at fair value and this value is recognized as compensation expense over the vesting period.

Earnings Per Share: Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. The dilutive effect of stock options, restricted stock units and restricted share grants are reflected in diluted net income (loss) per share by applying the treasury stock method.

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

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This model supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." Entities have the option of using either a full retrospective or modified approach to adopt the guidance. The amendments in ASU 2014-09 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-09.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements—Going Concern" to require management to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in ASU 2014-15 are effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter. The Company anticipates the adoption of this standard will not have a material impact on the Company's unaudited condensed consolidated financial statements.

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Note 3. Restructuring Charges

The Company incurred restructuring charges of $1 million ($1 million, net of tax) and $1 million ($0 million, net of tax) for the three months ended September 30, 2014 and 2013, respectively. The Company incurred restructuring charges of $7 million ($4 million, net of tax) and $4 million ($2 million, net of tax) for the nine months ended September 30, 2014 and 2013, respectively. Restructuring charges were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Terminix branch optimization(1)	$ —	$ —	$ 2	$ 1
Franchise services group reorganization(2)	1	—	1	—
Centers of excellence initiative(3)	—	1	4	3
Total restructuring charges	$ 1	$ 1	$ 7	$ 4

(1) For the nine months ended September 30, 2014, these charges included lease termination and severance costs. For the nine months ended September 30, 2013, these charges included lease termination costs.

(2) For the three and nine months ended September 30, 2014, these charges included severance costs.

(3) Represents restructuring charges related to an initiative to enhance capabilities and reduce costs in the Company’s headquarters functions that provide Company-wide administrative services for our operations that we refer to as centers of excellence. For the nine months ended September 30, 2014, these charges included professional fees of $1 million and severance and other costs of $3 million. For the three months ended September 30, 2013, these charges included professional fees of $1 million. For the nine months ended September 30, 2013, these charges included professional fees of $2 million and severance and other costs of $1 million.

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

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

(In millions)	Accrued Restructuring Charges
Balance as of December 31, 2013	$ 1
Costs incurred	7
Costs paid or otherwise settled	(7)
Balance as of September 30, 2014	$ 1

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Note 4. Commitments and Contingencies

The Company carries insurance policies on insurable risks at levels that it believes to be appropriate, including workers' compensation, auto and general liability risks. The Company purchases insurance policies from third-party insurance carriers, which typically incorporate significant deductibles or self-insured retentions. The Company is responsible for all claims that fall below the retention limits. In determining the Company's accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual includes known claims, as well as incurred but not reported claims. The Company adjusts its estimate of accrued self-insured claims when required to reflect changes based on factors such as changes in health care costs, accident frequency and claim severity.

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

(In millions)		Accrued Self-insured Claims, Net
Balance as of December 31, 2013	$	101
Provision for self-insured claims		29
Cash payments		(26)
Balance as of September 30, 2014	$	104
Balance as of December 31, 2012	$	103
Provision for self-insured claims		36
Cash payments		(31)
Balance as of September 30, 2013	$	108

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

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

Note 5. Goodwill and Intangible Assets

Goodwill and intangible assets that are not amortized are subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company's annual assessment date is October 1. There were no goodwill or trade name impairment charges recorded in continuing operations in the three and nine months ended September 30, 2014 and 2013. There were no accumulated impairment losses recorded in continuing operations as of September 30, 2014.

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The table below summarizes the goodwill balances for continuing operations by reportable segment and for Other Operations and Headquarters:

(In millions)	Terminix	American Home Shield	Franchise Services Group	Total
Balance as of December 31, 2013	$ 1,480	$ 348	$ 190	$ 2,018
Acquisitions	15	34	1	50
Other (1)	(1)	—	—	(1)
Balance as of September 30, 2014	$ 1,494	$ 382	$ 191	$ 2,067

(1) Reflects the impact of foreign exchange rates.

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

	Estimated Remaining Useful Lives	As of September 30, 2014			As of December 31, 2013		
(In millions)	(Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names(1)	N/A	$ 1,608	$ —	$ 1,608	$ 1,608	$ —	$ 1,608
Customer relationships	3 - 10	532	(479)	53	512	(447)	65
Franchise agreements	20 - 25	88	(58)	30	88	(54)	34
Other	4 - 30	46	(31)	15	41	(27)	14
Total		$ 2,274	$ (568)	$ 1,706	$ 2,249	$ (528)	$ 1,721

(1) Not subject to amortization.

In the nine months ended September 30, 2014, the TruGreen Business recorded a pre-tax non-cash trade name impairment charge of $139 million ($84 million, net of tax) in discontinued operations, net of income taxes. In the nine months ended September 30, 2013, the TruGreen Business recorded a pre-tax non-cash goodwill and trade name impairment charge of $673 million ($521 million, net of tax) in discontinued operations, net of income taxes.

Note 6. Stock-Based Compensation

In connection with the TruGreen Spin-off, on January 14, 2014, we distributed all of New TruGreen's common stock to our stockholders. Following the distribution, our employees held equity incentive awards covering shares of New TruGreen common stock as well as equity incentive awards covering shares of our common stock, and employees who transferred to New TruGreen held equity incentive awards covering shares of our common stock as well as equity incentive awards covering shares of New TruGreen common stock.

To align the interests of our continuing employees and the interests of New TruGreen's employees with their respective employers, on February 14, 2014, we and New TruGreen extended offers to each other's employees to allow them to tender their equity awards covering shares of their non-employing entity to the respective issuer and subsequently to apply the proceeds of any such tendered equity awards to subscribe for equity awards in their respective employers at the then-current fair market value ($12.00, in the case of our common stock, and $3.75, in the case of New TruGreen common stock). As a result of this program, on March 18, 2014, we accepted tenders of 199,075 shares of our common stock and DSUs from New TruGreen employees and issued 237,762 shares of our common stock and DSUs to our continuing employees. There was also a small number of RSUs exchanged.

In connection with the TruGreen Spin-off, we adjusted the exercise price of options held by our employees to reflect the fair market value of our common stock after giving effect to the TruGreen Spin-off by multiplying the exercise price of such options immediately prior to the TruGreen Spin-off by a fraction, the numerator of which was the fair market value of a share of our common stock immediately following the TruGreen Spin-off ($12.00 per share) and the denominator of which was the fair market value of a share of our common stock immediately prior to the TruGreen Spin-off ($15.75 per share), or the "Option Conversion Ratio."

To allow our employees to retain the intrinsic value of their stock options prior to the TruGreen Spin-off, we also adjusted the number of shares underlying the options of such employees. The number of shares underlying the options was adjusted by dividing the number of shares underlying the options held by each employee by the Option Conversion Ratio. We refer to these adjustments collectively as the "Option Conversion." The change in the number of shares underlying options and the adjustment of the exercise price pursuant to the Option Conversion represent modifications to our share based compensation awards. As a result of the Option

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Conversion we compared the fair value of the awards following the TruGreen Spin-off with the fair value of the original awards. The comparison did not yield incremental value. Accordingly, we did not record any incremental compensation expense as a result of the Option Conversion.

For each of the three month periods ended September 30, 2014 and 2013, the Company recognized stock-based compensation expense of $2 million ($1 million, net of tax). For the nine months ended September 30, 2014 and 2013, the Company recognized stock-based compensation expense of $5 million ($3 million, net of tax) and $3 million ($2 million, net of tax), respectively. As of September 30, 2014, there was $17 million of total unrecognized compensation costs related to non-vested stock options, restricted share units and restricted shares granted under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan ("MSIP"). These remaining costs are expected to be recognized over a weighted-average period of 2.79 years.

On June 13, 2014, the Company formally adopted the 2014 Omnibus Incentive Plan to provide for the grants of long-term incentive compensation to our directors, officers and associates, for which there were grants of 5,784 restricted shares as of September 30, 2014. Upon adoption of the 2014 Omnibus Incentive Plan, the Company froze the MSIP and will make no further grants thereunder.

Note 7. Comprehensive Income (Loss)

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

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

(In millions)	Unrealized Loss on Derivatives	Unrealized Gains on Available -for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2013	$ 1	$ 7	$ (1)	$ 7
Other comprehensive (loss) income before reclassifications:				
Pre-tax amount	(2)	2	(2)	(3)
Tax (benefit) provision	(1)	1	—	—
After-tax amount	(2)	1	(2)	(3)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	—	(2)	—	(2)
Net current period other comprehensive loss	(1)	(2)	(2)	(6)
Spin-off of the TruGreen Business	—	—	(2)	(2)
Balance as of September 30, 2014	$ (1)	$ 5	$ (5)	$ (1)

Balance as of December 31, 2012	$	(2)	$	5	$	3	$	7
Other comprehensive income (loss) before reclassifications:								
Pre-tax amount		—		3		(2)		1
Tax provision		—		2		—		1
After-tax amount		—		2		(2)		—
Amounts reclassified from accumulated other comprehensive income (loss)(1)		2		(1)		—		1
Net current period other comprehensive income (loss)		2		1		(2)		1
Balance as of September 30, 2013	$	—	$	6	$	1	$	7

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

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

(In millions)	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) Location
(Gains) Losses on derivatives:					
Fuel swap contracts	$ —	$ (1)	$ —	$ (2)	Cost of services rendered and products sold
Interest rate swap contracts	—	1	—	5	Interest expense
Net losses on derivatives	—	—	—	3	
Impact of income taxes	—	—	—	1	Provision for income taxes
Total reclassifications related to derivatives	$ —	$ —	$ —	$ 2	
Gains on available-for-sale securities	$ —	$ —	$ (4)	$ (1)	Interest and net investment income
Impact of income taxes	—	—	(2)	—	Provision for income taxes
Total reclassifications related to securities	$ —	$ —	$ (2)	$ (1)	
Total reclassifications for the period	$ 1	$ —	$ (2)	$ 1	

Note 8. Supplemental Cash Flow Information

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

Nine Months
Ended

(In millions)	September 30, 2014	2013
Cash paid for or (received from):		
Interest expense	$ 199	$ 207
Interest and dividend income	(3)	(4)
Income taxes, net of refunds	11	12

The Company acquired $12 million and $21 million of property and equipment through capital leases and other non-cash financing transactions in the nine months ended September 30, 2014 and 2013 months, respectively, which have been excluded from the unaudited condensed consolidated statements of cash flows as non-cash investing and financing activities.

Note 9. Cash and Marketable Securities

Cash, money market funds and certificates of deposits with maturities of three months or less when purchased are included in Cash and cash equivalents on the unaudited condensed consolidated statements of financial position. As of September 30, 2014 and December 31, 2013, the Company's investments consisted primarily of domestic publicly traded debt and certificates of deposit ("Debt securities") and common equity securities ("Equity securities"). The amortized cost, fair value and gross unrealized gains and losses of the Company's short- and long-term investments in Debt and Equity securities as of September 30, 2014 and December 31, 2013 were as follows:

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, September 30, 2014				
Debt securities	$ 70	$ 1	$ —	$ 71
Equity securities	34	8	(1)	41
Total securities	$ 104	$ 9	$ (1)	$ 112
Available-for-sale and trading securities, December 31, 2013				
Debt securities	$ 97	$ 3	$ (1)	$ 99
Equity securities	41	9	—	50
Total securities	$ 138	$ 12	$ (1)	$ 149

Unrealized losses which had been in a loss position for more than one year as of September 30, 2014 were less than $1 million. There were no unrealized losses which had been in a loss position for more than one year as of December 31, 2013. The

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aggregate fair value of the investments with unrealized losses was $17 million and $30 million as of September 30, 2014 and December 31, 2013, respectively.

Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income in the period they are realized. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes. The table below summarizes proceeds, gross realized gains, and gross realized losses resulting from sales of available-for-sale securities. There were no impairment charges due to other than temporary declines in the value of certain investments for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Proceeds from sale of securities	$ —	$ 2	$ 43	$ 8
Gross realized gains, pre-tax	—	—	5	1
Gross realized gains, net of tax	—	—	3	1
Gross realized losses, pre-tax	—	—	(1)	—
Gross realized losses, net of tax	—	—	—	—

Note 10. Long-Term Debt

Long-term debt as of September 30, 2014 and December 31, 2013 is summarized in the following table:

	As of September 30,	As of December 31,

(In millions)	2014	2013
Senior secured term loan facility maturing in 2017 (Tranche B)	$ —	$ 991
Senior secured term loan facility maturing in 2017 (Tranche C)(1)	—	1,198
Senior secured term loan facility maturing in 2021(2)	1,807	—
7.00% senior notes maturing in 2020	488	750
8.00% senior notes maturing in 2020(3)	391	602
Revolving credit facility maturing in 2019	—	—
7.10% notes maturing in 2018(4)	73	71
7.45% notes maturing in 2027(4)	161	159
7.25% notes maturing in 2038(4)	64	63
Vehicle capital leases(5)	36	32
Other	39	40
Less current portion	(39)	(39)
Total long-term debt	$ 3,020	$ 3,867

(1) As of December 31, 2013, presented net of $10 million in unamortized original issue discount paid as part of the 2013 amendment.

(2) As of September 30, 2014, presented net of $18 million in unamortized original issue discount paid as part of the New Term Loan Facility as defined below under "—Refinancing of Indebtedness".

(3) As of September 30, 2014 and December 31, 2013, includes $1 million and $2 million, respectively, in unamortized premium received on the sale of $100 million aggregate principal amount of such notes.

(4) The increase in the balance from December 31, 2013 to September 30, 2014 reflects the amortization of fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.

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

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 (together with the Old Term Facilities, the "Old Credit Facilities") and entered into a new credit

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agreement with respect to a new $1,825 million term loan facility maturing 2021 (the “New Term Loan Facility”) and a new $300 million revolving credit facility maturing 2019 (the “New Revolving Credit Facility,” and, together with the New Term Loan Facility, the “New Credit Facilities”), with JPMorgan Chase Bank, N.A. as administrative agent, collateral agent and issuing bank, and a syndicate of lenders party thereto from time to time. Borrowings under the New 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 New Term Loan Facility.

On July 16, 2014, SvM used proceeds from Holdings’ initial public offering to redeem $210 million of its outstanding 8 percent senior notes due 2020 (the “8% 2020 Notes”) and $263 million of its outstanding 7 percent senior notes due 2020 (the “7% 2020 Notes”). In connection with the 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 three and nine months ended September 30, 2014, which includes 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.

Interest Rate Swaps

On July 23, 2014, SvM entered into two four-year interest rate swap agreements effective August 1, 2014. The aggregate notional amount of the agreements was $300 million. Under the terms of the agreements, SvM will pay a weighted-average fixed rate of interest of 1.786 percent on the $300 million notional amount, and SvM will receive a floating rate of interest (based on one-month LIBOR) on the notional amount. Therefore, during the term of the agreements, the effective interest rate on $300 million of the New Term Loan Facility is fixed at a rate of 1.786 percent, plus the incremental borrowing margin of 3.25 percent.

On July 23, 2014, SvM entered into three forty-one month interest rate swap agreements effective March 1, 2015. The aggregate notional amount of the agreements was $400 million. Under the terms of the agreements, SvM will pay a weighted-average fixed rate of interest of 1.927 percent on the $400 million notional amount, and SvM will receive a floating rate of interest (based on one-month LIBOR) on the notional amount. Therefore, during the term of the agreements, the effective interest rate on $400 million of the New Term Loan Facility is fixed at a rate of 1.927 percent, plus the incremental borrowing margin of 3.25 percent.

Note 11. Acquisitions

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

On February 28, 2014, the Company acquired Home Security of America, Inc. (“HSA”), based in Madison, Wisconsin. The total net purchase price for this acquisition was $32 million. The Company recorded goodwill of $34 million and other intangibles of $18 million related to this acquisition.

During the nine months ended September 30, 2014, the Company completed several pest control, termite and franchise acquisitions. The total net purchase price for these acquisitions was $25 million. The Company recorded goodwill of $16 million and other intangibles of $7 million related to these acquisitions.

During the nine months ended September 30, 2013, the Company completed several pest control, termite and franchise acquisitions, along with the purchase of a distributor license agreement with the Franchise Services Group. The total net purchase price for these acquisitions was $28 million. The Company recorded goodwill of $21 million and other intangibles of $6 million related to these acquisitions.

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

	Nine Months Ended September 30,	
(In millions)	2014	2013
Purchase price (including liabilities assumed)	$ 92	$ 28
Less liabilities assumed	(35)	—
Net purchase price	$ 57	$ 28
Net cash paid for acquisitions	$ 52	$ 22
Seller financed debt	5	6
Payment for acquisitions	$ 57	$ 28

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Note 12. Discontinued Operations

TruGreen Spin-off

On January 14, 2014, the Company completed the TruGreen Spin-off resulting in the spin-off of the assets and certain liabilities of the TruGreen Business through a tax-free, pro rata dividend to the Company's stockholders. As a result of the completion of the TruGreen Spin-off, New TruGreen operates the TruGreen Business as a private independent company.

The TruGreen Business experienced a significant downturn in recent years. From 2011 through 2013, the TruGreen Business lost 400,000 customers, or 19 percent of its customer base. The TruGreen Business's operating margins also eroded during this time frame due to production inefficiencies, higher chemical costs and inflationary pressures, compounded by lower fixed cost leverage as falling customer counts drove revenue down. The TruGreen Business experienced revenue and Adjusted EBITDA declines of 18.6 percent and 87.6 percent, respectively, from 2011 to 2013. In light of these developments, the Company made the decision to effect the TruGreen Spin-off and enable its management to increase its focus on Terminix, American Home Shield and the Franchise Services Group segments while providing New TruGreen, as an independently-operated, private company, the time and focus required to execute a turnaround.

As a result of the TruGreen Spin-off, the Company was required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions were developed with the view of the TruGreen Business as a stand-alone company, resulting in an increase in the assumed discount rate of 350 basis points, or "bps," as compared to the discount rate used in the October 1, 2013 impairment test for the TruGreen trade name. This interim impairment analysis resulted in a pre-tax non-cash trade name impairment charge of $139 million ($84 million, net of tax) to reduce the carrying value of the TruGreen trade name to its estimated fair value. This impairment charge was recorded in Loss from discontinued operations, net of income taxes, in the nine months ended September 30, 2014. The impairment of the TruGreen trade name represented an adjustment of the carrying value of the asset to its estimated fair value on a non-recurring basis using significant unobservable inputs on the date of the TruGreen Spin-off.

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

(In millions)	
Assets:	
Cash and cash equivalents	$ 57
Receivables, net	22
Inventories and other current assets	39
Property and equipment, net	181
Intangible assets, net	216
Other long-term assets	6

Total Assets	$ 521
Liabilities:	
Current liabilities	$ 149
Long-term debt and other long-term liabilities	87
Total Liabilities	$ 236
Net assets distributed to New TruGreen	$ 285

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

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

Under this transition services agreement, in the three and nine months ended September 30, 2014, the Company recorded $8 million and $27 million, respectively, of fees due from TGLP, which is included, net of costs incurred, in Selling and administrative expenses in the unaudited condensed consolidated statement of operations and comprehensive income (loss). As of September 30, 2014, all amounts owed by TGLP under this agreement have been paid.

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During the nine months ended September 30, 2014, the Company processed certain of TGLP's accounts payable transactions. Through this process, in the nine months ended September 30, 2014, $96 million was paid on TGLP's behalf, of which $94 million was repaid by TGLP. As of September 30, 2014, the Company recorded a $2 million receivable due from TGLP, which is included in Receivables on the unaudited condensed consolidated statement of financial position.

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

Financial Information for Discontinued Operations

(Loss) income from discontinued operations, net of income taxes, for all periods presented includes the operating results of the TruGreen Business and previously sold businesses.

The operating results of discontinued operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Revenue	$ —	$ 314	$ 6	$ 715
(Loss) income before income taxes(1)	(1)	22	(160)	(695)
Benefit for income taxes(1)	—	—	(62)	(162)
(Loss) income from discontinued operations, net of income taxes(1)	$ (1)	$ 22	$ (98)	$ (533)

(1)

In the nine months ended September 30, 2014, the TruGreen Business recorded a pre-tax non-cash trade name impairment charge of $139 million ($84 million, net of tax) in discontinued operations, net of income taxes. In the nine months ended September 30, 2013, the TruGreen Business recorded a pre-tax non-cash goodwill and trade name impairment charge of $673 million ($521 million, net of tax) in discontinued operations, net of income taxes.

Assets and liabilities of discontinued operations are summarized below:

(In millions)	As of September 30, 2014	As of December 31, 2013
Assets:		
Receivables, net	$ —	$ 28
Inventories and other current assets	—	48
Total Current Assets	—	76
Property and equipment, net	—	181
Intangible assets, net	—	355
Other long-term assets	—	6
Total Assets	$ —	$ 618
Liabilities:		
Current liabilities	$ 8	$ 139
Long-term debt and other long-term liabilities	—	162
Total Liabilities	$ 8	$ 301

At September 30, 2014, the liabilities of discontinued operations relate primarily to accruals for legal and other reserves. At December 31, 2013, these balances also reflect the historical assets and liabilities of the TruGreen Business, which was spun off in the nine months ended September 30, 2014.

Note 13. Income Taxes

As of September 30, 2014 and December 31, 2013, the Company had $8 million of tax benefits primarily reflected in state tax returns that have not been recognized for financial reporting purposes (“unrecognized tax benefits”). The Company currently estimates that, as a result of pending tax settlements and expiration of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately $1 million during the next 12 months.

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

The effective tax rate on (loss) income from continuing operations at Holdings was 56.5 percent for the three months ended September 30, 2014 compared to 34.4 percent for the three months ended September 30, 2013. The effective tax rate on (loss) income from continuing operations at SvM was 59.4 percent for the three months ended September 30, 2014 compared to 33.7 percent for the three months ended September 30, 2014. The effective tax rate on loss from continuing operations for the three months ended September 30, 2014 was affected by a cumulative adjustment for tax expense for prior quarters arising from a revision in the anticipated annual effective tax rate during the three months ended September 30, 2014.

The effective tax rate on income from continuing operations at Holdings was 54.3 percent for the nine months ended September 30, 2014 compared to 49.3 percent for the nine months ended September 30, 2013. The effective tax rate on income from continuing operations at SvM was 53.7 percent for the nine months ended September 30, 2014 compared to 48.9 percent for the nine months ended September 30, 2013. The effective tax rate on income from continuing operations for the nine months ended September 30, 2014 was affected by various discrete events, including an adjustment to deferred state taxes resulting from a change in the Company's state apportionment factors primarily attributable to the TruGreen Spin-off. The effective tax rate on income from continuing operations for the nine months ended September 30, 2013 was affected by the reclassification of the TruGreen Business to discontinued operations and the resulting impact on the allocation of the full year effective tax rate on income from continuing operations to interim periods.

Note 14. Business Segment Reporting

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

In accordance with accounting standards for segments, the Company's reportable segments are strategic business units that offer different services. The Terminix segment provides termite and pest control services to residential and commercial customers and distributes pest control products. The American Home Shield segment provides home warranties for household systems and appliances. The Franchise Services Group segment provides residential and commercial disaster restoration, janitorial and cleaning services through franchises primarily under the ServiceMaster, ServiceMaster Restore and ServiceMaster Clean brand names, home cleaning services through franchises and Company-owned locations primarily under the Merry Maids brand name, on-site wood furniture repair and restoration services primarily under the Furniture Medic brand name and home inspection services primarily under the AmeriSpec brand name. Other Operations and Headquarters includes The ServiceMaster Acceptance Company Limited Partnership ("SMAC"), our financing subsidiary exclusively dedicated to providing financing to our franchisees and retail customers of our operating units, and the Company's headquarters operations (substantially all of which costs are allocated to the Company's reportable segments), which provide various technology, marketing, finance, legal and other support services to the reportable segments. The composition of our reportable segments is consistent with that used by our chief operating decision maker (the "CODM") to evaluate performance and allocate resources.

Information regarding the accounting policies used by the Company is described in Note 2. The Company derives substantially all of its revenue from customers and franchisees in the United States with less than two percent generated in foreign markets. Operating expenses of the business units consist of direct costs and indirect costs allocated from Other Operations and Headquarters. In periods prior to the TruGreen Spin-off, expenses which were allocated to TruGreen but are not reflected in discontinued operations are included in Other Operations and Headquarters. Such expenses amounted to $9 million and $29 million in the three and nine months ended September 30, 2014, respectively.

The Company uses Reportable Segment Adjusted EBITDA as its measure of segment profitability. Accordingly, the CODM evaluates performance and allocates resources based primarily on Reportable Segment Adjusted EBITDA. Reportable Segment Adjusted EBITDA is defined as net income (loss) before: unallocated corporate expenses; income (loss) from discontinued operations, net of income taxes; provision (benefit) for income taxes; gain (loss) on extinguishment of debt; interest expense; depreciation and amortization expense; non-cash goodwill and trade name impairment; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; non-cash stock-based compensation expense; restructuring charges; management and consulting fees; consulting agreement termination fees; non-cash effects attributable to the application of purchase accounting; and other non-operating expenses. The Company's definition of Reportable Segment Adjusted EBITDA may not be calculated or comparable to similarly titled measures of other companies. We believe Reportable Segment Adjusted EBITDA is useful for investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures, taxation, the age and book depreciation of facilities and equipment, restructuring initiatives, consulting agreements and equity-based, long-term incentive plans.

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Information for continuing operations for each reportable segment and Other Operations and Headquarters is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Revenue:				
Terminix	$ 353	$ 334	$ 1,049	$ 1,012
American Home Shield	245	219	637	568
Franchise Services Group	64	61	189	175
Reportable Segment Revenue	$ 662	$ 613	$ 1,875	$ 1,754
Other Operations and Headquarters	2	2	5	6
Total Revenue	$ 664	$ 615	$ 1,880	$ 1,760

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Reportable Segment Adjusted EBITDA:(1)				
Terminix	$ 77	$ 65	$ 248	$ 223
American Home Shield	61	54	144	114
Franchise Services Group	19	20	58	57
Reportable Segment Adjusted EBITDA	$ 157	$ 139	$ 450	$ 395

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

Holdings SvM

(In millions)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Reportable Segment Adjusted EBITDA:				
Terminix	$ 77	$ 65	$ 77	$ 65
American Home Shield	61	54	61	54
Franchise Services Group	19	20	19	20
Reportable Segment Adjusted EBITDA	$ 157	$ 139	$ 157	$ 139
Unallocated corporate expenses(a)	$ (1)	$ (11)	$ (1)	$ (11)
Depreciation and amortization expense	(25)	(25)	(25)	(25)
Non-cash stock-based compensation expense	(2)	(2)	(2)	(2)
Restructuring charges	(1)	(1)	(1)	(1)
Management and consulting fees	—	(2)	—	(2)
Consulting agreement termination fees	(21)	—	(21)	—
(Loss) income from discontinued operations, net of income taxes	(1)	22	(1)	22
Benefit (provision) for income taxes	3	(12)	3	(12)
Loss on extinguishment of debt	(65)	—	(65)	—
Interest expense	(49)	(63)	(49)	(63)
Other	1	(1)	1	—
Net (Loss) Income	$ (4)	$ 45	$ (3)	$ 46

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(In millions)	Holdings Nine Months Ended September 30, 2014	2013	SvM Nine Months Ended September 30, 2014	2013
Reportable Segment Adjusted EBITDA:				
Terminix	$ 248	$ 223	$ 248	$ 223
American Home Shield	144	114	144	114
Franchise Services Group	58	57	58	57
Reportable Segment Adjusted EBITDA	$ 450	$ 395	$ 450	$ 395
Unallocated corporate expenses(a)	$ (7)	$ (34)	$ (7)	$ (34)
Depreciation and amortization expense	(76)	(74)	(76)	(74)
Non-cash impairment of software and other related costs	(47)	—	(47)	—
Non-cash stock-based compensation expense	(5)	(3)	(5)	(3)
Restructuring charges	(7)	(4)	(7)	(4)
Management and consulting fees	(4)	(5)	(4)	(5)
Consulting agreement termination fees	(21)	—	(21)	—
Loss from discontinued operations, net of income taxes	(98)	(533)	(98)	(533)
Provision for income taxes	(26)	(43)	(26)	(43)
Loss on extinguishment of debt	(65)	—	(65)	—
Interest expense	(171)	(186)	(171)	(186)
Other	—	(1)	1	—
Net Loss	$ (76)	$ (489)	$ (76)	$ (488)

(a) Represents the unallocated corporate expenses of Other Operations and Headquarters.

Note 15. Related Party Transactions

On July 24, 2007, the Company was acquired pursuant to a merger transaction (the “2007 Merger”), and, immediately following the completion of the 2007 Merger, all of our outstanding common stock was owned by investment funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC (“CD&R”), or the “CD&R Funds,” Citigroup Private Equity LP, or “Citigroup,” BAS Capital Funding Corporation, or “BAS,” and JPMorgan Chase Funding Inc., or “JPMorgan.” On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that owned shares of our common stock to StepStone Group LP, or “StepStone,” and the investment funds managed by StepStone Group, the “StepStone Funds.” As of December 22, 2011, we purchased from BAS 5 million shares of our common stock. On March 30, 2012, an affiliate of BAS sold 5 million shares of our common stock to Ridgemont Partners Secondary Fund I, L.P, or “Ridgemont.” On July 24, 2012, BACSVM-A L.P., an affiliate of BAS, distributed

1,666,666 shares of our common stock to Charlotte Investor IV, L.P., its sole limited partner, (together with the CD&R Funds, the StepStone Funds, JPMorgan, Citigroup Capital Partners II Employee Master Fund, L.P., an affiliate of Citigroup, and BACSVM-A, L.P., an affiliate of BAS, the “Equity Sponsors”).

Upon completion of Holdings’ initial public offering on July 1, 2014, the Equity Sponsors continued to hold approximately 65 percent of Holdings’ common stock.

Consulting Agreements

The Company was a party to a consulting agreement with CD&R under which CD&R provided the Company with ongoing consulting and management advisory services. The annual consulting fee payable under the consulting agreement with CD&R was $6 million. Under this agreement, the Company recorded consulting fees of $2 million in the three months ended September 30, 2013 and $3 million and $5 million in the nine months ended September 30, 2014 and 2013, respectively, which is included in Selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss). There were no consulting fees recorded in the three months ended September 30, 2014.

The Company was also a party to consulting agreements with StepStone, JPMorgan and Ridgemont (and formerly with BAS). Pursuant to the consulting agreements, the Company was required to pay aggregate annual consulting fees of $1 million to StepStone, JPMorgan and Ridgemont (formerly payable to BAS), respectively.

On July 1, 2014, in connection with the completion of Holdings’ initial public offering, the Company paid the Equity Sponsors aggregate fees of $21 million in connection with the termination of the consulting agreements, which is recorded in the three and nine months ended September 30, 2014 in Consulting agreement termination fees in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

Revolving Promissory Note

On April 19, 2013, SvM entered into a revolving promissory note with Holdings with a maximum borrowing capacity of $25 million that was scheduled to mature on April 18, 2018. Amounts outstanding under this agreement bore interest at the rate of 5.0 percent per annum. As of December 31, 2013, the amount due to SvM by Holdings under this note was $14 million. The funds borrowed under this note were used by Holdings to repurchase shares of its common stock from associates who have left the Company. On July 1, 2014, Holdings used a portion of the proceeds from the initial public offering to repay in full this inter-company loan.

Note 16. Fair Value Measurements

The period-end carrying amounts of receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The period-end carrying amounts of long-term notes receivable approximate fair value as the effective interest rates for these instruments are comparable to period-end market rates. The period-end carrying amounts of short- and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net of tax as a component of accumulated other comprehensive income (loss) on the unaudited condensed consolidated statements of financial position, or, for certain unrealized losses, reported in interest and net investment income in the unaudited condensed consolidated statements of operations and comprehensive income (loss) if the decline in value is other than temporary. The carrying amount of total debt was $3,059 million and $3,906 million and the estimated fair value was $3,170 million and $3,906 million as of September 30, 2014 and December 31, 2013, respectively. The fair value of the Company’s debt is estimated based on available market prices for the same or similar instruments which are considered significant other observable inputs (Level 2) within the fair value hierarchy. The fair values presented reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report are based on information available to the Company as of September 30, 2014 and December 31, 2013.

The Company has estimated the fair value of its financial instruments measured at fair value on a recurring basis using the market and income approaches. For investments in marketable securities, deferred compensation trust assets and derivative contracts, which are carried at their fair values, the Company’s fair value estimates incorporate quoted market prices, other observable inputs (for example, forward interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

Interest rate swap contracts are valued using forward interest rate curves obtained from third-party market data providers. The fair value of each contract is the sum of the expected future settlements between the contract counterparties, discounted to present value. The expected future settlements are determined by comparing the contract interest rate to the expected forward interest rate as of each settlement date and applying the difference between the two rates to the notional amount of debt in the interest rate swap contracts.

Fuel swap contracts are valued using forward fuel price curves obtained from third-party market data providers. The fair value of each contract is the sum of the expected future settlements between the contract counterparties, discounted to present value. The expected future settlements are determined by comparing the contract fuel price to the expected forward fuel price as of each settlement date and applying the difference between the contract and expected prices to the notional gallons in the fuel swap contracts. The Company regularly reviews the forward price curves obtained from third-party market data providers and related changes in fair value for reasonableness utilizing information available to the Company from other published sources.

The Company has not changed its valuation techniques for measuring the fair value of any financial assets and liabilities during the year. Transfers between levels, if any, are recognized at the end of the reporting period. There were no significant transfers between levels during each of the nine month periods ended September 30, 2014 and 2013.

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The carrying amount and estimated fair value of the Company's financial instruments that are recorded at fair value on a recurring basis for the periods presented are as follows:

		As of September 30, 2014			
			Estimated Fair Value Measurements		
(In millions)	Statement of Financial Position Location	Carrying Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Deferred compensation trust assets	Long-term marketable securities	$ 9	$ 9	$ —	$ —
Investments in marketable securities	Marketable securities and Long-term marketable securities	103	55	48	—
Total financial assets		$ 112	$ 64	$ 48	$ —
Financial Liabilities:					
Fuel swap contracts:					
Current	Other accrued liabilities	$ 1	$ —	$ —	$ 1
Total financial liabilities		$ 1	$ —	$ —	$ 1