

SERVICEMASTER CO  
Form 10-Q/A  
August 29, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q/A**

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2008**

**o**

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

**For the transition period from            to**

**Commission file number 1-14762**

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**THE SERVICEMASTER COMPANY**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-3858106**  
(IRS Employer Identification No.)

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**860 Ridge Lake Boulevard, Memphis, Tennessee 38120**

(Address of principal executive offices) (Zip Code)

**901-597-1400**

(Registrant's telephone number, including area code)

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

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 Act). Yes  No

On July 24, 2007, the registrant completed a transaction pursuant to an Agreement and Plan of Merger, dated as of March 18, 2007, among the registrant and two corporations formed to effect the merger transactions. As a result of the merger transaction, the registrant became a privately held corporation and its equity shares are no longer publicly traded. At August 8, 2008, 1,000 shares of the registrant's common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

**EXPLANATORY NOTE**

On August 14, 2008, The ServiceMaster Company (the Company ) filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (the 10-Q ) with the Securities and Exchange Commission. Pursuant to the Indenture, dated July 24, 2008, among the Company, the Subsidiary Guarantors from time to time parties thereto and Wilmington Trust FSB, as trustee, the Company is providing in this Form 10-Q/A (the Amendment ) the Condensed Consolidating Financial Statements of the Company and its subsidiaries by adding Note 20 to Part I, Item 1 of the 10-Q.

This Amendment does not reflect any events occurring after the filing of the 10-Q. Except as set forth herein, no other changes are made to the 10-Q.

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**THE SERVICEMASTER COMPANY**

**Condensed Consolidated Statements of Operations (Unaudited)**

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(In thousands)

|   | Successor<br>Three<br>months ended<br>June 30, 2008 | Predecessor<br>Three<br>months ended<br>June 30, 2007 |
|---|---|---|
| <b>Operating Revenue</b>  | \$ 997,305  | \$ 1,008,737  |
| <b>Operating Costs and Expenses:</b>  |   |   |
| Cost of services rendered and products sold   | 589,734   | 590,509   |
| Selling and administrative expenses   | 247,114   | 270,833   |
| Amortization expense  | 41,968  | 2,309   |
| Merger related charges  | 305   | 2,794   |
| Restructuring charges   | 4,005   | 8,260   |
| Total operating costs and expenses  | 883,126   | 874,705   |
| <b>Operating Income</b>   | 114,179   | 134,032   |
| <b>Non-operating Expense (Income):</b>  |   |   |
| Interest expense  | 83,425  | 13,879  |
| Interest and net investment income  | (4,164)   | (18,118)  |
| Minority interest and other expense, net  | 145   | 1,472   |
| <b>Income from Continuing Operations before Income Taxes</b>                            | 34,773  | 136,799   |
| Provision for income taxes  | 13,947  | 46,546  |
| <b>Income from Continuing Operations</b>  | 20,826  | 90,253  |
| Loss from businesses held pending sale and discontinued operations, net of income taxes | (2,736)   | (1,622)   |
| <b>Net Income</b>   | \$ 18,090   | \$ 88,631   |

See accompanying Notes to the Condensed Consolidated Financial Statements

**THE SERVICEMASTER COMPANY**



**Condensed Consolidated Statements of Operations (Unaudited)**

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(In thousands)

|   | Successor<br>Six<br>months ended<br>June 30, 2008 | Predecessor<br>Six<br>months ended<br>June 30, 2007 |
|---|---|---|
| <b>Operating Revenue</b>  | \$ 1,629,536                                      | \$ 1,682,232  |
| <b>Operating Costs and Expenses:</b>  |   |   |
| Cost of services rendered and products sold   | 1,007,102   | 1,033,859   |
| Selling and administrative expenses   | 418,230   | 464,052   |
| Amortization expense  | 92,642  | 4,575   |
| Merger related charges  | 355   | 5,334   |
| Restructuring charges   | 7,330   | 15,318  |
| Total operating costs and expenses  | 1,525,659   | 1,523,138   |
| <b>Operating Income</b>   | 103,877   | 159,094   |
| <b>Non-operating Expense (Income):</b>  |   |   |
| Interest expense  | 173,011   | 28,143  |
| Interest and net investment loss (income)   | 1,881   | (26,184)  |
| Minority interest and other expense, net  | 277   | 3,521   |
| <b>(Loss) Income from Continuing Operations before Income Taxes</b>                     | (71,292)  | 153,614   |
| (Benefit) provision for income taxes  | (17,024)  | 53,313  |
| <b>(Loss) Income from Continuing Operations</b>   | (54,268)  | 100,301   |
| Loss from businesses held pending sale and discontinued operations, net of income taxes | (3,484)   | (3,121)   |
| <b>Net (Loss) Income</b>  | \$ (57,752)                                       | \$ 97,180   |

See accompanying Notes to the Condensed Consolidated Financial Statements

**THE SERVICEMASTER COMPANY**

**Condensed Consolidated Statements of Financial Position (Unaudited)**

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(In thousands, except share data)

|   | As of June 30,<br>2008 | Successor | As of December 31,<br>2007 |
|---|------------------------|-----------|----------------------------|
| <b>Assets</b>   |                        |           |                            |
| <b>Current Assets:</b>  |                        |           |                            |
| Cash and cash equivalents   | \$ 225,366             | \$        | 207,219                    |
| Marketable securities   | 30,278                 |           | 108,816                    |
| Receivables, less allowance of \$24,136 and \$20,994, respectively          | 395,079                |           | 336,068                    |
| Inventories   | 83,611                 |           | 72,352                     |
| Prepaid expenses and other assets   | 77,407                 |           | 26,843                     |
| Deferred customer acquisition costs   | 58,269                 |           | 25,322                     |
| Deferred taxes  | 38,235                 |           | 48,177                     |
| Assets of businesses held pending sale and discontinued operations          | 31,124                 |           | 42,474                     |
| Total Current Assets  | 939,369                |           | 867,271                    |
| <b>Property and Equipment:</b>  |                        |           |                            |
| At cost   | 220,478                |           | 210,144                    |
| Less: accumulated depreciation  | (46,144)               |           | (22,147)                   |
| Net property and equipment  | 174,334                |           | 187,997                    |
| <b>Other Assets:</b>  |                        |           |                            |
| Goodwill  | 3,058,314              |           | 3,049,923                  |
| Intangible assets, primarily trade names, service marks and trademarks, net | 3,095,382              |           | 3,185,253                  |
| Notes receivable  | 27,418                 |           | 26,401                     |
| Long-term marketable securities   | 134,221                |           | 152,974                    |
| Other assets  | 35,520                 |           | 36,299                     |
| Debt issuance costs   | 64,894                 |           | 84,942                     |
| Total Assets  | \$ 7,529,452           | \$        | 7,591,060                  |
| <b>Liabilities and Shareholder's Equity</b>                                 |                        |           |                            |
| <b>Current Liabilities:</b>   |                        |           |                            |
| Accounts payable  | \$ 124,536             | \$        | 103,400                    |
| Accrued liabilities:  |                        |           |                            |
| Payroll and related expenses  | 90,615                 |           | 132,054                    |
| Self-insured claims and related expenses                                    | 95,590                 |           | 84,781                     |
| Other   | 142,999                |           | 138,049                    |
| Deferred revenue  | 499,474                |           | 408,476                    |
| Liabilities of businesses held pending sale and discontinued operations     | 14,627                 |           | 12,983                     |
| Current portion of long-term debt   | 45,475                 |           | 53,564                     |
| Total Current Liabilities   | 1,013,316              |           | 933,307                    |
| <b>Long-Term Debt</b>   | 4,055,918              |           | 4,077,247                  |
| <b>Other Long-Term Liabilities:</b>   |                        |           |                            |
| Deferred taxes  | 1,038,608              |           | 1,079,500                  |
| Liabilities of businesses held pending sale and discontinued operations     | 5,629                  |           | 7,765                      |
| Other long-term obligations, primarily self-insured claims                  | 160,614                |           | 189,707                    |
| Total Other Long-Term Liabilities   | 1,204,851              |           | 1,276,972                  |
| <b>Commitments and Contingencies (See Note 5)</b>                           |                        |           |                            |
| <b>Shareholder's Equity:</b>  |                        |           |                            |
| Common stock \$0.01 par value, authorized 1,000 shares; issued 1,000 shares |                        |           |                            |
| Additional paid-in capital  | 1,434,800              |           | 1,431,400                  |
| Retained deficit  | (181,272)              |           | (123,520)                  |
| Accumulated other comprehensive income (loss)                               | 1,839                  |           | (4,346)                    |
| Total Shareholder's Equity  | 1,255,367              |           | 1,303,534                  |
| Total Liabilities and Shareholder's Equity                                  | \$ 7,529,452           | \$        | 7,591,060                  |

*See accompanying Notes to the Condensed Consolidated Financial Statements*

**THE SERVICEMASTER COMPANY**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

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(In thousands)

|  | Successor<br>Six<br>months ended<br>June 30, 2008 | Predecessor<br>Six<br>months ended<br>June 30, 2007 |
|--|---|---|
| <b>Cash and Cash Equivalents at Beginning of Period</b>                                    | \$ 207,219  | \$ 123,675  |
| <b>Cash Flows from Operating Activities from Continuing Operations:</b>                    |   |   |
| <b>Net (Loss) Income</b>   | (57,752)  | 97,180  |
| Adjustments to reconcile net (loss) income to net cash provided from operating activities: |   |   |
| Loss from discontinued operations  | 3,484   | 3,121   |
| Depreciation expense   | 25,951  | 24,372  |
| Amortization expense   | 92,642  | 4,575   |
| Amortization of debt issuance costs  | 18,269  | 1,138   |
| Option and restricted stock expense  | 3,401   | 3,058   |
| Restructuring charges  | 7,330   | 15,318  |
| Cash payments related to restructuring charges   | (16,236)  | (6,012)   |
| Merger related charges   | 355   | 5,334   |
| Change in working capital, net of acquisitions:  |   |   |
| Current and deferred income taxes  | (22,941)  | 34,087  |
| Receivables  | (59,455)  | (68,024)  |
| Inventories and other current assets   | (88,273)  | (65,180)  |
| Accounts payable   | 22,291  | 17,318  |
| Deferred revenue   | 88,910  | 64,851  |
| Accrued liabilities  | (4,056)   | 3,061   |
| Other, net   | 4   | 2,480   |
| <b>Net Cash Provided from Operating Activities from Continuing Operations</b>              | <b>13,924</b>                                     | <b>136,677</b>                                      |
| <b>Cash Flows from Investing Activities from Continuing Operations:</b>                    |   |   |
| Property additions   | (18,121)  | (24,239)  |
| Sale of equipment and other assets   | 4,560   | 1,076   |
| Acquisition of The ServiceMaster Company   | (20,957)  | (3,546)   |
| Other business acquisitions, net of cash acquired  | (9,961)   | (25,217)  |
| Notes receivable, financial investments and securities                                     | 76,987  | 49,340  |
| <b>Net Cash Provided from (Used for) Investing Activities from Continuing Operations</b>   | <b>32,508</b>                                     | <b>(2,586)</b>                                      |
| <b>Cash Flows from Financing Activities from Continuing Operations:</b>                    |   |   |
| Borrowings of debt   | 182,000   | 415,411   |
| Payments of debt   | (217,288)   | (458,245)   |
| Shareholders' dividends  |   | (70,077)  |
| Debt issuance costs paid   | (99)  |   |
| Proceeds from employee share plans   |   | 36,277  |
| <b>Net Cash Used for Financing Activities from Continuing Operations</b>                   | <b>(35,387)</b>                                   | <b>(76,634)</b>                                     |
| <b>Cash Flows from Discontinued Operations:</b>  |   |   |
| Cash provided from operating activities  | 7,389   | 10,719  |
| Cash (used for) provided from investing activities   | (191)   | 1,006   |
| Cash used for financing activities   | (96)  | (159)   |
| <b>Net Cash Provided from Discontinued Operations</b>                                      | <b>7,102</b>                                      | <b>11,566</b>                                       |
| <b>Cash Increase During the Period</b>   | <b>18,147</b>                                     | <b>69,023</b>                                       |
| <b>Cash and Cash Equivalents at End of Period</b>  | <b>\$ 225,366</b>                                 | <b>\$ 192,698</b>                                   |

See accompanying Notes to the Condensed Consolidated Financial Statements





**THE SERVICEMASTER COMPANY**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 1. Basis of Presentation**

The condensed consolidated financial statements include the accounts of The ServiceMaster Company and its subsidiaries, collectively referred to as the Company or ServiceMaster .

On March 18, 2007, ServiceMaster entered into an Agreement and Plan of Merger (the Merger Agreement ) with ServiceMaster Global Holdings, Inc. (formerly CDRSVM Topco, Inc.) ( Holdings ) and CDRSVM Acquisition Co., Inc., an indirect wholly owned subsidiary of Holdings ( Acquisition Co. ). The Merger Agreement provided that, upon the terms and subject to the conditions set forth in the Merger Agreement, Acquisition Co. would merge with and into ServiceMaster, with ServiceMaster as the surviving corporation (the Merger ).

On July 24, 2007 (the Closing Date ), the Merger was completed, and each issued and outstanding share of ServiceMaster common stock, other than shares held by ServiceMaster or Holdings or their subsidiaries and shares held by stockholders who validly perfected their appraisal rights under Delaware law, was converted into the right to receive \$15.625 in cash (the Merger Consideration ). Each share of ServiceMaster common stock owned by ServiceMaster, Holdings or Acquisition Co. or any of their respective direct or indirect wholly-owned subsidiaries was cancelled and retired, and no consideration was paid in exchange for it.

Although ServiceMaster continued as the same legal entity after the Merger, the accompanying condensed consolidated financial statements are presented for two periods: Predecessor and Successor, which relate to the period preceding the Merger and the period succeeding the Merger, respectively. The Company refers to the operations of ServiceMaster for both the Predecessor and Successor periods. The condensed consolidated statements of financial position as of June 30, 2008 and December 31, 2007, the condensed consolidated statements of operations and of cash flows for the six months ended June 30, 2008 and the condensed consolidated statement of operations for the three months ended June 30, 2008 reflect the financial position, operations and cash flows of the Successor. The condensed consolidated statements of operations and of cash flows for the six months ended June 30, 2007 and the condensed consolidated statement of operations for the three months ended June 30, 2007 reflect the operations and cash flows of the Predecessor.

As a result of the consummation of the Merger and the application of purchase accounting described in Note 3, the condensed consolidated financial statements for the Predecessor and Successor are not comparable.

The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States ( GAAP ) and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). The Company recommends that the quarterly condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2007 ( 2007 Annual Report ). The condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All intercompany transactions and balances have been eliminated in consolidation. The financial results as well as the assets and liabilities related to InStar have been classified in the financial statement caption businesses held pending sale and discontinued operations in all periods due to the

classification of InStar as held for sale in 2007. The results of operations for any interim period are not necessarily indicative of the results which might be achieved for a full year.

**Note 2. Significant Accounting Policies**

The Company has identified the most important accounting policies with respect to its financial position and results of operations. These relate primarily to revenue recognition and the deferral of customer acquisition costs. The following revenue recognition policies have not changed from those disclosed in the 2007 Annual Report.

Revenues from lawn care and pest control services, as well as liquid and fumigation termite applications, are recognized as the services are provided. Revenues from landscaping services are recognized as they are earned based upon contract arrangements or when services are performed for non-contractual arrangements. The Company eradicates termites through the use of baiting systems, as well as through non-baiting methods (e.g., fumigation or liquid treatments). Termite services using baiting systems, termite inspection and protection contracts, and home warranty services are frequently sold

through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for warranty contracts) are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Those costs bear a direct relationship to the fulfillment of the Company's obligations under the contracts and are representative of the relative value provided to the customer (proportional performance method). Home warranty contract revenue is recognized based on the expected emergence of total claim costs. The Company regularly reviews its estimates of direct costs for its termite bait and home warranty contracts and adjusts the estimates when appropriate. Revenue from trade name licensing arrangements is recognized when earned. The Company has franchise agreements in its TruGreen LawnCare, Terminix, ServiceMaster Clean, Merry Maids, AmeriSpec and Furniture Medic businesses. Franchise revenue (which in the aggregate represents approximately four percent of consolidated revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee's customer level revenue. Monthly fee revenue is recognized when the related customer level revenue is reported by the franchisee and collectibility is assured. Franchise revenue also includes initial fees resulting from the sale of a franchise. These fees are fixed and are recognized as revenue when collectibility is assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations (excluding trade name licensing) were approximately \$18 million and \$15 million for the three months ended June 30, 2008 and 2007, respectively, and consolidated operating income from continuing operations was approximately \$114 million and \$134 million for the three months ended June 30, 2008 and 2007, respectively. Total profits from the franchised operations (excluding trade name licensing) were approximately \$32 million and \$27 million for the six months ended June 30, 2008 and 2007, respectively, and consolidated operating income from continuing operations was approximately \$104 million and \$159 million for the six months ended June 30, 2008 and 2007, respectively. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company's consolidated financial statements for all periods.

The Company had \$499 million and \$408 million of deferred revenue at June 30, 2008 and December 31, 2007, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranty, termite, pest control and lawn care services.

Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale.

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

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

The fair values of the Company's financial instruments reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report are based on information available to the Company as of June 30, 2008 and December 31, 2007.

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The preparation of the condensed consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. Disclosures in the 2007 Annual Report presented the significant areas that require the use of management's estimates and discussed how management formed its judgments. The areas discussed included revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers' compensation, auto and general liability insurance claims; accruals for home warranty and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; useful lives for depreciation and amortization expense; and the valuation of tangible and intangible assets.

### Note 3. Acquisition of ServiceMaster

As discussed in Note 1, the Merger was completed on July 24, 2007.

Immediately following the completion of the Merger, all of the outstanding capital stock of Holdings, the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliates of, Clayton, Dubilier & Rice, Inc. ( CD&R ), Citigroup Private Equity L.P., BAS Capital Funding Corporation and J.P. Morgan Ventures Corporation (collectively, the Equity Sponsors ).

Equity contributions totaling \$1,431 million from the Equity Sponsors, together with (i) borrowings under a new \$1,150 million senior unsecured interim loan facility ( Interim Loan Facility ), (ii) borrowings under a new \$2,650 million senior secured term loan facility and (iii) cash on hand at ServiceMaster, were used, among other things, to finance the aggregate Merger Consideration, to make payments in satisfaction of other equity-based interests in ServiceMaster under the Merger Agreement, to settle existing interest rate swaps, to redeem or provide for the repayment of certain of the Company's existing indebtedness and to pay related transaction fees and expenses. In addition, letters of credit issued under a new \$150 million pre-funded letter of credit facility (together with the senior secured term loan facility, the Term Facilities ) were used to replace and/or secure letters of credit previously issued under a ServiceMaster credit facility that was terminated as of the Closing Date. On the Closing Date, the Company also entered into, but did not draw under, a new \$500 million senior secured revolving credit facility (the Revolving Credit Facility ).

In connection with the Merger and the related transactions (the Transactions ), ServiceMaster retired certain of its existing indebtedness, including ServiceMaster's \$179.0 million, 7.875% notes due August 15, 2009 (the 2009 Notes ). On the Closing Date, the 2009 Notes were called for redemption and they were redeemed on August 29, 2007. Additionally, the Company utilized a portion of the proceeds from the Term Facilities to repay at maturity ServiceMaster's \$49.2 million, 6.95% notes due August 15, 2007.

The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one to one basis into 10.75%/11.50% senior toggle notes due 2015 ( Permanent Notes ). The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of Permanent Notes, ServiceMaster entered into a registration rights agreement, pursuant to which ServiceMaster will be required to file with the SEC a registration statement with respect to the resale of the Permanent Notes.

See Note 14 to the consolidated financial statements in the 2007 Annual Report for a description of the Company's indebtedness.

The Company accounted for the Merger in accordance with SFAS No. 141, Business Combinations , which requires the cost of the Merger to be allocated to the assets and liabilities of the Company based on fair value. The Merger and the allocation of the purchase price have been recorded as of July 25, 2007.

The excess of the purchase price over the net tangible and intangible assets acquired was recorded as goodwill. The Company recorded purchase accounting adjustments to increase the carrying value of property, to establish intangible assets for trade names, service marks and trademarks ( trade names ), customer relationships, franchise agreements, backlog and lease commitments, among other things, as well as to reduce to fair value deferred revenue and deferred customer acquisition costs.



The purchase price has been allocated as follows:

| <b>(In millions)</b>   |          |
|--|----------|
| Purchase consideration                                       | \$ 4,893 |
| Net assets acquired (historical basis)                       | (1,262)  |
| Purchase price in excess of historical assets                | \$ 3,631 |
| Identifiable intangible assets:                              |          |
| Trade names  | \$ 2,484 |
| Customer relationships                                       | 652      |
| Franchise agreements   | 88       |
| Backlog  | 68       |
| Subcontractor and realtor network                            | 10       |
| Favorable lease commitments                                  | 10       |
| Software   | 17       |
| Total identifiable intangible assets                         | 3,329    |
| Eliminate historical basis of identifiable intangible assets | (249)    |
| Net adjustment to identifiable intangible assets             | 3,080    |
| Goodwill   | 1,377    |
| Current assets (deferred customer acquisition costs)         | (68)     |
| Current liabilities (primarily deferred revenue)             | 94       |
| Fixed assets   | 29       |
| Fair value adjustment to existing debt                       | 88       |
| Other non-current liabilities                                | (5)      |
| Historical debt issuance fees written off                    | (16)     |
| Deferred taxes   | (951)    |
| Other  | 3        |
| Allocation of purchase price in excess of historical assets  | \$ 3,631 |

Goodwill and most trade names are indefinite-lived intangible assets. As a result, goodwill and indefinite-lived trade names will not be amortized but will be evaluated for impairment at least annually.

The Company incurred certain costs related to the Merger that are presented as Merger related charges in the Condensed Consolidated Statements of Operations and are recorded in the Other Operations and Headquarters business segment.

#### **Note 4. Restructuring Charges**

The Company is engaged in a reorganization and restructuring of certain of its businesses and support functions ( Fast Forward ). Among the purposes of Fast Forward is to eliminate layers and bureaucracy and simplify work processes in order to better align the Company's work processes around its operational and strategic objectives. It is expected that Fast Forward will be effected in phases. The first phase involved, among other things, a reduction in work force and various process improvements, including the closing of American Home Shield's call center located in Santa Rosa, California. The second phase is expected to include the organization of certain corporate support functions into Centers of Excellence which are expected to deliver higher quality services to our business units at lower costs, the outsourcing to third party vendors of various business activities that currently are handled internally, as well as other employee workforce reductions expected to result in cost-savings. The first phase of Fast Forward was substantially completed in the first quarter of 2008, and the second phase is expected to begin implementation in the second half of 2008.



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In connection with Fast Forward, the Company incurred costs in the three and six months ended June 30, 2008 of approximately \$4.1 million and \$6.7 million, respectively. Such costs included consulting fees of approximately \$2.1 million and severance, lease termination and other costs of approximately \$2.0 million for the three months ended June 30, 2008. These charges included consulting fees of approximately \$3.7 million and severance, lease termination and other costs of approximately \$3.0 million for the six months ended June 30, 2008. No restructuring charges related to Fast Forward were incurred in the three and six months ended June 30, 2007.

The results for the three and six months ended June 30, 2007 include restructuring charges related to the Company's consolidation of its corporate headquarters into its operations support center in Memphis, Tennessee and the closing of its headquarters in Downers Grove, Illinois. The transition to Memphis was substantially completed in 2007. Almost all costs related to the transition were cash expenditures, and, in accordance with GAAP, these costs were expensed throughout the transition period. In the three and six months ended June 30, 2007, the Company recognized charges of approximately \$8.3 million and \$15.3 million, respectively. These charges consisted of \$5.8 million of employee retention and severance and \$2.5 million of recruiting and related costs for the three months ended June 30, 2007. These charges consisted of \$11.4

million of employee retention and severance and \$3.9 million of recruiting and related costs for the six months ended June 30, 2007.

During the three and six months ended June 30, 2008, the Company reversed net expenses of \$0.1 million and recorded additional expenses of \$0.6 million, respectively, relating to this relocation, which includes additional severance and other costs.

The pretax charges discussed above are reported in the Restructuring charges line in the Condensed Consolidated Statements of Operations.

#### **Note 5. 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 has both self-insured retention limits and layers of excess insurance coverage above such self-insured retention limits that is insured by third parties. The Company is required to pay all claims that fall below the retention limits. As of June 30, 2008 and December 31, 2007, the Company had accrued self-insured claims of \$150 million and \$159 million, respectively. During the six months ended June 30, 2008 and 2007, the Company recorded provisions for uninsured claims totaling \$19 million and \$24 million, respectively, and the Company paid claims totaling \$28 million and \$32 million, respectively. 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 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.

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

The Company maintains lease facilities with banks totaling \$65 million, which provide for the financing of branch properties to be leased by the Company. At June 30, 2008, approximately \$65 million was funded under these facilities. Approximately \$12 million of these leases are treated as capital leases and have been included on the balance sheet as assets with related debt as of June 30, 2008. The balance of the funded amount is treated as operating leases. The Company has guaranteed the residual value of the properties under the leases up to 73 percent of the fair market value at the commencement of the lease. At June 30, 2008, the Company's residual value guarantee related to the leased assets totaled \$53 million for which the Company has recorded the estimated fair value of this guarantee (approximately \$0.1 million) in the Condensed Consolidated Statement of Financial Position. In connection with the closing of the Merger, the Company amended these leases effective July 24, 2007. Among the modifications, the Company extended the lease terms through July 24, 2010. The operating lease and capital lease classifications of these leases did not change as a result of the modifications.

The majority of the Company's vehicle fleet and some equipment are leased through operating leases. The lease terms are non-cancelable for the first twelve-month term, and then are month-to-month, cancelable at the Company's option. There are residual value guarantees by the Company (ranging from 70 percent to 87 percent of the estimated terminal value at the inception of the lease depending on the agreement) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. At June 30, 2008, there was approximately \$161 million of residual value relating to the Company's fleet and equipment leases. Approximately \$52 million of this residual value is with a lessor that has exercised its option to terminate the lease effective August 2008. The cost of acquiring the assets subject to these leases is expected to amount to approximately \$50 million. The fair value of the assets under all of the fleet and equipment leases is expected to

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substantially mitigate the Company's guarantee obligations under the agreements. At June 30, 2008, the Company has recorded the estimated fair value of this guarantee of approximately \$2.9 million in the Condensed Consolidated Statement of Financial Position.

The Company has guarantees on certain bonds issued by divested companies, primarily performance type bonds. The maximum payments the Company could be required to make if the buyers of the divested companies are unable to fulfill their obligations is approximately \$2 million at June 30, 2008. Substantially all of the bonds are scheduled to expire in 2008, but may be extended depending on the completion of the related projects. The Company believes that if it were to incur a loss on

any individual bond guarantee, the likelihood of which the Company believes is remote, such loss would not have a material effect on the Company's business, financial condition, annual results of operations or cash flows.

In the ordinary course of conducting its business activities, the Company becomes involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include general and commercial liability and employment actions as well as environmental proceedings. The Company does not expect any of these proceedings to have a material effect on the Company's business, financial condition, annual results of operations or cash flows.

**Note 6. Goodwill and Intangible Assets**

In accordance with SFAS No. 142, "Goodwill and Other 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.

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

| (In thousands)           | TruGreen<br>LawnCare | TruGreen<br>LandCare | Terminix     | American<br>Home<br>Shield | Other<br>Operations<br>and<br>Headquarters | Total        |
|--------------------------|----------------------|----------------------|--------------|----------------------------|--|--------------|
| Balance at Dec. 31, 2007 | \$ 1,143,670         | \$ 47,872            | \$ 1,323,953 | \$ 350,079                 | \$ 184,349                                 | \$ 3,049,923 |
| Acquisitions             | 6,912                |                      | 4,361        |                            | 52   | 11,325       |
| Other(1)                 | (1,031)              | (995)                | (1,118)      | (423)                      | 633  | (2,934)      |
| Balance at June 30, 2008 | \$ 1,149,551         | \$ 46,877            | \$ 1,327,196 | \$ 349,656                 | \$ 185,034                                 | \$ 3,058,314 |

(1) Primarily reflects the tax effect of the amortization of tax deductible goodwill and the impact of the resolution of certain tax items. Also reflects adjustments to the preliminary purchase price allocation related to the Merger.

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

| (In thousands)           | June 30,<br>2008 | December 31,<br>2007 |
|--------------------------|------------------|----------------------|
| Trade names(1)           | \$ 2,468,200     | \$ 2,468,200         |
| Other intangible assets  | 852,486          | 849,715              |
| Accumulated amortization | (225,304)        | (132,662)            |
| Net other intangibles    | 627,182          | 717,053              |
| Total                    | \$ 3,095,382     | \$ 3,185,253         |

- (1) Not subject to amortization.

**Note 7. Stock-Based Compensation**

On November 20, 2007, the board of directors of Holdings adopted the ServiceMaster Global Holdings, Inc. Stock Incentive Plan (the Stock Incentive Plan). The Stock Incentive Plan provides for the sale of shares of Holdings stock to ServiceMaster's executive officers, other key employees and directors as well as the grant of deferred share units and options to purchase shares of Holdings to those individuals. The board of directors of Holdings, or a committee designated by it, selects the officers, employees and directors eligible to participate in the Stock Incentive Plan and determines the specific number of shares to be offered or options to be granted to an individual employee or director. A maximum of 12,445,000 shares of Holdings stock are reserved for issuance under the Stock Incentive Plan. Holdings currently intends to satisfy any need for shares of common stock of Holdings associated with the exercise of options issued under the Stock Incentive Plan through those new shares reserved for issuance.

All option grants under the Stock Incentive Plan will be non-qualified options with a per-share exercise price no less than the fair market value of one share of Holdings stock on the grant date. Any stock options granted will generally have a term of ten years and vesting will be subject to an employee's continued employment. The board of directors of Holdings, or a committee designated by it, may accelerate the vesting of an option at any time. In addition, vesting of options will be accelerated if Holdings experiences a change in control (as defined in the Stock Incentive Plan) unless options with substantially equivalent terms and economic value are substituted for existing options in place of accelerated vesting. Vesting of options will also be accelerated in the event of an employee's death or disability (as defined in the Stock Incentive Plan).

Upon a termination for cause (as defined in the Stock Incentive Plan), all options held by an employee are immediately cancelled. Following a termination without cause, vested options will generally remain exercisable through the earliest of the expiration of their term or three months following termination of employment (one year in the case of death, disability or retirement at normal retirement age).

Unless sooner terminated by the board of directors of Holdings, the Stock Incentive Plan will remain in effect until November 20, 2017.

All options granted will vest in four equal annual installments, subject to an employee's continued employment. The four-year vesting period is the requisite service period over which compensation cost will be recognized on a straight-line basis for all grants. The options will be accounted for as equity-classified awards. The non-cash stock-based compensation expense associated with the Stock Incentive Plan is pushed down from Holdings and recorded in the financial statements of ServiceMaster.

During the Successor three and six months ended June 30, 2008, stock-based compensation expense was approximately \$1.7 million (\$1.0 million after-tax) and \$3.4 million (\$2.6 million after-tax), respectively. During the Predecessor three and six months ended June 30, 2007, stock-based compensation expense was approximately \$1.5 million (\$1.0 million after-tax) and \$3.1 million (\$2.0 million after-tax), respectively.

As of June 30, 2008, there was approximately \$24.1 million of total unrecognized compensation cost related to non-vested options to purchase shares of Holdings stock. These remaining costs are expected to be recognized over the remaining 3.5 years of the four-year requisite service period.

#### Note 8. Supplemental Cash Flow Information

In the condensed consolidated statements of cash flows, the caption Cash and Cash Equivalents includes investments in short-term, highly-liquid securities having a maturity of three months or less when purchased. Supplemental information relating to the condensed consolidated statements of cash flows for the Successor six months ended June 30, 2008 and the Predecessor six months ended June 30, 2007 is presented in the following table:

| (In thousands)                    | Successor<br>Six<br>months ended<br>June 30, 2008 | Predecessor<br>Six<br>months ended<br>June 30, 2007 |
|-----------------------------------|---|---|
| Cash paid for or (received from): |   |   |
| Interest expense                  | \$ 158,012  | \$ 27,136   |
| Interest and dividend income      | (7,342)   | (6,445)   |
| Income taxes, net of refunds      | 5,913   | 17,221  |

#### Note 9. Comprehensive Income

Total comprehensive income (loss) was \$39 million and (\$51) million for the Successor three and six months ended June 30, 2008, respectively, and \$89 million and \$99 million for the Predecessor three and six months ended June 30, 2007, respectively. Total comprehensive income primarily includes net income, unrealized gains/(losses) on marketable securities, unrealized gains/(losses) on derivative instruments and the effect of foreign currency translation.

**Note 10. Receivable Sales**

The Company has an arrangement to provide for the ongoing revolving sale of a designated pool of accounts receivable of TruGreen LawnCare and Terminix to a wholly-owned, bankruptcy-remote subsidiary, ServiceMaster Funding Company LLC. ServiceMaster Funding Company LLC has entered into an arrangement pursuant to which it may transfer, on a revolving basis, an undivided percentage ownership interest in a pool of accounts receivable to unrelated third party purchasers. ServiceMaster Funding Company LLC retains an undivided percentage interest in the pool of accounts receivable and bad debt losses for the entire pool are allocated first to this retained interest. During the Successor three and six months ended June 30, 2008 and the Predecessor three and six months ended June 30, 2007, there were no receivables sold to third parties under this arrangement. However, the Company may sell its receivables in the future which would provide an alternative funding source. The arrangement is a 364-day facility that is renewable at the option of ServiceMaster Funding Company LLC, with a final termination date of July 17, 2012. The Company may sell up to \$50 million of its receivables to these purchasers and therefore has immediate access to cash proceeds from these sales. The amount of the eligible receivables varies during the year based on seasonality of the business and could, at times, limit the amount available to the Company. There is presently only one purchaser that is required to purchase receivables under the arrangement. If this purchaser were to

exercise its right to terminate its participation in the arrangement, which it may do in the third quarter of each year, the amount of cash available to the Company may be reduced or eliminated.

#### Note 11. Cash and Marketable Securities

Cash, money market funds and certificates of deposits, with maturities of three months or less, are included in the Statements of Financial Position caption Cash and Cash Equivalents. As of June 30, 2008 and December 31, 2007, the Company's investments consist primarily of domestic publicly traded debt of \$94.3 million and \$130.6 million, respectively and common equity securities of \$70.2 million and \$131.2 million, respectively.

The aggregate market value of the Company's short-term and long-term investments in debt and equity securities was \$164.5 million and \$261.8 million and the aggregate cost basis was \$163.9 million and \$254.7 million at June 30, 2008 and December 31, 2007, 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 it competes. The Company recorded an impairment charge of approximately \$3.0 million (\$1.8 million after-tax) and \$0.3 million (\$0.2 million after-tax) during the three months ended June 30, 2008 and 2007, respectively, due to other than temporary declines in the value of certain investments. The Company recorded an impairment charge of approximately \$8.2 million (\$6.2 million after-tax) and \$0.9 million (\$0.6 million after-tax) during the six months ended June 30, 2008 and 2007, respectively, due to other than temporary declines in the value of certain investments. The unrealized gains in the investment portfolio were approximately \$5.2 million and \$8.4 million as of June 30, 2008 and December 31, 2007, respectively. Unrealized losses were approximately \$5.2 million and \$1.4 million as of June 30, 2008 and December 31, 2007, respectively. There were no unrealized losses older than one year at June 30, 2008 or December 31, 2007. The aggregate fair value of the investments with unrealized losses totaled \$52.0 million and \$20.4 million at June 30, 2008 and December 31, 2007, respectively. The Company's marketable securities consist primarily of corporate bonds and common equity securities.

#### Note 12. Long-Term Debt

Long-term debt at June 30, 2008 and December 31, 2007 is summarized in the following table:

| (In thousands)  | June 30,<br>2008 | December 31,<br>2007 |
|---|------------------|----------------------|
| Senior secured term loan facility maturing in 2014      | \$ 2,623,500     | \$ 2,636,750         |
| Senior unsecured interim loan facility maturing in 2008 | 1,150,000        | 1,150,000            |
| Revolving credit facility maturing in 2013              |                  |                      |
| 7.10% notes maturing in 2018 (1)                        | 60,736           | 59,772               |
| 7.45% notes maturing in 2027 (1)                        | 143,880          | 142,457              |
| 7.25% notes maturing in 2038 (1)                        | 58,607           | 58,206               |
| Other   | 64,670           | 83,626               |
| Less current portion                                    | (45,475)         | (53,564)             |
| Total long-term debt                                    | \$ 4,055,918     | \$ 4,077,247         |



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(1) The increase from the balance at December 31, 2007 reflects the amortization of fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.

The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one to one basis into 10.75%/11.50% senior toggle notes due 2015 ( Permanent Notes ). The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of Permanent Notes, ServiceMaster entered into a registration rights agreement, pursuant to which ServiceMaster will be required to file with the SEC a registration statement with respect to the resale of the Permanent Notes.

In February 2008, the Company entered into two 3-year interest rate swap agreements and one 4-year interest rate swap agreement, effective March 3, 2008. The total notional amount of the 3-year agreements was \$250 million and the total notional amount of the 4-year swap agreement was \$250 million. Under the terms of the agreements, the Company will pay a weighted average fixed rate of interest of approximately 3.15% on the notional amount of the 3-year swap agreements and 3.48% on the notional amount of the 4-year swap agreement. The Company will receive a floating rate of interest (based on three month LIBOR) on the notional amount. Therefore, the effective interest rate for \$500 million of the term loans is fixed

at a rate between 5.90% and 6.23%, including the borrowing margin described in Note 14 to the consolidated financial statements in the 2007 Annual Report. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, these interest rate swap agreements are classified as cash flow hedges and, as such, the hedging instruments are recorded on the balance sheet as either an asset or liability at fair value, with the effective portion of the changes in fair value attributable to the hedged risks recorded in other comprehensive income.

**Note 13. Businesses Held Pending Sale and Discontinued Operations**

Reported loss from businesses held pending sale and discontinued operations, net of income taxes for all periods presented include the operating results of the sold and discontinued businesses noted in the 2007 Annual Report. During the second quarter of 2008, the Company recorded a pre-tax impairment charge of \$6.3 million as a result of a change in our fair value estimate of InStar's net assets based on changing market conditions and the ongoing sales process.

The operating results and financial position of discontinued operations are as follows:

| (In thousands)   | Successor<br>Three<br>months ended<br>June 30, 2008 | Predecessor<br>Three<br>months ended<br>June 30, 2007 |
|--|---|---|
| <b>Operating Results:</b>  |   |   |
| Operating revenue  | \$ 21,834   | \$ 17,839   |
| Operating income(loss)   | 1,766   | (2,704)   |
| Interest expense   | (29)  | (17)  |
| Impairment charge  | (6,317)   |   |
| Pretax loss  | (4,580)   | (2,721)   |
| Benefit from income taxes  | (1,844)   | (1,099)   |
| Loss from businesses held pending sale and discontinued operations | \$ (2,736)  | \$ (1,622)  |

| (In thousands)   | Successor<br>Six<br>months ended<br>June 30, 2008 | Predecessor<br>Six<br>months ended<br>June 30, 2007 |
|--|---|---|
| <b>Operating Results:</b>  |   |   |
| Operating revenue  | \$ 39,640   | \$ 40,239   |
| Operating income(loss)   | 629   | (5,177)   |
| Interest expense   | (70)  | (36)  |
| Impairment charge  | (6,317)   |   |
| Pretax loss  | (5,758)   | (5,213)   |
| Benefit from income taxes  | (2,274)   | (2,092)   |
| Loss from businesses held pending sale and discontinued operations | \$ (3,484)  | \$ (3,121)  |

June 30,  
2008

December 31,  
2007

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| Financial Position:   |    |        |           |
|-----------------------|----|--------|-----------|
| Current assets        | \$ | 31,124 | \$ 42,474 |
| Current liabilities   |    | 14,627 | 12,983    |
| Long-term liabilities |    | 5,629  | 7,765     |
| Total liabilities     | \$ | 20,256 | \$ 20,748 |

The table below summarizes the activity during the six months ended June 30, 2008 for the remaining liabilities from operations that were disposed of in years prior to 2008. The remaining obligations primarily relate to long-term self-insurance claims. The Company believes that the remaining reserves continue to be adequate and reasonable.

| (In thousands)                                    | Balance at<br>Dec. 31, 2007 | Cash Payments<br>or Other | (Income)/<br>Expense | Balance at<br>June 30, 2008 |
|---|-----------------------------|---------------------------|----------------------|-----------------------------|
| Remaining liabilities of discontinued operations: |                             |                           |                      |                             |
| ARS/AMS   | \$ 2,384                    | \$ (311)                  | \$ 177               | \$ 2,250                    |
| LandCare Construction                             | 1,257                       | (360)                     | 169                  | 1,066                       |
| LandCare utility line clearing business           | 1,350                       | (84)                      |                      | 1,266                       |
| Certified Systems, Inc. and other                 | 6,721                       | 220                       | (1,920)              | 5,021                       |

**Note 14. Income Taxes**

As of June 30, 2008 and December 31, 2007, the Company had \$14.1 million and \$13.3 million, respectively, of tax items primarily reflected in state tax returns that had not been recognized for financial reporting ( unrecognized tax benefits ). If recognized prior to December 31, 2008, \$12.5 million (\$9.0 million, net of federal and state tax effects) would be recorded as a purchase accounting adjustment to goodwill and \$1.6 million (\$1.2 million, net of federal and state tax effects) would affect the Company's effective tax rate.

Up to \$5.1 million of the Company's unrecognized tax benefits could be recognized within the next twelve months. The Company recognized approximately \$0.3 million of its unrecognized tax benefits during the Successor six months ended June 30, 2008 and approximately \$6.6 million during the Predecessor six months ended June 30, 2007.

The Company files consolidated and separate income tax returns in the United States federal jurisdiction and in many state and foreign jurisdictions. The Company has been audited by the United States Internal Revenue Service ( IRS ) through 2006 and is no longer subject to state and local or foreign income tax examinations by tax authorities for years before 2001.

In the ordinary course, the Company is subject to review by domestic and foreign taxing authorities, including the IRS. As noted above, the U.S. federal tax returns filed by the Company through the 2006 return have been reviewed by the IRS. The Company paid \$5 million primarily in the first quarter of 2006 relating to the resolution of the 2003 and 2004 audits. The IRS completed the audits of the Company's tax returns for 2005 and 2006, with no adjustments or additional payments. The IRS commenced examinations of the Company's U.S. federal income tax returns for 2007 and 2008 in the first quarter of 2007 and the second quarter of 2008, respectively. At this time, the outcome of these audits is not known and no significant adjustments have been proposed by the IRS pertaining to these audit periods. Five state tax authorities are in the process of auditing state income tax returns of various subsidiaries. One state audit is at the appeals level. If state authorities were to prevail with their assessments, the Company does not anticipate that these adjustments would have a material impact on the Company's financial position, annual results of operations or cash flows.

The Company's policy is to recognize potential interest and penalties related to its tax positions within the tax provision. During the Successor three and six months ended June 30, 2008, the Company recognized interest expense of less than \$0.1 million and approximately \$0.6 million, respectively, through the tax provision. During the Predecessor three and six months ended June 30, 2007, the Company recognized interest expense of approximately \$0.8 million and \$0.7 million, respectively, through the tax provision. As of June 30, 2008 and December 31, 2007, the Company had accrued for the payment of interest and penalties of approximately \$3.3 million (\$2.0 million, net of federal and state tax effects) and \$2.4 million (\$1.4 million, net of federal and state tax effects), respectively.

**Note 15. Business Segment Reporting**

*The business of the Company is conducted through five reportable segments: TruGreen LawnCare, TruGreen LandCare, Terminix, American Home Shield and Other Operations and Headquarters. The TruGreen LawnCare segment provides residential and commercial lawn care services. The TruGreen LandCare segment provides landscaping services primarily to commercial customers. The Terminix segment provides termite and pest control services to residential and commercial customers. The American Home Shield segment provides home warranties to consumers that cover HVAC, plumbing and other home systems and appliances. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of ServiceMaster Clean (which includes the operations of AmeriSpec and Furniture Medic) and Merry Maids, which provide primarily residential disaster restoration, commercial cleaning, carpet and upholstery cleaning, home inspection services, furniture repair and maid services. The Other Operations and Headquarters segment also includes the Company's headquarters*

*operations, which provide various technology, marketing, finance, legal and other support services to the business units.*

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Segment information for continuing operations is presented below.

| (In thousands)                          | Successor<br>Three<br>months ended<br>June 30, 2008 | Predecessor<br>Three<br>months ended<br>June 30, 2007 | Successor<br>Six<br>months ended<br>June 30, 2008 | Predecessor<br>Six<br>months ended<br>June 30, 2007 |
|---|---|---|---|---|
| Operating Revenue:                      |   |   |   |   |
| TruGreen LawnCare                       | \$ 377,296  | \$ 375,548  | \$ 511,738  | \$ 508,220  |
| TruGreen LandCare                       | 83,877  | 112,298   | 162,529   | 215,240   |
| Terminix                                | 311,774   | 311,328   | 573,422   | 573,500   |
| American Home Shield                    | 167,570   | 156,040   | 272,988   | 281,227   |
| Other Operations and<br>Headquarters    | 56,788  | 53,523  | 108,859   | 104,045   |
| Total Operating Revenue                 | \$ 997,305  | \$ 1,008,737  | \$ 1,629,536                                      | \$ 1,682,232  |
| Operating Income (Loss):(1),(2)         |   |   |   |   |
| TruGreen LawnCare                       | \$ 55,913   | \$ 72,813   | \$ 21,854   | \$ 61,220   |
| TruGreen LandCare                       | (2,693)   | (2,126)   | (602)   | (2,060)   |
| Terminix                                | 59,682  | 62,589  | 102,895   | 107,360   |
| American Home Shield                    | 9,401   | 20,278  | (8,291)   | 27,299  |
| Other Operations and<br>Headquarters(2) | (8,124)   | (19,522)  | (11,979)  | (34,725)  |
| Total Operating Income                  | \$ 114,179  | \$ 134,032  | \$ 103,877  | \$ 159,094  |

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

| (In thousands)  | Successor<br>Three<br>months ended<br>June 30, 2008 | Predecessor<br>Three<br>months ended<br>June 30, 2007 | Successor<br>Six<br>months ended<br>June 30, 2008 | Predecessor<br>Six<br>months ended<br>June 30, 2007 |
|---|---|---|---|---|
| Segment Operating Income  | \$ 114,179  | \$ 134,032  | \$ 103,877  | \$ 159,094  |
| Non-operating expense<br>(income):                              |   |   |   |   |
| Interest expense  | 83,425  | 13,879  | 173,011   | 28,143  |
| Interest and net investment<br>(income) loss                    | (4,164)   | (18,118)  | 1,881   | (26,184)  |
| Minority interest and other<br>expense, net                     | 145   | 1,472   | 277   | 3,521   |
| Income (Loss) from Continuing<br>Operations before Income Taxes | \$ 34,773   | \$ 136,799  | \$ (71,292)                                       | \$ 153,614  |

(2) The results include restructuring charges for severance, as well as costs associated with Fast Forward, and payments for employee retention and severance related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downers Grove, Illinois. The restructuring charges totaled \$4.0 million and \$8.3 million in the three months ended June 30, 2008 and 2007, respectively, and \$7.3 million and \$15.3 million in the six months ended June 30, 2008 and 2007, respectively. The results also include Merger charges related to the purchase of ServiceMaster by a group of investors led by CD&R. The Merger related charges totaled \$0.3 million and \$2.8 million pretax in the three months ended June 30, 2008 and 2007, respectively, and \$0.4 million and \$5.3 million pretax in the six months ended June 30, 2008 and 2007, respectively.

**Note 16. Related Party Transactions**

In connection with the Transactions, the Company entered into a consulting agreement with CD&R under which CD&R provides the Company with on-going consulting and management advisory services in exchange for an annual management fee of \$2 million. This fee is payable quarterly. The Company recorded a management fee of \$0.5 million and \$1.0 million for the three and six months ended June 30, 2008, respectively. There was no management fee recorded for the three and six months ended June 30, 2007. The consulting agreement also provides that CD&R may receive future fees in connection with certain subsequent financing and acquisition or disposition transactions.

**Note 17. Newly Issued Accounting Statements and Positions**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS 157, Fair Value Measurement . This Statement defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value

measurements. In February 2008, the FASB approved FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ), that permits companies to partially defer the effective date of SFAS No. 157 for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-2 does not permit companies to defer recognition and disclosure requirements for financial assets and financial liabilities or for non-financial assets and non-financial liabilities that are re-measured at least annually. SFAS No. 157 therefore is effective for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that are re-measured at least annually for fiscal years beginning after November 15, 2007. It is effective for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for fiscal years beginning after November 15, 2008. The Company has assessed the impact of this Statement to the Company's consolidated financial position, results of operations and cash flows. The Company has adopted this Statement for financial assets and liabilities (See Note 18). The Company does not expect the adoption of this Statement for non-financial assets and liabilities recognized at fair value on a nonrecurring basis to have a material effect on these consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* . This Statement permits entities to choose to measure at fair value many financial instruments and certain other items such as investments, debt and derivative instruments. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has elected not to apply the fair value option to any of its financial assets or liabilities.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations* . This Statement will significantly change the accounting for business combinations and is effective for business combinations finalized in fiscal years beginning after December 15, 2008. SFAS No. 141(R) changes the method for applying the accounting for business combinations in a number of significant respects including the requirement to expense transaction fees and expected restructuring costs as incurred, rather than including these amounts in the allocated purchase price; the requirement to recognize the fair value of contingent consideration at the acquisition date, rather than the expected amount when the contingency is resolved; the requirement to recognize the fair value of acquired in-process research and development assets at the acquisition date, rather than immediately expensing; and the requirement to recognize a gain in relation to a bargain purchase price, rather than reducing the allocated basis of long-lived assets. Because this standard is generally applied prospectively, the effect of adoption on the Company's financial statements will depend primarily on specific transactions, if any, completed after 2008. The Company is currently evaluating the effects that this statement is likely to have on potential post-2008 transactions.

In December 2007, the FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* . This Statement establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of this Statement on its consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* - an amendment of FASB Statement No. 133 . This statement requires additional disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS No. 133 and related interpretations, and how derivative instruments and related hedged items affect the entity's financial position, results of operations and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the impact of this Statement on its consolidated financial statements.

In April 2008, the FASB approved FASB Staff Position FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of adopting FSP 142-3 on its consolidated financial statements.



**Note 18. Fair Value of Financial Instruments**

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, interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

The carrying amount, including accrued interest, and estimated fair value of certain of the Company's financial instruments for the periods presented are as follows:

| (In thousands)                       | Carrying Value    | June 30, 2008<br>Estimated Fair Value Measurements |   |   | December 31, 2007 |                      |
|--------------------------------------|-------------------|--|---|---|-------------------|----------------------|
|                                      |                   | Quoted Prices In Active Markets (Level 1)          | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Carrying Value    | Estimated Fair Value |
| <b>Financial Assets</b>              |                   |  |   |   |                   |                      |
| Deferred compensation trust assets   | \$ 19,400         | \$ 19,400  | \$  | \$  | \$ 35,100         | \$ 35,100            |
| Investments in marketable securities | 145,099           | 73,436   | 71,663  |   | 226,690           | 226,690              |
| Fuel swap contracts                  | 10,871            |  |   | 10,871                                    |                   |                      |
| <b>Total financial assets</b>        | <b>\$ 175,370</b> | <b>\$ 92,836</b>                                   | <b>\$ 71,663</b>                              | <b>\$ 10,871</b>                          | <b>\$ 261,790</b> | <b>\$ 261,790</b>    |
| <b>Financial Liabilities</b>         |                   |  |   |   |                   |                      |
| Interest rate swap contracts         | \$ 9,818          | \$   | \$ 9,818                                      | \$  | \$ 16,557         | \$ 16,557            |
| <b>Total financial liabilities</b>   | <b>\$ 9,818</b>   | <b>\$</b>  | <b>\$ 9,818</b>                               | <b>\$</b>                                 | <b>\$ 16,557</b>  | <b>\$ 16,557</b>     |

A reconciliation of the beginning and ending fair values of financial instruments valued using significant unobservable inputs (Level 3) is presented as follows:

| (In thousands)                               | Fuel Swap Contracts |
|--|---------------------|
| Balance at December 31, 2007                 | \$                  |
| Gains included in other comprehensive income | 3,118               |
| Balance at March 31, 2008                    | \$ 3,118            |
| Total gains (realized/unrealized)            |                     |
| Included in earnings(1)                      | 3,913               |
| Included in other comprehensive income       | 7,753               |
| Settlements, net                             | (3,913)             |
| Balance at June 30, 2008                     | \$ 10,871           |

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

The Company uses fuel swap contracts to mitigate the impact of fluctuations in fuel prices. The Company's exposure to market risk for changes in fuel prices relates to the forecasted consumption of fuel by the Company's vehicle fleet in the delivery of services to customers. As of June 30, 2008, the Company had fuel swap contracts, designated as cash flow hedges, to pay fixed prices for fuel with an aggregate notional amount of \$41.4 million, maturing through 2009.

**Note 19. Subsequent Events**

In August 2008, the Company entered into two 3-year interest rate swap agreements effective September 2, 2008. The total notional amount of the swap agreements was \$200 million. Under the terms of the agreements, the Company will pay a weighted average fixed rate of interest of approximately 3.83% on the \$200 million notional amount of the swap agreements. The Company will receive a floating rate of interest (based on one month LIBOR) on the notional amount. Therefore, the effective interest rate for \$200 million of the term loans is fixed at a rate of approximately 6.58%, including the borrowing margin described in Note 14 of the 2007 Annual Report. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, these interest rate swap agreements are classified as cash flow hedges and, as such, the hedging instruments will be recorded on the balance sheet as either an asset or liability at fair value, with the effective portion of the changes in fair value attributable to the hedged risks recorded in other comprehensive income.

**Note 20. Condensed Consolidating Financial Statements of The ServiceMaster Company and Subsidiaries**

The following condensed consolidating financial statements of the Company and subsidiaries have been prepared pursuant to Rule 3-10 of Regulation S-X. These condensed consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the condensed consolidated financial statements. Goodwill and other intangible assets have been allocated to all of the subsidiaries of the Company based on management's estimates.

On July 24, 2008, outstanding amounts under the Interim Loan Facility converted into the Permanent Notes. The payment obligations of the Company under the Permanent Notes are jointly and severally guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries excluding certain subsidiaries subject to regulatory requirements in various states (Guarantors). Each of the Guarantors is wholly-owned, directly or indirectly, by the Company, and all guarantees are full and unconditional. All other subsidiaries of the Company, either directly or indirectly owned, do not guarantee the Permanent Notes (Non-Guarantors).

**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statements of Operations****For the three months ended June 30, 2008 (Successor)****(in thousands)**

|   | <b>The<br/>ServiceMaster<br/>Company</b> | <b>Guarantors</b> | <b>Non-<br/>Guarantors</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|-------------------|----------------------------|---------------------|---------------------|
| <b>Operating Revenue</b>  | \$                                       | \$ 805,144        | \$ 211,100                 | \$ (18,939)         | \$ 997,305          |
| <b>Operating Costs and Expenses:</b>                                |  |                   |                            |                     |                     |
| Cost of services rendered and products sold                         |  | 509,084           | 99,589                     | (18,939)            | 589,734             |
| Selling and administrative expenses                                 | 1,551                                    | 160,348           | 85,215                     |                     | 247,114             |
| Amortization expense  | 56                                       | 30,584            | 11,328                     |                     | 41,968              |
| Merger related charges  | 305                                      |                   |                            |                     | 305                 |
| Restructuring charges   |  | 1,308             | 2,697                      |                     | 4,005               |
| Total operating costs and expenses                                  | 1,912                                    | 701,324           | 198,829                    | (18,939)            | 883,126             |
| <b>Operating (Loss) Income</b>                                      | (1,912)                                  | 103,820           | 12,271                     |                     | 114,179             |
| <b>Non-operating Expense (Income):</b>                              |  |                   |                            |                     |                     |
| Interest expense (income)   | 83,166                                   | 2,623             | (2,364)                    |                     | 83,425              |
| Interest and net investment loss (income)                           | 564                                      | 648               | (5,376)                    |                     | (4,164)             |
| Minority interest and other expense, net                            |  |                   | 145                        |                     | 145                 |
| <b>(Loss) Income from Continuing Operations before Income Taxes</b> | (85,642)                                 | 100,549           | 19,866                     |                     | 34,773              |
| (Benefit) provision for income taxes                                | (23,638)                                 | 26,095            | 11,490                     |                     | 13,947              |
|   | (62,004)                                 | 74,454            | 8,376                      |                     | 20,826              |

**(Loss) Income from Continuing Operations**

|  |           |    |         |    |        |    |          |           |
|--|-----------|----|---------|----|--------|----|----------|-----------|
| (Loss) income from businesses held pending sale and discontinued operations, net of income taxes |           |    | (5,857) |    | 3,121  |    |          | (2,736)   |
| Equity in earnings (losses) of subsidiaries (net of tax)   | 80,094    |    | 7,932   |    |        |    | (88,026) |           |
| <b>Net Income (Loss)</b>   | \$ 18,090 | \$ | 76,529  | \$ | 11,497 | \$ | (88,026) | \$ 18,090 |

## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statements of Operations

For the three months ended June 30, 2007 (Predecessor)

(in thousands)

|  | The<br>ServiceMaster<br>Company | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|--|---------------------------------|------------|--------------------|--------------|--------------|
| <b>Operating Revenue</b>   | \$                              | \$ 829,926 | \$ 197,513         | \$ (18,702)  | \$ 1,008,737 |
| <b>Operating Costs and Expenses:</b>   |                                 |            |                    |              |              |
| Cost of services rendered and products sold  |                                 | 526,099    | 83,112             | (18,702)     | 590,509      |
| Selling and administrative expenses  | 1,179                           | 176,284    | 93,370             |              | 270,833      |
| Amortization expense   |                                 | 2,018      | 291                |              | 2,309        |
| Merger related charges   | 2,794                           |            |                    |              | 2,794        |
| Restructuring charges  |                                 |            | 8,260              |              | 8,260        |
| Total operating costs and expenses   | 3,973                           | 704,401    | 185,033            | (18,702)     | 874,705      |
| <b>Operating (Loss) Income</b>   | (3,973)                         | 125,525    | 12,480             |              | 134,032      |
| <b>Non-operating Expense (Income):</b>   |                                 |            |                    |              |              |
| Interest expense (income)  | 8,940                           | 6,502      | (1,563)            |              | 13,879       |
| Interest and net investment (income) loss  | (1,796)                         | 648        | (16,970)           |              | (18,118)     |
| Minority interest and other expense, net   | 1,423                           |            | 49                 |              | 1,472        |
| <b>(Loss) Income from Continuing Operations before Income Taxes</b>                              |                                 |            |                    |              |              |
|  | (12,540)                        | 118,375    | 30,964             |              | 136,799      |
| (Benefit) provision for income taxes   | (3,289)                         | 27,961     | 21,874             |              | 46,546       |
| <b>(Loss) Income from Continuing Operations</b>  |                                 |            |                    |              |              |
|  | (9,251)                         | 90,414     | 9,090              |              | 90,253       |
| (Loss) income from businesses held pending sale and discontinued operations, net of income taxes |                                 | (1,949)    | 327                |              | (1,622)      |
| Equity in earnings (losses) of subsidiaries (net of tax)   | 97,882                          | 6,613      |                    | (104,495)    |              |
| <b>Net Income (Loss)</b>   | \$ 88,631                       | \$ 95,078  | \$ 9,417           | \$ (104,495) | \$ 88,631    |

## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statements of Operations

For the six months ended June 30, 2008 (Successor)

(in thousands)

|  | The<br>ServiceMaster<br>Company | Guarantors   | Non-<br>Guarantors | Eliminations | Consolidated |
|--|---------------------------------|--------------|--------------------|--------------|--------------|
| <b>Operating Revenue</b>   | \$                              | \$ 1,322,192 | \$ 342,706         | \$ (35,362)  | \$ 1,629,536 |
| <b>Operating Costs and Expenses:</b>   |                                 |              |                    |              |              |
| Cost of services rendered and products sold  |                                 | 876,994      | 165,470            | (35,362)     | 1,007,102    |
| Selling and administrative expenses  | 3,259                           | 261,828      | 153,143            |              | 418,230      |
| Amortization expense   | 111                             | 69,656       | 22,875             |              | 92,642       |
| Merger related charges   | 355                             |              |                    |              | 355          |
| Restructuring charges  |                                 | 1,394        | 5,936              |              | 7,330        |
| Total operating costs and expenses   | 3,725                           | 1,209,872    | 347,424            | (35,362)     | 1,525,659    |
| <b>Operating (Loss) Income</b>   | (3,725)                         | 112,320      | (4,718)            |              | 103,877      |
| <b>Non-operating Expense (Income):</b>   |                                 |              |                    |              |              |
| Interest expense (income)  | 170,874                         | 6,119        | (3,982)            |              | 173,011      |
| Interest and net investment loss (income)  | 3,449                           | 1,296        | (2,864)            |              | 1,881        |
| Minority interest and other expense, net   |                                 |              | 277                |              | 277          |
| <b>(Loss) Income from Continuing Operations before Income Taxes</b>                              |                                 |              |                    |              |              |
|  | (178,048)                       | 104,905      | 1,851              |              | (71,292)     |
| (Benefit) provision for income taxes   | (51,513)                        | 21,886       | 12,603             |              | (17,024)     |
| <b>(Loss) Income from Continuing Operations</b>  |                                 |              |                    |              |              |
|  | (126,535)                       | 83,019       | (10,752)           |              | (54,268)     |
| (Loss) income from businesses held pending sale and discontinued operations, net of income taxes |                                 | (6,335)      | 2,851              |              | (3,484)      |
| Equity in earnings (losses) of subsidiaries (net of tax)   | 68,783                          | (10,216)     |                    | (58,567)     |              |
| <b>Net (Loss) Income</b>   | \$ (57,752)                     | \$ 66,468    | \$ (7,901)         | \$ (58,567)  | \$ (57,752)  |

## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statements of Operations

For the six months ended June 30, 2007 (Predecessor)

(in thousands)

|  | The<br>ServiceMaster<br>Company | Guarantors   | Non-<br>Guarantors | Eliminations | Consolidated |
|--|---------------------------------|--------------|--------------------|--------------|--------------|
| <b>Operating Revenue</b>   | \$                              | \$ 1,368,762 | \$ 347,875         | \$ (34,405)  | \$ 1,682,232 |
| <b>Operating Costs and Expenses:</b>   |                                 |              |                    |              |              |
| Cost of services rendered and products sold  |                                 | 917,585      | 150,679            | (34,405)     | 1,033,859    |
| Selling and administrative expenses  | 2,179                           | 289,011      | 172,862            |              | 464,052      |
| Amortization expense   |                                 | 3,995        | 580                |              | 4,575        |
| Merger related charges   | 5,334                           |              |                    |              | 5,334        |
| Restructuring charges  |                                 |              | 15,318             |              | 15,318       |
| Total operating costs and expenses   | 7,513                           | 1,210,591    | 339,439            | (34,405)     | 1,523,138    |
| <b>Operating (Loss) Income</b>   | (7,513)                         | 158,171      | 8,436              |              | 159,094      |
| <b>Non-operating Expense (Income):</b>   |                                 |              |                    |              |              |
| Interest expense (income)  | 16,496                          | 13,606       | (1,959)            |              | 28,143       |
| Interest and net investment (income) loss  | (1,660)                         | 1,289        | (25,813)           |              | (26,184)     |
| Minority interest and other expense, net   | 3,423                           |              | 98                 |              | 3,521        |
| <b>(Loss) Income from Continuing Operations before Income Taxes</b>                              | (25,772)                        | 143,276      | 36,110             |              | 153,614      |
| (Benefit) provision for income taxes   | (6,808)                         | 26,487       | 33,634             |              | 53,313       |
| <b>(Loss) Income from Continuing Operations</b>  | (18,964)                        | 116,789      | 2,476              |              | 100,301      |
| (Loss) income from businesses held pending sale and discontinued operations, net of income taxes |                                 | (3,369)      | 248                |              | (3,121)      |
| Equity in earnings (losses) of subsidiaries (net of tax)   | 116,144                         | 991          |                    | (117,135)    |              |
| <b>Net Income (Loss)</b>   | \$ 97,180                       | \$ 114,411   | \$ 2,724           | \$ (117,135) | \$ 97,180    |



## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statements of Financial Position

As of June 30, 2008

(in thousands)

|   | The<br>ServiceMaster<br>Company | Guarantors   | Non-<br>Guarantors | Eliminations   | Consolidated |
|---|---------------------------------|--------------|--------------------|----------------|--------------|
| <b>Assets</b>   |                                 |              |                    |                |              |
| <b>Current Assets:</b>  |                                 |              |                    |                |              |
| Cash and cash equivalents   | \$ 53,302                       | \$ 17,799    | \$ 154,265         | \$             | \$ 225,366   |
| Marketable securities   |                                 |              | 30,278             |                | 30,278       |
| Receivables   | 37                              | 194,189      | 365,860            | (165,007)      | 395,079      |
| Inventories   |                                 | 79,850       | 3,761              |                | 83,611       |
| Prepaid expenses and other assets   | 8,935                           | 59,771       | 8,701              |                | 77,407       |
| Deferred customer acquisition costs   |                                 | 34,357       | 23,912             |                | 58,269       |
| Deferred taxes  | 6,590                           | 27,996       | 3,649              |                | 38,235       |
| Assets of businesses held pending sale<br>and discontinued operations             |                                 | 30,861       | 263                |                | 31,124       |
| Total Current Assets  | 68,864                          | 444,823      | 590,689            | (165,007)      | 939,369      |
| <b>Property and Equipment:</b>  |                                 |              |                    |                |              |
| At cost   |                                 | 149,552      | 70,926             |                | 220,478      |
| Less: accumulated depreciation  |                                 | (31,000)     | (15,144)           |                | (46,144)     |
| Net property and equipment  |                                 | 118,552      | 55,782             |                | 174,334      |
| <b>Other Assets:</b>  |                                 |              |                    |                |              |
| Goodwill  |                                 | 2,696,645    | 361,669            |                | 3,058,314    |
| Intangible assets, primarily trade<br>names, service marks and trademarks,<br>net |                                 | 2,198,754    | 896,628            |                | 3,095,382    |
| Notes receivable  | 349,395                         | 1,299        | 66,120             | (389,396)      | 27,418       |
| Long-term marketable securities   | 19,400                          |              | 114,821            |                | 134,221      |
| Investments in and advances to<br>subsidiaries                                    | 5,878,222                       | 2,063,420    | 20,251             | (7,961,893)    |              |
| Other assets  | 25,536                          | 722          | 9,262              |                | 35,520       |
| Debt issuance costs   | 64,894                          |              |                    |                | 64,894       |
| Total Assets  | \$ 6,406,311                    | \$ 7,524,215 | \$ 2,115,222       | \$ (8,516,296) | \$ 7,529,452 |
| <b>Liabilities and Shareholders Equity</b>  |                                 |              |                    |                |              |
| <b>Current Liabilities:</b>   |                                 |              |                    |                |              |
| Accounts payable  | \$ 497                          | \$ 68,777    | \$ 55,262          | \$             | \$ 124,536   |
| Accrued liabilities:  |                                 |              |                    |                |              |
| Payroll and related expenses  | 1,764                           | 40,891       | 47,960             |                | 90,615       |
| Self-insured claims and related<br>expenses                                       |                                 | 21,708       | 73,882             |                | 95,590       |
| Other   | 12,596                          | 52,594       | 77,809             |                | 142,999      |
| Deferred revenue  |                                 | 201,324      | 298,150            |                | 499,474      |
| Liabilities of businesses held pending<br>sale and discontinued operations        |                                 | 10,647       | 3,980              |                | 14,627       |
| Current portion of long-term debt   | 80,550                          | 15,571       | 114,361            | (165,007)      | 45,475       |
| Total Current Liabilities   | 95,407                          | 411,512      | 671,404            | (165,007)      | 1,013,316    |
| <b>Long-Term Debt</b>   | 4,011,349                       | 387,044      | 46,921             | (389,396)      | 4,055,918    |

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|   |                     |                     |                     |                       |                     |
|---|---------------------|---------------------|---------------------|-----------------------|---------------------|
| <b>Other Long-Term Liabilities:</b>                                     |                     |                     |                     |                       |                     |
| Deferred taxes  | 110,895             | 831,535             | 96,178              |                       | 1,038,608           |
| Intercompany payable  | 905,305             |                     |                     | (905,305)             |                     |
| Liabilities of businesses held pending sale and discontinued operations |                     |                     | 5,629               |                       | 5,629               |
| Other long-term obligations, primarily self-insured claims              | 27,988              | 3,965               | 128,661             |                       | 160,614             |
| <b>Total Other Long-Term Liabilities</b>                                | <b>1,044,188</b>    | <b>835,500</b>      | <b>230,468</b>      | <b>(905,305)</b>      | <b>1,204,851</b>    |
| <b>Shareholder s Equity</b>   | <b>1,255,367</b>    | <b>5,890,159</b>    | <b>1,166,429</b>    | <b>(7,056,588)</b>    | <b>1,255,367</b>    |
| <b>Total Liabilities and Shareholder s Equity</b>                       | <b>\$ 6,406,311</b> | <b>\$ 7,524,215</b> | <b>\$ 2,115,222</b> | <b>\$ (8,516,296)</b> | <b>\$ 7,529,452</b> |

## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statements of Financial Position

As of December 31, 2007

(in thousands)

|  | The<br>ServiceMaster<br>Company | Guarantors   | Non-<br>Guarantors | Eliminations   | Consolidated |
|--|---------------------------------|--------------|--------------------|----------------|--------------|
| <b>Assets</b>  |                                 |              |                    |                |              |
| <b>Current Assets:</b>   |                                 |              |                    |                |              |
| Cash and cash equivalents  | \$ 100,429                      | \$ 13,983    | \$ 92,807          | \$             | \$ 207,219   |
| Marketable securities  |                                 |              | 108,816            |                | 108,816      |
| Receivables  | 2                               | 154,811      | 322,040            | (140,785)      | 336,068      |
| Inventories  |                                 | 69,212       | 3,140              |                | 72,352       |
| Prepaid expenses and other assets  |                                 | 14,410       | 12,433             |                | 26,843       |
| Deferred customer acquisition costs  |                                 | 9,611        | 15,711             |                | 25,322       |
| Deferred taxes   | 6,573                           | 38,833       | 2,771              |                | 48,177       |
| Assets of businesses held pending sale<br>and discontinued operations          |                                 | 42,143       | 331                |                | 42,474       |
| Total Current Assets   | 107,004                         | 343,003      | 558,049            | (140,785)      | 867,271      |
| <b>Property and Equipment:</b>   |                                 |              |                    |                |              |
| At cost  |                                 | 141,933      | 68,211             |                | 210,144      |
| Less: accumulated depreciation   |                                 | (14,404)     | (7,743)            |                | (22,147)     |
| Net property and equipment   |                                 | 127,529      | 60,468             |                | 187,997      |
| <b>Other Assets:</b>   |                                 |              |                    |                |              |
| Goodwill   |                                 | 2,689,231    | 360,692            |                | 3,049,923    |
| Intangible assets, primarily trade names,<br>service marks and trademarks, net |                                 | 2,265,350    | 919,903            |                | 3,185,253    |
| Notes receivable   | 363,409                         | 41,207       | 65,194             | (443,409)      | 26,401       |
| Long-term marketable securities  | 35,100                          |              | 117,874            |                | 152,974      |
| Investments in and advances to<br>subsidiaries                                 | 5,831,624                       | 2,016,718    | 59,528             | (7,907,870)    |              |
| Other assets   | 25,816                          | 751          | 9,732              |                | 36,299       |
| Debt issuance costs  | 84,942                          |              |                    |                | 84,942       |
| Total Assets   | \$ 6,447,895                    | \$ 7,483,789 | \$ 2,151,440       | \$ (8,492,064) | \$ 7,591,060 |
| <b>Liabilities and Shareholders Equity</b>                                     |                                 |              |                    |                |              |
| <b>Current Liabilities:</b>  |                                 |              |                    |                |              |
| Accounts payable   | \$ 973                          | \$ 45,879    | \$ 56,548          | \$             | \$ 103,400   |
| Accrued liabilities:   |                                 |              |                    |                |              |
| Payroll and related expenses   | 1,785                           | 48,173       | 82,096             |                | 132,054      |
| Self-insured claims and related expenses                                       |                                 | 16,498       | 68,283             |                | 84,781       |
| Other  | 15,303                          | 49,024       | 73,722             |                | 138,049      |
| Deferred revenue   |                                 | 150,223      | 258,253            |                | 408,476      |
| Liabilities of businesses held pending<br>sale and discontinued operations     |                                 | 9,035        | 3,948              |                | 12,983       |
| Current portion of long-term debt  | 70,749                          | 23,990       | 99,610             | (140,785)      | 53,564       |
| Total Current Liabilities  | 88,810                          | 342,822      | 642,460            | (140,785)      | 933,307      |
| <b>Long-Term Debt</b>  | 4,022,185                       | 461,855      | 36,616             | (443,409)      | 4,077,247    |
| <b>Other Long-Term Liabilities:</b>  |                                 |              |                    |                |              |

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|   |              |              |              |                |              |
|---|--------------|--------------|--------------|----------------|--------------|
| Deferred taxes  | 143,679      | 829,881      | 105,940      |                | 1,079,500    |
| Intercompany payable  | 839,958      |              |              | (839,958)      |              |
| Liabilities of businesses held pending sale and discontinued operations |              |              | 7,765        |                | 7,765        |
| Other long-term obligations, primarily self-insured claims              | 49,729       | 4,547        | 135,431      |                | 189,707      |
| Total Other Long-Term Liabilities                                       | 1,033,366    | 834,428      | 249,136      | (839,958)      | 1,276,972    |
| <b>Shareholder s Equity</b>   | 1,303,534    | 5,844,684    | 1,223,228    | (7,067,912)    | 1,303,534    |
| <b>Total Liabilities and Shareholder s Equity</b>                       | \$ 6,447,895 | \$ 7,483,789 | \$ 2,151,440 | \$ (8,492,064) | \$ 7,591,060 |

## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2008 (Successor)

(in thousands)

|  | The<br>ServiceMaster<br>Company | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|--|---------------------------------|------------|--------------------|--------------|--------------|
| <b>Cash and Cash Equivalents at Beginning of Period</b>                                  | \$ 100,429                      | \$ 13,983  | \$ 92,807          | \$           | \$ 207,219   |
| <b>Net Cash Provided from (Used for) Operating Activities from Continuing Operations</b> | (76,190)                        | 184,022    | (7,166)            | (86,742)     | 13,924       |
| <b>Cash Flows from Investing Activities from Continuing Operations:</b>                  |                                 |            |                    |              |              |
| Property additions   |                                 | (13,300)   | (4,821)            |              | (18,121)     |
| Sale of equipment and other assets   |                                 | 4,505      | 55                 |              | 4,560        |
| Acquisition of The ServiceMaster Company   | (20,957)                        |            |                    |              | (20,957)     |
| Other business acquisitions, net of cash received  |                                 | (9,847)    | (114)              |              | (9,961)      |
| Notes receivable, financial investments and securities                                   | 1,003                           |            | 75,984             |              | 76,987       |
| <b>Net Cash (Used for) Provided from Investing Activities from Continuing Operations</b> | (19,954)                        | (18,642)   | 71,104             |              | 32,508       |
| <b>Cash Flows from Financing Activities from Continuing Operations:</b>                  |                                 |            |                    |              |              |
| Borrowings of debt   | 182,000                         |            |                    |              | 182,000      |
| Payments of debt   | (195,625)                       | (19,858)   | (1,805)            |              | (217,288)    |
| Shareholder s dividends  |                                 | (43,371)   | (43,371)           | 86,742       |              |
| Debt issuance costs paid   | (99)                            |            |                    |              | (99)         |
| Net intercompany advances  | 62,741                          | (104,624)  | 41,883             |              |              |
| <b>Net Cash Provided from (Used for) Financing Activities from Continuing Operations</b> | 49,017                          | (167,853)  | (3,293)            | 86,742       | (35,387)     |
| <b>Cash Flows from Discontinued Operations:</b>  |                                 |            |                    |              |              |
| Cash provided from operating activities  |                                 | 6,576      | 813                |              | 7,389        |
| Cash used for investing activities   |                                 | (191)      |                    |              | (191)        |
| Cash used for financing activities   |                                 | (96)       |                    |              | (96)         |
| <b>Net Cash Provided from Discontinued Operations</b>                                    |                                 | 6,289      | 813                |              | 7,102        |
| <b>Cash (Decrease) Increase During the Period</b>  | (47,127)                        | 3,816      | 61,458             |              | 18,147       |
|  | \$ 53,302                       | \$ 17,799  | \$ 154,265         | \$           | \$ 225,366   |

**Cash and Cash Equivalents at End of  
Period**

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## THE SERVICEMASTER COMPANY AND SUBSIDIARIES

## Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2007 (Predecessor)

(in thousands)

|  | The<br>ServiceMaster<br>Company | Guarantors | Non-<br>Guarantors | Eliminations | Consolidated |
|--|---------------------------------|------------|--------------------|--------------|--------------|
| <b>Cash and Cash Equivalents at Beginning of Period</b>                                  | \$ 20,442                       | \$ 12,454  | \$ 90,779          | \$           | \$ 123,675   |
| <b>Net Cash Provided from (Used for) Operating Activities from Continuing Operations</b> | 65,855                          | 149,024    | (38,138)           | (40,064)     | 136,677      |
| <b>Cash Flows from Investing Activities from Continuing Operations:</b>                  |                                 |            |                    |              |              |
| Property additions   |                                 | (17,710)   | (6,529)            |              | (24,239)     |
| Sale of equipment and other assets   |                                 | 1,076      |                    |              | 1,076        |
| Acquisition of The ServiceMaster Company   | (3,546)                         |            |                    |              | (3,546)      |
| Other business acquisitions, net of cash received  | 753                             | (25,970)   |                    |              | (25,217)     |
| Notes receivable, financial investments and securities                                   | 155                             |            | 49,185             |              | 49,340       |
| <b>Net Cash Used for (Provided from) Investing Activities from Continuing Operations</b> | (2,638)                         | (42,604)   | 42,656             |              | (2,586)      |
| <b>Cash Flows from Financing Activities from Continuing Operations:</b>                  |                                 |            |                    |              |              |
| Borrowings of debt   | 415,411                         |            |                    |              | 415,411      |
| Payments of debt   | (445,860)                       | (11,096)   | (1,289)            |              | (458,245)    |
| Shareholder s dividends  | (70,077)                        | (20,032)   | (20,032)           | 40,064       | (70,077)     |
| Proceeds from employee share plans   | 36,277                          |            |                    |              | 36,277       |
| Net intercompany advances  | 46,795                          | (85,138)   | 38,343             |              |              |
| <b>Net Cash Used for Financing Activities from Continuing Operations</b>                 | (17,454)                        | (116,266)  | 17,022             | 40,064       | (76,634)     |
| <b>Cash Flows from Discontinued Operations:</b>  |                                 |            |                    |              |              |
| Cash provided from operating activities  |                                 | 10,679     | 40                 |              | 10,719       |
| Cash provided from investing activities  |                                 | 1,006      |                    |              | 1,006        |
| Cash used for financing activities   |                                 | (159)      |                    |              | (159)        |
| <b>Net Cash Provided from Discontinued Operations</b>                                    |                                 | 11,526     | 40                 |              | 11,566       |
| <b>Cash Increase During the Period</b>   | 45,763                          | 1,680      | 21,580             |              | 69,023       |
| <b>Cash and Cash Equivalents at End of Period</b>  | \$ 66,205                       | \$ 14,134  | \$ 112,359         | \$           | \$ 192,698   |





**EXHIBIT INDEX**

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| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| 31.1               | Certification of Chief Executive Officer Pursuant to Rule 15d 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2               | Certification of Chief Financial Officer Pursuant to Rule 15d 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1               | Certification of Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2               | Certification of Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURE**



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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 29, 2008

THE SERVICEMASTER COMPANY  
(Registrant)

By: /s/ Steven J. Martin  
Steven J. Martin  
Senior Vice President and Chief Financial Officer