SERVICEMASTER CO
Form 10-Q
November 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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

THE SERVICEMASTER COMPANY

(Exact name of registrant as specified in its charter)

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

860 Ridge Lake Boulevard, Memphis, Tennessee • 38120

(Address of principal executive offices) (Zip Code)

901-597-1400

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant 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 o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

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 November 7, 2008, 1,000 shares of the registrant s common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Successor		Predecessor
	Three months ended Sept. 30, 2008	July 25, 2007 to Sept. 30, 2007	July 1, 2007 to July 24, 2007
Operating Revenue	$ 948,073	$ 690,625	$ 252,158
Operating Costs and Expenses:			
Cost of services rendered and products sold	559,555	420,527	162,403
Selling and administrative expenses	235,172	154,457	66,622
Amortization expense	40,450	56,418	597
Merger related charges	412	458	36,097
Restructuring charges	1,813	8,211	1,601
Total operating costs and expenses	837,402	640,071	267,320
Operating Income (Loss)	110,671	50,554	(15,162)
Non-operating Expense (Income):			
Interest expense	83,886	78,257	3,500
Interest and net investment income	(244)	(3,890)	(2,440)
Other expense, net	141	102	11
Income (loss) from Continuing Operations before Income Taxes	26,888	(23,915)	(16,233)
Provision (benefit) for income taxes	8,683	(9,136)	(1,621)
Income (loss) from Continuing Operations	18,205	(14,779)	(14,612)
Loss from discontinued operations, net of income taxes	(1,186)	(2,590)	(1,467)
Net Income (Loss)	$ 17,019	$ (17,369)	$ (16,079)

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Successor		Predecessor
	Nine months ended Sept. 30, 2008	July 25, 2007 to Sept. 30, 2007	Jan. 1, 2007 to July 24, 2007
Operating Revenue	$ 2,577,609	$ 690,625	$ 1,934,390
Operating Costs and Expenses:			
Cost of services rendered and products sold	1,566,657	420,527	1,196,262
Selling and administrative expenses	653,402	154,457	530,674
Amortization expense	133,092	56,418	5,172
Merger related charges	767	458	41,431
Restructuring charges	9,143	8,211	16,919
Total operating costs and expenses	2,363,061	640,071	1,790,458
Operating Income	214,548	50,554	143,932
Non-operating Expense (Income):			
Interest expense	256,897	78,257	31,643
Interest and net investment loss (income)	1,637	(3,890)	(28,624)
Minority interest and other expense, net	418	102	3,532
(Loss) income from Continuing Operations before Income Taxes	(44,404)	(23,915)	137,381
(Benefit) provision for income taxes	(8,341)	(9,136)	51,692
(Loss) income from Continuing Operations	(36,063)	(14,779)	85,689
Loss from discontinued operations, net of income taxes	(4,670)	(2,590)	(4,588)
Net (Loss) Income	$ (40,733)	$ (17,369)	$ 81,101

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position (Unaudited)

(In thousands, except share data)

	Successor	
	As of September 30, 2008	As of December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 358,899	$ 207,219
Marketable securities	21,521	108,816
Receivables, less allowance of $23,152 and $20,994, respectively	399,560	336,068
Inventories	81,990	72,352
Prepaid expenses and other assets	56,049	26,843
Deferred customer acquisition costs	43,639	25,322
Deferred taxes	44,371	48,177
Assets of discontinued operations	240	42,474
Total Current Assets	1,006,269	867,271
Property and Equipment:		
At cost	279,336	210,144
Less: accumulated depreciation	(58,263)	(22,147)
Net property and equipment	221,073	187,997
Other Assets:		
Goodwill	3,078,038	3,049,923
Intangible assets, primarily trade names, service marks and trademarks, net	3,058,996	3,185,253
Notes receivable	27,087	26,401
Long-term marketable securities	123,131	158,939
Other assets	36,179	30,334
Debt issuance costs	86,519	84,942
Total Assets	$ 7,637,292	$ 7,591,060
Liabilities and Shareholder s Equity		
Current Liabilities:		
Accounts payable	$ 103,109	$ 103,400
Accrued liabilities:		
Payroll and related expenses	92,605	132,054
Self-insured claims and related expenses	91,038	84,781
Other	150,746	138,049
Deferred revenue	446,745	408,476
Liabilities of discontinued operations	5,824	12,983
Current portion of long-term debt	221,845	53,564
Total Current Liabilities	1,111,912	933,307
Long-Term Debt	4,049,349	4,077,247
Other Long-Term Liabilities:		
Deferred taxes	1,048,321	1,079,500
Liabilities of discontinued operations	4,253	7,765
Other long-term obligations, primarily self-insured claims	163,983	189,707
Total Other Long-Term Liabilities	1,216,557	1,276,972

Commitments and Contingencies (See Note 5)				
Shareholder s Equity:				
Common stock $0.01 par value, authorized 1,000 shares; issued 1,000 shares				
Additional paid-in capital		1,436,537		1,431,400
Retained deficit		(164,253)		(123,520)
Accumulated other comprehensive loss		(12,810)		(4,346)
Total Shareholder s Equity		1,259,474		1,303,534
Total Liabilities and Shareholder s Equity	$	7,637,292	$	7,591,060

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Successor		Predecessor
	Nine Months ended Sept. 30, 2008	Period from July 25, 2007 to Sept. 30, 2007	Period from Jan. 1, 2007 to July 24, 2007
Cash and Cash Equivalents at beginning of period	$ 207,219	$ 237,565	$ 123,675
Cash Flows from Operating Activities from Continuing Operations:			
Net (Loss) Income	(40,733)	(17,369)	81,101
Adjustments to reconcile net (loss) income to net cash provided from (used for) operating activities:			
Loss (Income) from discontinued operations	4,670	2,590	4,588
Depreciation expense	39,215	9,202	27,242
Amortization expense	133,092	56,418	5,172
Amortization of debt issuance costs	23,366	7,921	1,261
Deferred income tax (benefit) provision	(18,806)	(7,765)	30,443
Option and restricted stock expense	5,137		3,415
Restructuring charges	9,143	8,211	16,919
Cash payments related to restructuring charges	(18,370)	(7,239)	(8,236)
Merger related charges	767	458	41,431
Change in working capital, net of acquisitions:			
Receivables	(63,395)	(3,330)	(66,454)
Inventories and other current assets	(45,415)	1,359	(59,482)
Accounts payable	412	(13,614)	18,455
Deferred revenue	34,773	(11,739)	55,070
Accrued liabilities	(13,905)	13,895	40,635
Current income taxes	66	(6,207)	951
Other, net	1,692	835	2,982
Net Cash Provided from Operating Activities from Continuing Operations	51,709	33,626	195,493
Cash Flows from Investing Activities from Continuing Operations:			
Property additions	(75,194)	(7,707)	(26,563)
Sale of equipment and other assets	5,090	610	1,091
Acquisition of The ServiceMaster Company	(26,082)	(4,890,648)	(4,030)
Other business acquisitions, net of cash acquired	(27,504)	(3,985)	(25,460)
Notes receivable, financial investments and securities	97,417	(35,452)	38,127
Net Cash Used for Investing Activities from Continuing Operations	(26,273)	(4,937,182)	(16,835)
Cash Flows from Financing Activities from Continuing Operations:			
Borrowings of debt	357,000		415,411
Payments of debt	(227,312)	(250,302)	(459,537)
Borrowings under senior secured term loan facility		2,650,000	
Borrowings under senior unsecured interim loan facility		1,150,000	
Cash equity contributions		1,431,100	
Debt issuance costs paid	(26,587)	(100,813)	
Shareholders dividends			(70,077)
Proceeds from employee share plans			36,069
	103,101	4,879,985	(78,134)

Net Cash Provided from (Used for) Financing Activities from Continuing Operations			
Cash Flows from Discontinued Operations:			
Cash provided from (used) for operating activities	3,995	(2,430)	12,559
Cash provided from (used for) investing activities:			
Proceeds from sale of businesses	19,523		
Other investing activities	(208)	(110)	988
Cash used for financing activities	(167)	(47)	(181)
Net Cash Provided from (Used for) Discontinued Operations	23,143	(2,587)	13,366
Cash Increase (Decrease) During the Period	151,680	(26,158)	113,890
Cash and Cash Equivalents at End of Period	$ 358,899	$ 211,407	$ 237,565

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The 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 September 30, 2008 and December 31, 2007, the condensed consolidated statements of operations and of cash flows for the nine months ended September 30, 2008 and for the period from July 25, 2007 to September 30, 2007 and the condensed consolidated statement of operations for the three months ended September 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 period from January 1, 2007 to July 24, 2007 and the condensed consolidated statement of operations for the period from July 1, 2007 to July 24, 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 discontinued operations in all periods due to the classification of InStar as held for

sale in 2007. The Company completed the sale of InStar in the third quarter of 2008. 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

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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 $15.6 million, $9.0 million and $4.4 million for the three months ended September 30, 2008, the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively, and consolidated operating income from continuing operations was approximately $110.7 million, $50.6 million and ($15.2) million for the three months ended September 30, 2008, the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. Total profits from the franchised operations (excluding trade name licensing) were approximately $47.3 million, $9.0 million and $31.6 million for the nine months ended September 30, 2008, the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, respectively, and consolidated operating income from continuing operations was approximately $214.5 million, $50.6 million and $143.9 million for the nine months ended September 30, 2008, the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from January 1, 2007 to July 24, 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 $447 million and $408 million of deferred revenue at September 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 September 30, 2008 and December 31, 2007.

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

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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 maturing in 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 filed with the SEC a registration statement with respect to the resale of the Permanent Notes on October 22, 2008.

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.

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The final allocation of the purchase price is as follows:

(In millions)		
Purchase consideration	$	4,896
Net assets acquired (historical basis)		(1,262)
Purchase price in excess of historical assets	$	3,634
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		1,380
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	$	3,634

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 under way.

In connection with Fast Forward, the Company incurred costs in the three and nine months ended September 30, 2008 of approximately $2.0 million and $8.7 million, respectively. Such costs included consulting fees of approximately $0.6 million and severance, lease termination and other costs of approximately $1.4 million for the three months ended September 30, 2008. These charges included consulting fees of approximately $4.4 million and severance, lease termination and other costs of approximately $4.3 million for the nine months ended September 30, 2008. For the Successor Period from July 25, 2007 to September 30, 2007, the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, the Company incurred $3.4 million, $0.2 million and $0.2 million of restructuring charges related to Fast Forward, respectively.

The results for the Successor Period ended September 30, 2007 and the Predecessor Period ended July 24, 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 Successor Period from July 25, 2007 to September 30, 2007, the Company recognized charges of approximately $4.7 million, which consisted of $3.7 million of employee retention and severance and $1.0 million of recruiting and related costs. In the Predecessor Period from July 1, 2007 to July 24, 2007, the Company recognized charges of approximately $1.5 million, which consisted of $1.0 million of employee retention and severance and $0.5 million of recruiting and related costs. In the Predecessor Period from January 1, 2007 to July 24, 2007, the Company recognized charges of approximately $16.8 million, which consisted of $12.8 million of employee retention and severance and $4.0 million of recruiting and related costs. During the three and nine months ended September 30, 2008, the Company reversed net expenses of $0.2 million and recorded additional expense of $0.4 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.

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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 purchases insurance from third-party insurance carriers. These policies often incorporate deductibles or self-insured retentions. The Company is required to pay all claims that fall below the retention limits. As of September 30, 2008 and December 31, 2007, the Company had accrued self-insured claims of $151 million and $159 million, respectively. During the nine months ended September 30, 2008, the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, the Company recorded provisions for uninsured claims totaling $28 million, $8 million and $29 million, respectively, and the Company paid claims totaling $37 million, $8 million and $33 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 September 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 September 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 September 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 Statements 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 84 percent of the estimated terminal value at the inception of the lease depending on the agreement) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. At September 30, 2008, there was approximately $114 million of residual value relating to the Company s fleet and equipment leases. The fair value of the assets under all of the fleet and equipment leases is expected to substantially mitigate the Company s guarantee obligations under the agreements. At September 30, 2008, the Company has recorded the estimated fair value of this guarantee of approximately $2.1 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 $4.1 million at September 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.

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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 LawnCare	TruGreen LandCare	Terminix	American Home Shield	Other Operations and Headquarters	Total
Balance at Dec. 31, 2007	$ 1,143,670	$ 47,872	$ 1,323,953	$ 350,079	$ 184,349	$ 3,049,923
Acquisitions	19,786		8,394		1,045	29,225
Other(1)	(143)	(1,392)	(153)	(59)	637	(1,110)
Balance at September 30, 2008	$ 1,163,313	$ 46,480	$ 1,332,194	$ 350,020	$ 186,031	$ 3,078,038

(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)	As of September 30, 2008	As of December 31, 2007
Trade names(1)	$ 2,468,200	$ 2,468,200
Other intangible assets	856,550	849,715
Accumulated amortization	(265,754)	(132,662)
Net other intangibles	590,796	717,053
Total	$ 3,058,996	$ 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 shares reserved for issuance or any shares repurchased from participants in the Stock Incentive Plan.

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

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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 nine months ended September 30, 2008, stock-based compensation expense was approximately $1.7 million ($1.2 million after-tax) and $5.1 million ($4.2 million after-tax), respectively. During the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, stock-based compensation expense was approximately $0.4 million ($0.2 million after-tax) and $3.4 million ($2.0 million after-tax), respectively. There was no stock-based compensation expense during the Successor period from July 25, 2007 to September 30, 2007.

As of September 30, 2008, there was approximately $22.8 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 3.2 years of the weighted average 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 nine months ended September 30, 2008, the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007 is presented in the following table:

	Successor		Predecessor
(In thousands) **Cash paid for or (received from):**	**Nine months ended Sept. 30, 2008**	**July 25, 2007 to Sept. 30, 2007**	**Jan. 1, 2007 to July 24, 2007**
Interest expense	$ 236,812	$ 50,198	$ 27,387
Interest and dividend income	(10,172)	(4,857)	(7,810)
Income taxes, net of refunds	8,844	2,978	17,363

Note 9. Comprehensive Income

Total comprehensive income (loss) was $4 million and ($45) million for the Successor three and nine months ended September 30, 2008, respectively, and ($20) million, ($16) million and $83 million for the Successor Period from July 25, 2007 to September 30, 2007, the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 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 third quarter of 2008 an interest in the pool of accounts receivable was transferred to a third party in exchange for $10 million. During the Successor Period from July 25, 2007 to September 30, 2007, the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, there were no transfers of interests in the pool of accounts receivables to third parties under this arrangement. 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 transfer up to $50 million of interests in its pool of receivables to these purchasers and therefore has immediate access to cash proceeds from these transfers. 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 from the sale of these interests. There are two potential third party purchasers under the arrangement. However, only one purchaser is required to purchase interests in the pool of 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. The purchaser did not exercise its right to terminate its participation in the arrangement in the third quarter of 2008.

The Company has recorded its obligation to repay the third party for its interest in the pool of receivables as long-term debt in these condensed consolidated financial statements. The interest rates applicable to the Company s obligation are based on a fluctuating rate of interest measured based on the third party purchaser s pooled commercial paper rate, as defined (4.34% at September 30, 2008).

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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 Condensed Consolidated Statements of Financial Position caption Cash and Cash Equivalents. As of September 30, 2008 and December 31, 2007, the Company s investments consist primarily of domestic publicly traded debt of $90.3 million and $130.6 million, respectively and common equity securities of $54.4 million and $137.2 million, respectively.

The aggregate market value of the Company s short-term and long-term investments in debt and equity securities was $144.7 million and $267.8 million and the aggregate cost basis was $147.8 million and $260.8 million at September 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 $0.9 million ($0.6 million after-tax) and $9.0 million ($7.3 million after-tax) during the three and nine months ended September 30, 2008, respectively, due to other than temporary declines in the value of certain investments. The Company recorded an impairment charge of approximately $0.3 million ($0.2 million after-tax) and $0.9 million ($0.6 million after-tax) during the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, due to other than temporary declines in the value of certain investments. There was no impairment charge recorded during the Predecessor Period from July 1, 2007 to July 24, 2007 due to other than temporary declines in the value of certain investments. The unrealized gains in the investment portfolio were approximately $3.6 million and $8.4 million as of September 30, 2008 and December 31, 2007, respectively. Unrealized losses were approximately $6.7 million and $1.4 million as of September 30, 2008 and December 31, 2007, respectively. The portion of unrealized losses which have been in a loss position for more than one year at September 30, 2008 was approximately $0.1 million. There were no unrealized losses which have been in a loss position for more than one year at December 31, 2007. The aggregate fair value of the investments with unrealized losses totaled $46.2 million and $20.4 million at September 30, 2008 and December 31, 2007, respectively.

Note 12. Long-Term Debt

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

(In thousands)		**As of September 30, 2008**		**As of December 31, 2007**
Senior secured term loan facility maturing in 2014	$	2,616,875	$	2,636,750
Senior unsecured interim loan facility maturing in 2008				1,150,000
10.75%/11.50% Senior Toggle Notes maturing in 2015		1,150,000		
Revolving credit facility maturing in 2013		165,000		
7.10% notes maturing in 2018 (1)		61,217		59,772
7.45% notes maturing in 2027 (1)		144,548		142,457
7.25% notes maturing in 2038 (1)		58,814		58,206
Other		74,740		83,626
Less current portion		(221,845)		(53,564)
Total long-term debt	$	4,049,349	$	4,077,247

(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 the 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 filed with the SEC a registration statement with respect to the resale of the Permanent Notes on October 22, 2008.

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

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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 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 to the consolidated financial statements in the 2007 Annual Report.

In September 2008, the Company entered into a 4-year interest rate swap agreement effective October 1, 2008. The notional amount of the swap agreement was $200 million. Under the terms of the agreement, the Company will pay a weighted average fixed rate of interest of 3.53% on the $200 million notional amount of the swap agreement. 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 6.28%, 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 , the interest rate swap agreements referred to above 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. Discontinued Operations

Reported loss from discontinued operations, net of income taxes for all periods presented includes the operating results of the sold and discontinued businesses noted in the 2007 Annual Report.

During the third quarter of 2008, the Company completed the sale of InStar for $22.9 million, with the payment of $3.0 million of that amount deferred until November 2011. 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. Upon the sale of InStar the Company recorded a loss on sale, net of tax, of $0.6 million. The purchase price noted above is subject to a final adjustment based on closing date working capital balances at InStar. These closing balances are subject to a review period by the Company and the purchasers of InStar. The loss on sale noted above includes an estimated adjustment for the closing date working capital balances. However, this amount could change pending the completion of the review in the fourth quarter of 2008. Such changes, if any, would not currently be expected to be material to the Company s consolidated financial statements.

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

	Successor	Predecessor

(In thousands)	Three months ended Sept. 30, 2008	July 25, 2007 to Sept. 30, 2007	July 1, 2007 to July 24, 2007
Operating Results:			
Operating revenue	$ 11,269	$ 12,444	$ 3,174
Operating loss	(835)	(4,304)	(2,440)
Interest expense	(3)	(9)	(2)
Pretax loss	(838)	(4,313)	(2,442)
Benefit from income taxes	(239)	(1,723)	(975)
Loss on sale, net of tax	(587)		
Loss from discontinued operations	$ (1,186)	$ (2,590)	$ (1,467)

	Successor		Predecessor
(In thousands)	Nine months ended Sept. 30, 2008	July 25, 2007 to Sept. 30, 2007	Jan. 1, 2007 to July 24, 2007
Operating Results:			
Operating revenue	$ 50,909	$ 12,444	$ 43,413
Operating loss	(206)	(4,304)	(7,617)
Interest expense	(73)	(9)	(38)
Impairment charge	(6,317)		
Pretax loss	(6,596)	(4,313)	(7,655)
Benefit from income taxes	(2,513)	(1,723)	(3,067)
Loss on sale, net of tax	(587)		
Loss from discontinued operations	$ (4,670)	$ (2,590)	$ (4,588)

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		As of September 30, 2008		As of December 31, 2007
Financial Position:				
Current assets	$	240	$	42,474
Current liabilities		5,824		12,983
Long-term liabilities		4,253		7,765
Total liabilities	$	10,077	$	20,748

The table below summarizes the activity during the nine months ended September 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 December 31, 2007		Cash Payments or Other		(Income) / Expense		Balance at September 30, 2008
Remaining liabilities of discontinued operations:								
ARS/AMS	$	2,384	$	(311)	$	550	$	2,623
LandCare Construction		1,257		(442)		153		968
LandCare utility line clearing business		1,350		(159)				1,191
Certified Systems, Inc. and other		6,721		161		(3,270)		3,612

Note 14. Income Taxes

As of September 30, 2008 and December 31, 2007, the Company had $16.1 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, $12.3 million ($8.9 million, net of federal and state tax effects) would be recorded as a purchase accounting adjustment to goodwill and $3.8 million ($3.4 million, net of federal and state tax effects) would affect the Company s effective tax rate.

Up to $7.4 million of the Company s unrecognized tax benefits could be recognized within the next twelve months. The Company recognized approximately $0.5 million of its unrecognized tax benefits during the nine months ended September 30, 2008 and approximately $1.7 million and $5.5 million during the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, respectively.

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 third 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 three and nine months ended September 30, 2008, the Company recognized interest expense of approximately $0.1 million and $0.7 million, respectively, through the tax provision. During the Successor Period from July 25, 2007 to September 30, 2007, the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, the Company recognized interest expense of approximately $10 thousand, $10 thousand and $0.8 million, respectively, through the tax provision. As of September 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.

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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.

Segment information for continuing operations is presented below.

	Successor		Predecessor	Successor		Predecessor
(In thousands)	**Three months ended Sept. 30, 2008**	**July 25, 2007 to Sept. 30, 2007**	**July 1, 2007 to July 24, 2007**	**Nine months ended Sept. 30, 2008**	**July 25, 2007 to Sept. 30, 2007**	**Jan. 1, 2007 to July 24, 2007**
Operating Revenue:						
TruGreen LawnCare	$ 364,442	$ 273,485	$ 88,927	$ 876,180	$ 273,485	$ 597,147
TruGreen LandCare	78,365	76,325	26,914	240,894	76,325	242,154
Terminix	273,172	201,087	72,200	846,594	201,087	645,700
American Home Shield	177,328	99,389	50,134	450,316	99,389	331,361
Other Operations and Headquarters	54,766	40,339	13,983	163,625	40,339	118,028
Total Operating Revenue	$ 948,073	$ 690,625	$ 252,158	$ 2,577,609	$ 690,625	$ 1,934,390
Operating Income (Loss): (1),(2)						
TruGreen LawnCare	$ 64,060	$ 48,027	$ 14,436	$ 85,914	$ 48,027	$ 75,656
TruGreen LandCare	(323)	(4,434)	(146)	(925)	(4,434)	(2,206)
Terminix	30,696	21,661	2,101	133,591	21,661	109,461
American Home Shield	22,897	(4,327)	8,283	14,606	(4,327)	35,582
Other Operations and Headquarters (2)	(6,659)	(10,373)	(39,836)	(18,638)	(10,373)	(74,561)
Total segment operating income (loss)	$ 110,671	$ 50,554	$ (15,162)	$ 214,548	$ 50,554	$ 143,932

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

	Successor		Predecessor	Successor		Predecessor
(In thousands)	**Three months ended Sept. 30, 2008**	**July 25, 2007 to Sept. 30, 2007**	**July 1, 2007 to July 24, 2007**	**Nine months ended Sept. 30, 2008**	**July 25, 2007 to Sept. 30, 2007**	**Jan. 1, 2007 to July 24, 2007**
Total segment operating income (loss)	$ 110,671	$ 50,554	$ (15,162)	$ 214,548	$ 50,554	$ 143,932

Non-operating expense (income):						
Interest expense	83,886	78,257	3,500	256,897	78,257	31,643
Interest and net investment (income) loss	(244)	(3,890)	(2,440)	1,637	(3,890)	(28,624)
Minority interest and other expense, net	141	102	11	418	102	3,532
Income (loss) from Continuing Operations before Income Taxes	$ 26,888	$ (23,915)	$ (16,233)	$ (44,404)	$ (23,915)	$ 137,381

(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 $1.8 million and $9.1 million in the three and nine months ended September 30, 2008, respectively, and $8.2 million, $1.6 million and $16.9 million in the Successor Period from July 25, 2007 to September 30, 2007, the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 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 $0.4 million and $0.8 million in the three and nine months ended September 30, 2008, respectively, and $0.5 million, $36.1 million and $41.4 million in the Successor Period from July 25, 2007 to September 30, 2007, the Predecessor Period from July 1, 2007 to July 24, 2007 and the Predecessor Period from January 1, 2007 to July 24, 2007, respectively.

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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 $1.5 million for the three and nine months ended September 30, 2008, respectively. The management fee totaled $0.4 million for the Successor Period from July 25, 2007 to September 30, 2007. There was no management fee recorded for the Predecessor Period from January 1, 2007 to July 24, 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

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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:

	As of September 30, 2008					
		Estimated Fair Value Measurements				
(In thousands)	Carrying Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	As of December 31, 2007 Carrying Value	Estimated Fair Value
Financial Assets						
Deferred compensation trust assets	$ 18,088	$ 18,088	$	$	$ 35,100	$ 35,100
Investments in marketable securities	126,564	58,877	67,687		232,655	232,655
Total financial assets	$ 144,652	$ 76,965	$ 67,687	$	$ 267,755	$ 267,755
Financial Liabilities						
Fuel swap contracts	$ 4,432	$	$	$ 4,432	$	$
Interest rate swap contracts	12,957		12,957		16,557	16,557
Total financial liabilities	$ 17,389	$	$ 12,957	$ 4,432	$ 16,557	$ 16,557

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 Contract Assets (Liabilities)
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 loss		7,753
Settlements, net		(3,913)
Balance at June 30, 2008		10,871
Total gains (realized/unrealized)		
Included in earnings(1)		3,882
Included in other comprehensive income		(15,303)
Settlements, net		(3,882)
Balance at September 30, 2008	$	(4,432)

(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 September 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 $82.3 million, maturing through 2010.

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Note 19. Condensed Consolidating Financial Statements of The ServiceMaster Company and Subsidiaries

The following condensed consolidating financial statements of the Company and its 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 September 30, 2008 (Successor)

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 747,321	$ 219,368	$ (18,616)	$ 948,073
Operating Costs and Expenses:					
Cost of services rendered and products sold		481,121	97,050	(18,616)	559,555
Selling and administrative expenses	670	150,925	83,577		235,172
Amortization expense	55	30,777	9,618		40,450
Merger related charges	412				412
Restructuring charges		905	908		1,813
Total operating costs and expenses	1,137	663,728	191,153	(18,616)	837,402
Operating (Loss) Income	(1,137)	83,593	28,215		110,671
Non-operating Expense (Income):					
Interest expense (income)	86,258	820	(3,192)		83,886
Interest and net investment loss (income)	1,464	648	(2,356)		(244)
Other expense, net			141		141
(Loss) Income from Continuing Operations before Income Taxes	(88,859)	82,125	33,622		26,888
(Benefit) provision for income taxes	(17,678)	15,597	10,764		8,683
	(71,181)	66,528	22,858		18,205

(Loss) Income from Continuing Operations									
Loss from businesses held pending sale and discontinued operations, net of income taxes						(1,186)				(1,186)
Equity in earnings of subsidiaries (net of tax)		88,200		17,895				(106,095)		
Net Income	$	17,019	$	84,423	$	21,672	$	(106,095)	$	17,019

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

For the Successor Period from July 25, 2007 to September 30, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 573,496	$ 130,740	$ (13,611)	$ 690,625
Operating Costs and Expenses:					
Cost of services rendered and products sold		366,863	67,275	(13,611)	420,527
Selling and administrative expenses	472	100,805	53,180		154,457
Amortization expense	41	47,792	8,585		56,418
Merger related charges	458				458
Restructuring charges		2,826	5,385		8,211
Total operating costs and expenses	971	518,286	134,425	(13,611)	640,071
Operating (Loss) Income	(971)	55,210	(3,685)		50,554
Non-operating Expense (Income):					
Interest expense (income)	76,721	1,952	(416)		78,257
Interest and net investment (income) loss	(2,323)	502	(2,069)		(3,890)
Other expense, net			102		102
(Loss) Income from Continuing Operations before Income Taxes	(75,369)	52,756	(1,302)		(23,915)
(Benefit) provision for income taxes	(23,591)	9,988	4,467		(9,136)
(Loss) Income from Continuing Operations	(51,778)	42,768	(5,769)		(14,779)
Loss from businesses held pending sale and discontinued operations, net of income taxes			(2,590)		(2,590)
Equity in earnings (losses) of subsidiaries (net of tax)	34,409	(9,669)		(24,740)	
Net (Loss) Income	$ (17,369)	$ 33,099	$ (8,359)	$ (24,740)	$ (17,369)

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

For the Predecessor Period from July 1, 2007 to July 24, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 196,504	$ 60,273	$ (4,619)	$ 252,158
Operating Costs and Expenses:					
Cost of services rendered and products sold		138,614	28,408	(4,619)	162,403
Selling and administrative expenses	6	41,761	24,855		66,622
Amortization expense		532	65		597
Merger related charges	36,097				36,097
Restructuring charges			1,601		1,601
Total operating costs and expenses	36,103	180,907	54,929	(4,619)	267,320
Operating (Loss) Income	(36,103)	15,597	5,344		(15,162)
Non-operating Expense (Income):					
Interest expense (income)	2,797	843	(140)		3,500
Interest and net investment (income) loss	(104)	154	(2,490)		(2,440)
Other expense, net			11		11
(Loss) Income from Continuing Operations before Income Taxes	(38,796)	14,600	7,963		(16,233)
(Benefit) provision for income taxes	(7,512)	(1,514)	7,405		(1,621)
(Loss) Income from Continuing Operations	(31,284)	16,114	558		(14,612)
Loss from businesses held pending sale and discontinued operations, net of income taxes			(1,467)		(1,467)
Equity in earnings (losses) of subsidiaries (net of tax)	15,205	(2,609)		(12,596)	
Net (Loss) Income	$ (16,079)	$ 13,505	$ (909)	$ (12,596)	$ (16,079)

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

For the nine months ended September 30, 2008 (Successor)

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 2,069,513	$ 562,074	$ (53,978)	$ 2,577,609
Operating Costs and Expenses:					
Cost of services rendered and products sold		1,357,873	262,762	(53,978)	1,566,657
Selling and administrative expenses	3,929	412,651	236,822		653,402
Amortization expense	166	100,433	32,493		133,092
Merger related charges	767				767
Restructuring charges		2,299	6,844		9,143
Total operating costs and expenses	4,862	1,873,256	538,921	(53,978)	2,363,061
Operating (Loss) Income	(4,862)	196,257	23,153		214,548
Non-operating Expense (Income):					
Interest expense (income)	257,132	4,601	(4,836)		256,897
Interest and net investment loss (income)	4,913	1,944	(5,220)		1,637
Other expense, net			418		418
(Loss) Income from Continuing Operations before Income Taxes	(266,907)	189,712	32,791		(44,404)
(Benefit) provision for income taxes	(69,191)	38,101	22,749		(8,341)
(Loss) Income from Continuing Operations	(197,716)	151,611	10,042		(36,063)
Loss from businesses held pending sale and discontinued operations, net of income taxes			(4,670)		(4,670)
Equity in earnings (losses) of subsidiaries (net of tax)	156,983	(720)		(156,263)	
Net (Loss) Income	$ (40,733)	$ 150,891	$ 5,372	$ (156,263)	$ (40,733)

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

For the Successor period July 25, 2007 to September 30, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 573,496	$ 130,740	$ (13,611)	$ 690,625
Operating Costs and Expenses:					
Cost of services rendered and products sold		366,863	67,275	(13,611)	420,527
Selling and administrative expenses	472	100,805	53,180		154,457
Amortization expense	41	47,792	8,585		56,418
Merger related charges	458				458
Restructuring charges		2,826	5,385		8,211
Total operating costs and expenses	971	518,286	134,425	(13,611)	640,071
Operating (Loss) Income	(971)	55,210	(3,685)		50,554
Non-operating Expense (Income):					
Interest expense (income)	76,721	1,952	(416)		78,257
Interest and net investment (income) loss	(2,323)	502	(2,069)		(3,890)
Other expense, net			102		102
(Loss) Income from Continuing Operations before Income Taxes	(75,369)	52,756	(1,302)		(23,915)
(Benefit) provision for income taxes	(23,591)	9,988	4,467		(9,136)
(Loss) Income from Continuing Operations	(51,778)	42,768	(5,769)		(14,779)
Loss from businesses held pending sale and discontinued operations, net of income taxes			(2,590)		(2,590)
Equity in earnings (losses) of subsidiaries (net of tax)	34,409	(9,669)		(24,740)	
Net (Loss) Income	$ (17,369)	$ 33,099	$ (8,359)	$ (24,740)	$ (17,369)

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

For the Predecessor Period from January 1, 2007 to July 24, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 1,565,266	$ 408,148	$ (39,024)	$ 1,934,390
Operating Costs and Expenses:					
Cost of services rendered and products sold		1,055,793	179,493	(39,024)	1,196,262
Selling and administrative expenses	2,185	330,625	197,864		530,674
Amortization expense		4,527	645		5,172
Merger related charges	41,431				41,431
Restructuring charges			16,919		16,919
Total operating costs and expenses	43,616	1,390,945	394,921	(39,024)	1,790,458
Operating (Loss) Income	(43,616)	174,321	13,227		143,932
Non-operating Expense (Income):					
Interest expense (income)	19,293	11,917	433		31,643
Interest and net investment loss (income)	(1,764)	1,443	(28,303)		(28,624)
Minority interest and other expense, net	3,423		109		3,532
(Loss) Income from Continuing Operations before Income Taxes	(64,568)	160,961	40,988		137,381
(Benefit) provision for income taxes	(14,320)	25,836	40,176		51,692
(Loss) Income from Continuing Operations	(50,248)	135,125	812		85,689
Loss from businesses held pending sale and discontinued operations, net of income taxes			(4,588)		(4,588)
Equity in earnings (losses) of subsidiaries (net of tax)	131,349	(7,209)		(124,140)	
Net Income (Loss)	$ 81,101	$ 127,916	$ (3,776)	$ (124,140)	$ 81,101

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Financial Position

As of September 30, 2008

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 210,530	$ 18,871	$ 129,498	$	$ 358,899
Marketable securities			21,521		21,521
Receivables		188,550	420,421	(209,411)	399,560
Inventories		78,849	3,141		81,990
Prepaid expenses and other assets	9,426	37,499	9,124		56,049
Deferred customer acquisition costs		20,672	22,967		43,639
Deferred taxes	6,572	28,804	8,995		44,371
Assets of businesses held pending sale and discontinued operations			240		240
Total Current Assets	226,528	373,245	615,907	(209,411)	1,006,269
Property and Equipment:					
At cost		205,948	73,388		279,336
Less: accumulated depreciation		(39,921)	(18,342)		(58,263)
Net property and equipment		166,027	55,046		221,073
Other Assets:					
Goodwill		2,715,466	362,572		3,078,038
Intangible assets, primarily trade names, service marks and trademarks, net		2,172,257	886,739		3,058,996
Notes receivable	352,460	1,230	25,857	(352,460)	27,087
Long-term marketable securities	18,088		105,043		123,131
Investments in and advances to subsidiaries	6,006,771	2,065,118	154,359	(8,226,248)	
Other assets	26,876	948	8,355		36,179
Debt issuance costs	86,519				86,519
Total Assets	$ 6,717,742	$ 7,494,291	$ 2,213,878	$ (8,788,119)	$ 7,637,292
Liabilities and Shareholder s Equity					
Current Liabilities:					
Accounts payable	$ 523	$ 55,165	$ 47,421	$	$ 103,109
Accrued liabilities:					
Payroll and related expenses	1,849	42,051	48,705		92,605
Self-insured claims and related expenses		24,601	66,437		91,038
Other	10,331	56,163	84,252		150,746
Deferred revenue		145,917	300,828		446,745
Liabilities of businesses held pending sale and discontinued operations			5,824		5,824
Current portion of long-term debt	287,009	18,043	126,204	(209,411)	221,845
Total Current Liabilities	299,712	341,940	679,671	(209,411)	1,111,912
Long-Term Debt	4,005,887	346,087	49,835	(352,460)	4,049,349

Other Long-Term Liabilities:					
Deferred taxes	112,180	838,507	97,634		1,048,321
Intercompany payable	1,009,837			(1,009,837)	
Liabilities of businesses held pending sale and discontinued operations			4,253		4,253
Other long-term obligations, primarily self-insured claims	30,152	3,672	130,159		163,983
Total Other Long-Term Liabilities	1,152,169	842,179	232,046	(1,009,837)	1,216,557
Shareholder s Equity	1,259,474	5,964,085	1,252,326	(7,216,411)	1,259,474
Total Liabilities and Shareholder s Equity	$ 6,717,242	$ 7,494,291	$ 2,213,878	$ (8,788,119)	$ 7,637,292

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statements of Financial Position

As of December 31, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 100,429	$ 14,999	$ 91,791	$	$ 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	33,706	7,898		48,177
Assets of businesses held pending sale and discontinued operations			42,474		42,474
Total Current Assets	107,004	296,749	604,303	(140,785)	867,271
Property and Equipment:					
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
Other Assets:					
Goodwill		2,689,231	360,692		3,049,923
Intangible assets, primarily trade names, 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		123,839		158,939
Investments in and advances to subsidiaries	5,831,624	1,992,455	49,526	(7,873,605)	
Other assets	25,816	751	3,767		30,334
Debt issuance costs	84,942				84,942
Total Assets	$ 6,447,895	$ 7,413,272	$ 2,187,692	$ (8,457,799)	$ 7,591,060
Liabilities and Shareholder s Equity					
Current Liabilities:					
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 sale and discontinued operations			12,983		12,983
Current portion of long-term debt	70,749	23,990	99,610	(140,785)	53,564
Total Current Liabilities	88,810	333,787	651,495	(140,785)	933,307
Long-Term Debt	4,022,185	395,435	103,036	(443,409)	4,077,247

Other Long-Term Liabilities:					
Deferred taxes	143,679	834,819	101,002		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	839,366	244,198	(839,958)	1,276,972
Shareholder s Equity	1,303,534	5,844,684	1,188,963	(7,033,647)	1,303,534
Total Liabilities and Shareholder s Equity	$ 6,447,895	$ 7,413,272	$ 2,187,692	$ (8,457,799)	$ 7,591,060

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2008 (Successor)

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 100,429	$ 14,999	$ 91,791	$	$ 207,219
Net Cash Provided from (Used for) Operating Activities from Continuing Operations	(136,417)	276,640	17,906	(106,420)	51,709
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(67,585)	(7,609)		(75,194)
Sale of equipment and other assets		4,999	91		5,090
Acquisition of The ServiceMaster Company	(26,082)				(26,082)
Other business acquisitions, net of cash received		(27,504)			(27,504)
Notes receivable, financial investments and securities	1,003		96,414		97,417
Net Cash (Used for) Provided from Investing Activities from Continuing Operations	(25,079)	(90,090)	88,896		(26,273)
Cash Flows from Financing Activities from Continuing Operations:					
Borrowings of debt	347,000		10,000		357,000
Payments of debt	(202,438)	(22,841)	(2,033)		(227,312)
Debt issuance costs paid	(26,587)				(26,587)
Shareholders dividends		(53,210)	(53,210)	106,420	
Net intercompany advances	153,622	(106,627)	(46,995)		
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	271,597	(182,678)	(92,238)	106,420	103,101
Cash Flows from Discontinued Operations:					
Cash provided from operating activities			3,995		3,995
Cash used for investing activities					
Proceeds from sale of businesses			19,523		19,523
Other investing activities			(208)		(208)
Cash used for financing activities			(167)		(167)
Net Cash Provided from Discontinued Operations			23,143		23,143
Cash (Decrease) Increase During the Period	110,101	3,872	37,707		151,680

Cash and Cash Equivalents at End of Period	$ 210,530	$ 18,871	$ 129,498	$	$ 358,899

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Successor period from July 25, 2007 to September 30, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 79,394	$ 26,247	$ 131,924	$	$ 237,565
Net Cash Provided from (Used for) Operating Activities from Continuing Operations	(140,185)	93,688	93,867	(13,744)	33,626
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(3,474)	(4,233)		(7,707)
Sale of equipment and other assets		595	15		610
Acquisition of The ServiceMaster Company	(4,890,648)				(4,890,648)
Other business acquisitions, net of cash received		(3,985)			(3,985)
Notes receivable, financial investments and securities	(23,015)		(12,437)		(35,452)
Net Cash (Used for) Provided from Investing Activities from Continuing Operations	(4,913,663)	(6,864)	(16,655)		(4,937,182)
Cash Flows from Financing Activities from Continuing Operations:					
Payments of debt	(245,962)	(3,915)	(425)		(250,302)
Borrowings under senior secured term loan facility	2,650,000				2,650,000
Borrowings under senior unsecured interim loan facility	1,150,000				1,150,000
Cash equity contributions	1,431,100				1,431,100
Debt issuance costs paid	(100,813)				(100,813)
Shareholders dividends		(6,872)	(6,872)	13,744	
Net intercompany advances	172,806	(83,527)	(89,279)		
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	5,057,131	(94,314)	(96,576)	13,744	4,879,985
Cash Flows from Discontinued Operations:					
Cash provided from operating activities			(2,430)		(2,430)
Cash used for investing activities			(110)		(110)
Cash used for financing activities			(47)		(47)
Net Cash Provided from Discontinued Operations			(2,587)		(2,587)

Cash (Decrease) Increase During the Period	3,283	(7,490)	(21,951)		(26,158)
Cash and Cash Equivalents at End of Period	$ 82,677	$ 18,757	$ 109,973	$	$ 211,407

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows

For the Predecessor Period from January 1, 2007 to July 24, 2007

(in thousands)

	The ServiceMaster Company	Guarantors	Non Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 20,442	$ 13,668	$ 89,565	$	$ 123,675
Net Cash Provided from (Used for) Operating Activities from Continuing Operations	203,829	274,381	43,548	(326,265)	195,493
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(20,289)	(6,274)		(26,563)
Sale of equipment and other assets		1,091			1,091
Acquisition of The ServiceMaster Company	(4,030)				(4,030)
Other business acquisitions, net of cash received		(25,460)			(25,460)
Notes receivable, financial investments and securities			38,127		38,127
Net Cash (Used for) Provided from Investing Activities from Continuing Operations	(4,030)	(44,658)	31,853		(16,835)
Cash Flows from Financing Activities from Continuing Operations:					
Borrowings of debt	415,411				415,411
Payments of debt	(446,121)	(12,245)	(1,171)		(459,537)
Shareholders dividends	(70,077)	(226,281)	(99,984)	326,265	(70,077)
Proceeds from employee share plans	36,069				36,069
Net intercompany advances	(76,129)	21,382	54,747		
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	(140,847)	(217,144)	(46,408)	326,265	(78,134)
Cash Flows from Discontinued Operations:					
Cash provided from operating activities			12,559		12,559
Cash used for investing activities			988		988
Cash used for financing activities			(181)		(181)
Net Cash Provided from Discontinued Operations			13,366		13,366
Cash (Decrease) Increase During the Period	58,952	12,579	42,359		113,890
Cash and Cash Equivalents at End of Period	$ 79,394	$ 26,247	$ 131,924	$	$ 237,565

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Merger Agreement

On March 18, 2007, ServiceMaster entered into the Merger Agreement with Holdings and 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.

On 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. 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.

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, 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 the 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 filed with the SEC a registration statement with respect to the resale of the Permanent Notes on October 22, 2008.

Results of Operations

Although ServiceMaster continued as the same legal entity after the Merger, the accompanying 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 separate presentation is required under GAAP when there is a change in accounting basis, which occurred when purchase accounting was applied to the acquisition of the Predecessor. Purchase accounting requires that the historical carrying value of the assets acquired and liabilities assumed be adjusted to fair value, which may yield results that are not comparable on a period-to-period basis due to the different, and sometimes higher, cost basis associated with the allocation of the purchase price. The Company refers to the operations of ServiceMaster for both the Predecessor and Successor periods. The condensed consolidated statements of financial position as of September 30, 2008 and December 31, 2007, the condensed consolidated statements of operations and of cash flows for the nine months ended September 30, 2008 and for the period from July 25, 2007 to September 30, 2007 and the condensed consolidated statement of operations for the three months ended September 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 period from January 1, 2007 to July 24, 2007 and the condensed consolidated statement of operations for the period from July 1, 2007 to July 24, 2007 reflect the operations and cash flows of the Predecessor.

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Third Quarter 2008 Compared to the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007

The Company reported third quarter 2008 revenue of $948.1 million, a $5.3 million or 0.6 percent increase compared to the combined Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007. The revenue for the third quarter of 2008 and the Successor Period from July 25 to September 30, 2007 has been reduced by $0.7 million (non-cash) and $30.8 million (non-cash), respectively, resulting from recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, revenue for the third quarter of 2008 decreased $24.8 million or 2.5 percent from 2007 levels, driven by the results of our business units as described in our Segment Reviews for the Third Quarter 2008 Compared to the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007 .

Operating income was $110.7 million in the third quarter of 2008 compared to operating income of $50.6 million and operating loss of $15.2 million in the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. Income from continuing operations before income taxes was $26.9 million in the third quarter of 2008 compared to a loss from continuing operations before income taxes of $23.9 million and $16.2 million in the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. The increase in income from continuing operations before income taxes of $67.0 million reflects the net effect of:

(In millions)		
Non-cash purchase accounting adjustments (1)	$	16.2
Increased interest expense (2)		(2.1)
Decreased interest and net investment income (3)		(8.3)
Decreased merger related charges (4)		36.1
Decreased restructuring charges (5)		8.0
Improved segment results (6)		17.1
	$	67.0

(1) The net favorable impact of non-cash purchase accounting adjustments in the third quarter of 2008 of $16.2 million consists primarily of decreased amortization of intangible assets of $16.2 million and a $30.1 million increase in revenue partially offset by increased deferred customer acquisition expense of $32.1 million.

(2) Represents an increase in interest expense as a result of the new debt structure entered into upon the completion of the Transactions.

(3) As further described in Operating and Non-Operating Expenses , represents a decrease in interest and net investment income primarily reflecting (1) the unfavorable impact to investment gains and income realized on the American Home Shield investment portfolio due to realized losses on disposals of securities and other than temporary

declines in the value of certain investments and (2) lower investment income resulting from a decrease in the market value of investments within an employee deferred compensation trust (for which there is a corresponding and offsetting decrease in compensation expense within operating loss (income)).

(4) Represents a decrease in charges related to the Merger which cannot be capitalized as part of the purchase cost for financial reporting purposes.

(5) Represents a decrease in restructuring charges primarily resulting from Fast Forward and the consolidation of the Company s corporate headquarters into its operations support center in Memphis, Tennessee.

(6) Represents an increase in income from continuing operations before income taxes, non-cash purchase accounting adjustments, interest expense, interest and net investment income, merger related charges and restructuring charges supported by the improved results at TruGreen LawnCare, Terminix, TruGreen LandCare, American Home Shield and Other Operations and Headquarters as described in our Segment Reviews for the Third Quarter 2008 Compared to the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007 .

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Operating and Non-Operating Expenses

The Company reported cost of services rendered and products sold of $559.6 million for the third quarter of 2008 compared to $420.5 million and $162.4 million for the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. Excluding the unfavorable non-cash reduction of revenue of $0.7 million for the third quarter of 2008 and $30.8 million for the Successor Period from July 25 to September 30, 2007 resulting from recording deferred revenue at its fair value in conjunction with purchase accounting, as a percentage of revenue these costs decreased to 59.0 percent for the three months ended September 30, 2008 from 59.2 percent and 64.4 percent for the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. This reflects the impact of improved labor efficiency at Terminix and LandCare offset by increases in fuel, fertilizer and other factor costs throughout the enterprise.

The Company reported selling and administrative expenses of $235.2 million for the third quarter of 2008 compared to $154.5 million and $66.6 million for the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. The third quarter of 2008 and the Successor Period from July 25 to September 30, 2007 include a $0.1 million (non-cash) and a $25.8 million (non-cash) decrease, respectively, in selling and administrative expenses resulting from recording deferred customer acquisition costs at their fair value in connection with purchase accounting. Excluding the impact of purchase accounting, these costs decreased as a percentage of revenue to 24.8 percent for the third quarter of 2008 from 25.0 percent and 26.4 percent for the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. The decrease in selling and administrative expenses as a percentage of revenue primarily reflects lower functional support costs, improved sales labor efficiency at TruGreen LawnCare and Terminix, and lower compensation charges for the Company resulting from a decrease in the market value of investments within an employee deferred compensation trust (for which there is a corresponding and offsetting decrease within interest and net investment income).

Amortization expense was $40.5 million for the third quarter of 2008 compared to $56.4 million and $0.6 million for the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. The decrease is a result of amortization being included in the period from July 25, 2007 to September 30, 2007 related to finite lived intangible assets recorded in connection with the Merger which had lives of one year or less and were fully amortized as of July 24, 2008.

The Company reviews goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter and between annual test dates in certain circumstances. The majority of the Company s goodwill and indefinite- lived intangible assets (mainly trade names) relate to the Merger. The Company does not believe a triggering event requiring the Company to conduct an interim impairment test had occurred as of September 30, 2008 and will perform the annual test during the fourth quarter. However, due to the uncertainty in the credit markets and the recent declines in global equity markets, the Company believes it is reasonably possible that its fourth quarter analysis will result in a non-cash impairment charge, but cannot reasonably estimate the amount of such charge until it completes its annual evaluation later in the fourth quarter. As of September 30, 2008, the balances of the Company s goodwill and indefinite-lived intangible assets were $3.1 billion and $3.1 billion, respectively.

Non-operating expense totaled $83.8 million for the third quarter of 2008 compared to $74.5 million and $1.1 million for the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. This change includes a $2.1 million increase in interest expense for the third quarter of 2008 primarily resulting from the increased debt levels related to the Merger and a $6.1 million decrease in interest and net investment income for the third quarter of 2008. Interest and net investment income was comprised of the following for the three months ended September 30, 2008, the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007:

	Successor		Predecessor
(In millions)	Three months ended Sept. 30, 2008	July 25, 2007 to Sept. 30, 2007	July 1, 2007 to July 24, 2007
Realized gains (1)	$ 1,178	$ 606	$ 1,980
Impairments (2)	(867)	(290)	
Deferred compensation trust (3)	(1,220)	120	49
Other	1,153	3,454	411
Interest and net investment income	$ 244	$ 3,890	$ 2,440

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(1) Represents the net investment gains and the interest and dividend income realized on the American Home Shield investment portfolio.

(2) Represents other than temporary declines in the value of certain investments in the American Home Shield investment portfolio.

(3) Represents investment income (loss) resulting from a change in the market value of investments within an employee deferred compensation trust (for which there is an offsetting adjustment in compensation expense within operating loss (income)).

The effective tax rate on income (loss) from continuing operations was an expense of 32.3 percent for the three months ended September 30, 2008 compared to a benefit of 38.2 percent and a benefit of 10.0 percent for the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, respectively. The change in the effective tax rate between the three months ended September 30, 2008 and the combined period for the three months ended September 30, 2007 is primarily due to state tax expense offsetting the annual projected federal benefit in 2008 compared to state tax expense increasing the effective annual tax rate in 2007.

Restructuring and Merger Related Charges

The Company is engaged in a reorganization and restructuring of certain of its businesses and support functions known as 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 underway.

We are currently in the late stages of negotiations with a third party vendor to outsource certain information technology activities. The remaining negotiations include refining the scope of work, developing service level agreements and negotiating the terms and conditions of the contract. If the negotiations conclude successfully, we would anticipate transitioning certain information technology activities to the third party vendor during the first half of 2009. In connection with such transition we would expect to incur cash charges related to, among other things, employee retention and severance costs and transition fees paid to the third party vendor, and such cash charges would be material.

In connection with Fast Forward, the Company incurred costs in the three months ended September 30, 2008 of approximately $2.0 million. Such costs include consulting fees of approximately $0.6 million and severance, lease termination and other costs of approximately $1.4 million. For the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007 the Company incurred $3.4 million and $0.2 million of restructuring charges related to Fast Forward,

respectively.

The Company expects that it will incur substantial additional costs in order to implement the second phase of Fast Forward, but is currently unable to estimate the aggregate amount or timing of such charges or the anticipated related cash outlays. The Company is on schedule with respect to realizing its previously forecasted savings from Fast Forward. The Company believes that it will ultimately realize annualized pretax savings of at least $60 million by the end of 2009. Most of these savings will benefit the selling, general and administrative line in the statement of operations.

The results for the Successor Period ended September 30, 2007 and the Predecessor Period ended July 24, 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 Successor Period from July 25, 2007 to September

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30, 2007, the Company recognized charges of approximately $4.7 million, which consisted of $3.7 million of employee retention and severance and $1.0 million of recruiting and related costs. In the Predecessor Period from July 1, 2007 to July 24, 2007, the Company recognized charges of approximately $1.5 million, which consisted of $1.0 million of employee retention and severance and $0.5 million of recruiting and related costs. During the three months ended September 30, 2008, the Company reversed net expenses of $0.2 million relating to this relocation.

During the three months ended September 30, 2008, the Successor Period from July 25, 2007 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007, the Company incurred Merger related charges totaling $0.4 million, $0.5 million and $36.1 million, respectively. These Merger related charges include investment banking, accounting, legal and other costs associated with the Merger, which cannot be capitalized as part of the purchase cost for financial reporting purposes.

Key Performance Indicators

The table below presents selected operating metrics related to customer counts and customer retention for the three largest profit businesses in the Company. These measures are presented on a rolling, twelve-month basis in order to avoid seasonal anomalies.

	Key Performance Indicators as of September 30,	
	2008	**2007**
TruGreen LawnCare		
Growth in Full Program Accounts (1)	1%	1%
Customer Retention Rate (1)	68.2%	67.5%
Terminix		
Growth in Pest Control Customers	0%	6%
Pest Control Customer Retention Rate	78.8%	78.8%
Growth in Termite Customers	1%	1%
Termite Customer Retention Rate	87.5%	87.6%
American Home Shield		
Growth in Warranty Contracts	0%	6%
Customer Retention Rate	61.5%	61.1%

(1) During the third quarter of 2008, TruGreen LawnCare changed its definition of Full Program Accounts to include sales in the second half of the year with the completion of the initial full program to occur in the first half of the following year. Prior to the third quarter of 2008 such sales were reflected as full program accounts and included in customer retention in the first quarter of the year following the sale. Growth in Full Program Accounts and Customer Retention Rate for 2007 have been adjusted to conform to the 2008 definition.

Segment Reviews for the Third Quarter 2008 Compared to the Successor Period from July 25 to September 30, 2007 and the Predecessor Period from July 1, 2007 to July 24, 2007

The following business segment reviews should be read in conjunction with the required footnote disclosures presented in the Notes to the Condensed Consolidated Financial Statements. This disclosure provides a reconciliation of segment operating (loss) income to income from continuing operations before income taxes, with net non-operating expenses as the only reconciling item.

The Company uses Adjusted EBITDA and Comparable Operating Performance to facilitate operating performance comparisons from period to period. Adjusted EBITDA and Comparable Operating Performance are supplemental measures of the Company s performance that are not required by, or presented in accordance with, GAAP. Adjusted EBITDA and Comparable Operating Performance are not measurements of the Company s financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP or as alternatives to net cash provided by operating activities or any other measures of the Company s cash flow or liquidity. Adjusted EBITDA means net income before net income (loss) from discontinued operations; provision (benefit) for income taxes; minority interest and other expense, net; interest expense and interest and net investment income; and depreciation and amortization expense; as well as adding back interest and net investment income. The Company views its total interest and investment income as an integral part of its business model and earnings stream. Comparable Operating Performance is calculated by adding back to Adjusted EBITDA non-cash option and restricted stock expense and non-cash effects on Adjusted EBITDA attributable to the application of purchase accounting in connection with the Merger.

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The Company believes Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations in capital structures (affecting net interest income and expense), taxation and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to operating performance. The Company uses Comparable Operating Performance as a supplemental measure to assess the Company s performance because it excludes non-cash option and restricted stock expense and non-cash effects on Adjusted EBITDA attributable to the application of purchase accounting in connection with the Merger. The Company presents Comparable Operating Performance because it believes that it is useful for investors and lenders to analyze disclosures of the Company s operating results on the same basis as that used by the Company s management.

Adjusted EBITDA and Comparable Operating Performance are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation.

Adjusted EBITDA and Comparable Operating Performance have limitations as analytical tools, and should not be considered in isolation or as substitutes for analyzing the Company s results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA and Comparable Operating Performance do not reflect changes in, or cash requirements for, the Company s working capital needs;

- Adjusted EBITDA and Comparable Operating Performance do not reflect the Company s interest expense, or the cash requirements necessary to service interest or principal payments on the Company s debt;

- Adjusted EBITDA and Comparable Operating Performance do not reflect the Company s tax expense or the cash requirements to pay the Company s taxes;

- Adjusted EBITDA and Comparable Operating Performance do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA and Comparable Operating Performance do not reflect any cash requirements for such replacements; and

- Other companies in the Company s industries may calculate Adjusted EBITDA and Comparable Operating Performance differently, limiting their usefulness as comparative measures.

Operating revenues and Comparable Operating Performance by operating segment are as follows:

(In thousands)	Successor Three months ended Sept. 30, 2008	Successor July 25, 2007 to Sept. 30, 2007	Predecessor July 1, 2007 to July 24, 2007
Operating Revenue:			
TruGreen LawnCare	$ 364,442	$ 273,485	$ 88,927
TruGreen LandCare	78,365	76,325	26,914
Terminix	273,172	201,087	72,200
American Home Shield	177,328	99,389	50,134
Other Operations and Headquarters	54,766	40,339	13,983
Total Operating Revenue	$ 948,073	$ 690,625	$ 252,158
Comparable Operating Performance:			
TruGreen LawnCare	$ 83,838	$ 66,357	$ 15,331
TruGreen LandCare	2,133	(1,600)	180
Terminix	45,402	32,027	3,229
American Home Shield	34,567	26,217	10,689
Other Operations and Headquarters	680	(2,393)	(38,327)
Total Comparable Operating Performance	$ 166,620	$ 120,608	$ (8,898)
Memo: Items included in Comparable Operating Performance			
Restructuring charges and Merger related charges (1)	$ 2,225	$ 8,669	$ 37,698
Management fee(2)	$ 500	$ 375	$
Memo: Items excluded from Comparable Operating Performance			
Comparable Operating Performance of InStar	$ (1,659)	$ (3,207)	$ (2,138)
Comparable Operating Performance of all other discontinued operations	(824)	(111)	(76)
Comparable Operating Performance of discontinued operations	$ (835)	$ (3,318)	$ (2,214)

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(1) Comparable Operating Performance includes (i) severance and employee retention costs and costs related to the consolidation of our corporate headquarters in Memphis, Tennessee, including the closing of our office in Downers Grove, Illinois, (ii) costs to exit leases and severance payments related to organizational changes within the TruGreen LandCare operations, (iii) charges related to Fast Forward and (iv) Merger related charges. Substantially all of the restructuring charges and Merger related charges are included in the Comparable Operating Performance of the Other Operations and Headquarters segment.

(2) Represents a management fee payable to CD&R pursuant to a consulting agreement under which CD&R provides the Company with on-going consulting and management advisory services for a minimum annual fee of $2 million.

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The following table presents reconciliations of operating (loss) income to Adjusted EBITDA and Comparable Operating Performance for the periods presented.

(In thousands)	TruGreen LawnCare	TruGreen LandCare	Terminix	American Home Shield	Other Operations and Headquarters	Total
Successor three months ended September 30, 2008						
Operating income (loss) (1)	$ 64,060	$ (323)	$ 30,696	$ 22,897	$ (6,659)	$ 110,671
Depreciation and amortization expense	19,779	2,619	14,720	11,097	5,499	53,714
EBITDA before adding back interest and net investment income	83,839	2,296	45,416	33,994	(1,160)	164,385
Interest and net investment income (loss) (2)				311	(67)	244
Adjusted EBITDA	83,839	2,296	45,416	34,305	(1,227)	164,629
Non-cash option and restricted stock expense					1,736	1,736
Non-cash (credits) charges attributable to purchase accounting (3)	(1)	(163)	(14)	262	171	255
Comparable Operating Performance	$ 83,838	$ 2,133	$ 45,402	$ 34,567	$ 680	$ 166,620
Memo: Items included in Comparable Operating Performance						
Restructuring charges and merger related charges (4)	$ (1)	$ 180	$	$ 45	$ 2,001	$ 2,225
Management fee (5)	**$**	**$**	**$**	**$**	$ 500	$ 500
Memo: Items excluded from Comparable Operating Performance						
Comparable Operating Performance of InStar	$	$	$	$	$ (1,659)	$ (1,659)
Comparable Operating Performance of all other discontinued operations					824	824
Comparable Operating Performance of discontinued operations	$	$	$	$	$ (835)	$ (835)
Successor period July 25, 2007 to September 30, 2007						
Operating income (loss) (1)	$ 48,027	$ (4,434)	$ 21,661	$ (4,327)	$ (10,373)	$ 50,554
Depreciation and amortization expense	37,683	2,864	11,305	9,363	4,406	65,621
	85,710	(1,570)	32,966	5,036	(5,967)	116,175

EBITDA before adding back interest and net investment income						
Interest and net investment income (2)				316	3,574	3,890
Adjusted EBITDA	85,710	(1,570)	32,966	5,352	(2,393)	120,065
Non-cash option and restricted stock expense						
Non-cash (credits) charges attributable to purchase accounting (3)	(19,353)	(30)	(939)	20,865		543
Comparable Operating Performance	$ 66,357	$ (1,600)	$ 32,027	$ 26,217	$ (2,393)	$ 120,608
Memo: Items included in Comparable Operating Performance						
Restructuring charges and merger related charges (4)	$	$ 2,826	$	$	$ 5,843	$ 8,669
Management fee (5)	$	$	$	$	$ 375	$ 375
Memo: Items excluded from Comparable Operating Performance						
Comparable Operating Performance of InStar	$	$	$	$	$ (3,207)	$ (3,207)
Comparable Operating Performance of all other discontinued operations					(111)	(111)
Comparable Operating Performance of discontinued operations	$	$	$	$	$ (3,318)	$ (3,318)

Predecessor period July 1, 2007 to July 24, 2007