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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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 001-36507

ServiceMaster Global Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

Commission file number 001-14762

The ServiceMaster Company, LLC

(Exact name of registrant as specified in its charter)

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

860 Ridge Lake Boulevard, Memphis, Tennessee 38120

(Address of principal executive offices) (Zip Code)

901-597-1400

(Registrant s telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

ServiceMaster Global Holdings, Inc.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

The ServiceMaster Company, LLC

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

The number of shares of the registrant s common stock outstanding as of August 5, 2014:

ServiceMaster Global Holdings, Inc.	91,914,159 shares of common stock, par value $0.01 per share

The ServiceMaster Company, LLC is a privately held limited liability company, and its membership interests are not publicly traded. At August 5, 2014, all of the registrant s membership interests were owned by CDRSVM Holding, LLC.

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EXPLANATORY NOTE

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(*In millions, except per share data*)

	Holdings Three months ended June 30,		SvM Three months ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenue	$ 683	$ 631	$ 683	$ 631
Cost of services rendered and products sold	351	329	351	329
Selling and administrative expenses	178	188	177	188
Amortization expense	14	13	14	13
Impairment of software and other related costs	(1)		(1)	
Restructuring charges	1		1	
Interest expense	61	63	61	63
Interest and net investment income	(1)	(2)	(1)	(2)
Income from Continuing Operations before Income Taxes	80	40	81	40
Provision for income taxes	38	25	38	25
Income from Continuing Operations	42	15	43	15
Loss from discontinued operations, net of income taxes	(2)	(525)	(2)	(525)
Net Income (Loss)	$ 40	$ (510)	$ 41	$ (510)
Total Comprehensive Income (Loss)	$ 42	$ (514)	$ 43	$ (514)
Weighted-average common shares outstanding - Basic	92	92		
Weighted-average common shares outstanding - Diluted	92	92		
Basic Earnings (Loss) Per Share:				
Income from continuing operations	$ 0.46	$ 0.16		
Loss from discontinued operations, net of income taxes	(0.02)	(5.73)		
Net income (loss)	0.44	(5.57)		
Diluted Earnings (Loss) Per Share:				
Income from continuing operations	$ 0.46	$ 0.16		
Loss from discontinued operations, net of income taxes	(0.02)	(5.68)		
Net income (loss)	0.44	(5.52)		

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(*In millions, except per share data*)

	Holdings Six months ended June 30, 2014	Holdings Six months ended June 30, 2013	SvM Six months ended June 30, 2014	SvM Six months ended June 30, 2013
Revenue	$ 1,216	$ 1,145	$ 1,216	$ 1,145
Cost of services rendered and products sold	639	599	639	599
Selling and administrative expenses	329	346	328	346
Amortization expense	27	26	27	26
Impairment of software and other related costs	47		47	
Restructuring charges	6	3	6	3
Interest expense	122	123	122	123
Interest and net investment income	(7)	(4)	(7)	(4)
Income from Continuing Operations before Income Taxes	53	52	54	52
Provision for income taxes	29	31	29	31
Income from Continuing Operations	24	21	25	21
Loss from discontinued operations, net of income taxes	(97)	(554)	(97)	(554)
Net Loss	$ (73)	$ (533)	$ (72)	$ (533)
Total Comprehensive Loss	$ (74)	$ (534)	$ (74)	$ (534)
Weighted-average common shares outstanding - Basic	92	92		
Weighted-average common shares outstanding - Diluted	92	93		
Basic Earnings (Loss) Per Share:				
Income from continuing operations	$ 0.26	$ 0.23		
Loss from discontinued operations, net of income taxes	(1.06)	(6.04)		
Net loss	(0.79)	(5.81)		
Diluted Earnings (Loss) Per Share:				
Income from continuing operations	$ 0.26	$ 0.23		
Loss from discontinued operations, net of income taxes	(1.05)	(5.97)		
Net loss	(0.79)	(5.74)		

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Financial Position (Unaudited)

(In millions, except per share data)

	Holdings		SvM	
	As of June 30, 2014	**As of December 31, 2013**	**As of June 30, 2014**	**As of December 31, 2013**
Assets:				
Current Assets:				
Cash and cash equivalents	$ 528	$ 484	$ 515	$ 476
Marketable securities	23	27	23	27
Receivables, less allowances of $27 and $26, respectively	447	394	451	394
Inventories	39	39	39	39
Prepaid expenses and other assets	62	56	56	56
Deferred customer acquisition costs	34	30	34	30
Deferred taxes	105	107	105	107
Assets of discontinued operations		76		76
Total Current Assets	1,238	1,213	1,223	1,205
Property and Equipment:				
At cost	362	381	362	381
Less: accumulated depreciation	(223)	(204)	(223)	(204)
Net Property and Equipment	139	177	139	177
Other Assets:				
Goodwill	2,060	2,018	2,060	2,018
Intangible assets, primarily trade names, service marks and trademarks, net	1,716	1,721	1,716	1,721
Notes receivable	23	22	40	37
Long-term marketable securities	91	122	91	122
Other assets	48	49	48	49
Debt issuance costs	36	41	36	41
Assets of discontinued operations		542		542
Total Assets	$ 5,351	$ 5,905	$ 5,353	$ 5,912
Liabilities and Shareholder s (Deficit) Equity:				
Current Liabilities:				
Accounts payable	$ 99	$ 92	$ 99	$ 92
Accrued liabilities:				
Payroll and related expenses	62	70	62	70
Self-insured claims and related expenses	109	78	109	78
Accrued interest payable	47	51	47	51
Other	62	55	59	55
Deferred revenue	502	448	502	448
Liabilities of discontinued operations	8	139	8	139
Current portion of long-term debt	42	39	42	39
Total Current Liabilities	931	972	928	972
Long-Term Debt	3,859	3,867	3,859	3,867
Other Long-Term Liabilities:				
Deferred taxes	742	712	720	690
Liabilities of discontinued operations		162		162
	144	169	144	169

Other long-term obligations, primarily self-insured claims								
Total Other Long-Term Liabilities		886		1,043		864		1,021
Commitments and Contingencies (See Note 4)								
Shareholder s (Deficit) Equity:								
Common stock $0.01 par value (authorized 2,000,000,000 shares with 99,512,954 shares issued and 91,903,152 outstanding at June 30, 2014 and 98,915,432 shares issued and 91,669,470 outstanding at December 31, 2013)		1		1				
Membership interest								
Additional paid-in capital		1,532		1,523		1,478		1,475
Retained deficit		(1,741)		(1,390)		(1,780)		(1,430)
Accumulated other comprehensive income		4		7		4		7
Less common stock held in treasury, at cost (7,609,802 shares at June 30, 2014 and 7,245,962 shares at December 31, 2013)		(121)		(118)				
Total Shareholder s (Deficit) Equity		(325)		23		(298)		52
Total Liabilities and Shareholder s (Deficit) Equity	$	5,351	$	5,905	$	5,353	$	5,912

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Holdings Six months ended June 30, 2014	Holdings Six months ended June 30, 2013	SvM Six months ended June 30, 2014	SvM Six months ended June 30, 2013
Cash and Cash Equivalents at Beginning of Period	$ 484	$ 418	$ 476	$ 412
Cash Flows from Operating Activities from Continuing Operations:				
Net Loss	(73)	(533)	(72)	(533)
Adjustments to reconcile net loss to net cash provided from operating activities:				
Loss from discontinued operations, net of income taxes	97	554	97	554
Depreciation expense	24	24	24	24
Amortization expense	27	26	27	26
Amortization of debt issuance costs	5	5	5	5
Impairment of software and other related costs	47		47	
Deferred income tax provision	22	28	23	28
Stock-based compensation expense	3	1	3	1
Restructuring charges	6	3	6	3
Cash payments related to restructuring charges	(5)	(5)	(5)	(5)
Change in working capital, net of acquisitions:				
Current income taxes	(3)	(8)	(3)	(8)
Receivables	(29)	(25)	(32)	(22)
Inventories and other current assets	(14)	(19)	(9)	(19)
Accounts payable	14	21	14	21
Deferred revenue	27	24	27	24
Accrued liabilities	12	29	9	29
Other, net	(11)	(2)	(12)	(2)
Net Cash Provided from Operating Activities from Continuing Operations	149	123	149	126
Cash Flows from Investing Activities from Continuing Operations:				
Property additions	(26)	(23)	(26)	(23)
Sale of equipment and other assets	1	1	1	1
Other business acquisitions, net of cash acquired	(41)	(5)	(41)	(5)
Notes receivable, financial investments and securities, net	30	(18)	30	(18)
Notes receivable from affiliate			(2)	(10)
Net Cash Used For Investing Activities from Continuing Operations	(36)	(45)	(38)	(55)
Cash Flows from Financing Activities from Continuing Operations:				
Borrowings of debt		1		1
Payments of debt	(22)	(22)	(22)	(22)
Repurchase of common stock and RSU vesting	(4)	(12)		
Issuance of common stock	7			
Discount paid on issuance of debt		(12)		(12)

Debt issuance costs paid				(6)				(6)
Contribution to TruGreen Holding Corporation		(35)				(35)		
Net Cash Used For Financing Activities from Continuing Operations		(54)		(51)		(57)		(39)
Cash Flows from Discontinued Operations:								
Cash used for operating activities		(10)		(46)		(10)		(46)
Cash used for investing activities		(2)		(16)		(2)		(16)
Cash used for financing activities		(3)		(6)		(3)		(6)
Net Cash Used for Discontinued Operations		(15)		(68)		(15)		(68)
Cash Increase (Decrease) During the Period		44		(41)		39		(36)
Cash and Cash Equivalents at End of Period	$	528	$	377	$	515	$	376

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

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

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

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

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

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

Note 2. Recent Developments

Initial Public Offering

On June 25, 2014, Holdings registration statement on Form S-1 was declared effective by the SEC for an initial public offering of its common stock. Holdings registered the offering and sale of 35,900,000 shares of its common stock and an additional 5,385,000 shares of its common stock sold to the underwriters pursuant to an option to purchase additional shares. On July 1, 2014, Holdings completed the offering of 41,285,000 shares of its common stock at a price of $17.00 per share. The net proceeds and use of proceeds in connection with the offering are summarized in the table below:

(In millions)		
Net Proceeds		
Gross proceeds	$	702
Underwriting discounts and commissions		(35)
Offering expenses		(6)
Net Proceeds	$	661

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(In millions)		
Use of Proceeds		
Partial redemption of 8% 2020 Notes(1)	$	234
Partial redemption of 7% 2020 Notes(1)		288
Principal payment of Existing Term Facilities(1)		118
Consulting agreement termination fees(2)		21
Use of Proceeds	$	661

(1) See Refinancing of Indebtedness below for further details of the total debt reduction of $835 million in July 2014.

(2) See Note 16 for further details on the termination of the consulting agreements.

Refinancing of Indebtedness

On July 1, 2014, in connection with the initial public offering, SvM terminated its existing credit agreements governing its existing term loan facility, the pre-funded letter of credit facility (together, the Existing Term Facilities) and the existing Revolving Credit Facility (together with the Existing Term Facilities, the Existing Credit Facilities) and entered into a new credit agreement with respect to a new $1,825 million term loan facility maturing 2021 (the New Term Loan Facility) and a new $300 million revolving credit facility maturing 2019 (the New Revolving Credit Facility, and, together with the New Term Loan Facility, the New Credit Facilities), with JPMorgan Chase Bank, N.A. as administrative agent, collateral agent and issuing bank, and a syndicate of lenders party thereto from time to time. Borrowings under the New Term Loan Facility, together with $244 million of available cash and $118 million of net proceeds of the initial public offering, were used to repay in full the $2,187 million outstanding under the Existing Term Facilities. In addition, $41 million of available cash was used to pay debt issuance costs of $23 million and to pay original issue discount of $18 million in connection with the New Term Loan Facility.

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

In connection with the partial redemption of the 8% 2020 Notes and 7% 2020 Notes and the repayment of the Existing Term Facilities, we expect to record a loss on extinguishment of debt of approximately $65 million in the third quarter of 2014, which includes the pre-payment premiums on the 8% 2020 Notes and 7% 2020 Notes of $17 million and $18 million, respectively, and the write-off of approximately $30 million of debt issuance costs.

Note 3. Significant Accounting Policies

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

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

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

The Company seeks to reduce the potential amount of loss arising from self-insured claims by insuring certain levels of risk. While insurance agreements are designed to limit the Company s losses from large exposure and permit recovery of a portion of direct unpaid losses, insurance does not relieve the Company of its ultimate liability. Accordingly, the accruals for

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insured claims represent the Company s total unpaid gross losses. Insurance recoverables, which are reported within Prepaid expenses and other assets and Other assets, relate to estimated insurance recoveries on the insured claims reserves.

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

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

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

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

The Company has franchise agreements in its Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. Franchise revenue (which in the aggregate represents approximately six percent of annual consolidated revenue from continuing operations in 2013) consists principally of continuing monthly fees based upon the franchisee s customer-level revenue. Monthly fee revenue is recognized when the related customer-level revenue generating activity is performed by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise or a license. These initial franchise or license fees are pre-established fixed amounts and are recognized as revenue when collectability is reasonably assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations were $19 million and $18 million for the three months ended June 30, 2014 and 2013, respectively, and $36 million and $33 million for the six months ended June 30, 2014 and 2013, respectively. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company s unaudited condensed consolidated financial statements for all periods.

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

The Company had $502 million and $448 million of deferred revenue as of June 30, 2014 and December 31, 2013, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection and pest control services.

Deferred Customer Acquisition Costs: Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to $34 million and $30 million as of June 30, 2014 and December 31, 2013, respectively.

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

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

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

Depreciation of property and equipment, including depreciation of assets held under capital leases, was $12 million for each of the three months ended June 30, 2014 and 2013, and $24 million for each of the six months ended June 30, 2014 and 2013.

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

Fair Value of Financial Instruments and Credit Risk: See Note 17 for information relating to the fair value of financial instruments.

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

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

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

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

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

Newly Issued Accounting Statements and Positions: In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists to eliminate the diversity in

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practice associated with the presentation of unrecognized tax benefits in instances where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 generally requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a material impact on the Company s condensed consolidated financial statements.

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

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

Note 4. Restructuring Charges

The Company incurred restructuring charges of $1 million ($1 million, net of tax) for the three months ended June 30, 2014. Restructuring charges for the three months ended June 30, 2013 were less than $1 million. The Company incurred restructuring charges of $6 million ($3 million, net of tax) and $3 million ($2 million, net of tax) for the six months ended June 30, 2014 and 2013, respectively. Restructuring charges were comprised of the following:

	Three months ended June 30,				Six months ended June 30,			
(In millions)	**2014**		**2013**		**2014**		**2013**	
Terminix branch optimization(1)	$	1	$		$	2	$	1
Centers of excellence initiative(2)						4		2
Total restructuring charges	$	1	$		$	6	$	3

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

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

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

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

(In millions)		**Accrued Restructuring Charges**
Balance as of December 31, 2013	$	1
Costs incurred		6
Costs paid or otherwise settled		(5)
Balance as of June 30, 2014	$	2

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

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

(In millions)		**Accrued Self-insured Claims, Net**
Balance as of December 31, 2013	$	101
Provision for self-insured claims		36
Cash payments		(31)
Balance as of June 30, 2014	$	106
Balance as of December 31, 2012	$	103
Provision for self-insured claims		30
Cash payments		(24)
Balance as of June 30, 2013	$	109

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

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

Note 6. Goodwill and Intangible Assets

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

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

(In millions)		Terminix		American Home Shield		Franchise Services Group		Total
Balance as of December 31, 2013	$	1,480	$	348	$	190	$	2,018
Acquisitions		7		34		1		42
Balance as of June 30, 2014	$	1,487	$	382	$	191	$	2,060

There were no accumulated impairment losses recorded in continuing operations as of June 30, 2014.

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

	Estimated Remaining Useful Lives	As of June 30, 2014						As of December 31, 2013					
(In millions)	(Years)		Gross		Accumulated Amortization		Net		Gross		Accumulated Amortization		Net
Trade names(1)	N/A	$	1,608	$		$	1,608	$	1,608	$		$	1,608
Customer relationships	3 - 10		531		(469)		62		512		(447)		65
Franchise agreements	20 - 25		88		(56)		32		88		(54)		34
Other	4 - 30		44		(30)		14		41		(27)		14
Total		$	2,271	$	(555)	$	1,716	$	2,249	$	(528)	$	1,721

(1) Not subject to amortization.

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

Note 7. Stock-Based Compensation

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

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

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

To allow our employees to retain the intrinsic value of their stock options prior to the TruGreen Spin-off, we also adjusted the number of shares underlying the options of such employees. The number of shares underlying the options was adjusted by dividing the number of shares underlying the options held by each employee by the Option Conversion Ratio. We refer to these adjustments collectively as the Option Conversion. The change in the number of shares underlying options and the adjustment of the exercise price pursuant to the Option Conversion represent modifications to our share based compensation awards. As a result of the Option Conversion we compared the fair value of the awards following the TruGreen Spin-off with the fair value of the original awards. The comparison did not yield incremental value. Accordingly, we did not record any incremental compensation expense as a result of the Option Conversion.

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For the three months ended June 30, 2014, the Company recognized stock-based compensation expense of $1 million ($1 million, net of tax). Stock-based compensation expense for the three months ended June 30, 2013 was less than $1 million. For the six months ended June 30, 2014 and 2013, the Company recognized stock-based compensation expense of $3 million ($2 million, net of tax) and $1 million ($1 million, net of tax), respectively. As of June 30, 2014, there was $18 million of total unrecognized compensation costs related to non-vested stock options and restricted share units granted under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan (MSIP). These remaining costs are expected to be recognized over a weighted-average period of 2.97 years.

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

Note 8. Comprehensive Income (Loss)

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

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

(In millions)	Unrealized Gains on Derivatives	Unrealized Gains on Available -for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2013	$	$ 7	$	$ 7
Other comprehensive income before reclassifications:				
Pre-tax amount		3		3
Tax provision		1		1
After tax amount		2		2
Amounts reclassified from accumulated other comprehensive income (loss)(1)		(3)		(3)
Net current period other comprehensive (loss) income		(1)		(1)
Spin-off of the TruGreen Business			(2)	(2)
Balance as of June 30, 2014	$	$ 6	$ (2)	$ 4
Balance as of December 31, 2012	$ (2)	$ 5	$ 4	$ 7
Other comprehensive (loss) income before reclassifications:				
Pre-tax amount	(1)	2	(3)	(2)
Tax (benefit) provision	(1)	1		
After tax amount		1	(3)	(2)
Amounts reclassified from accumulated other comprehensive (loss) income(1)	2	(1)		1
Net current period other comprehensive income (loss)	2		(3)	(1)
Balance as of June 30, 2013	$	$ 5	$ 1	$ 6

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

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

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

Note 9. Supplemental Cash Flow Information

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

(In millions)	Six months ended June 30, 2014		2013	
Cash paid for or (received from):				
Interest expense	$	117	$	116
Interest and dividend income		(2)		(2)
Income taxes, net of refunds		9		11

The Company acquired $8 million and $12 million of property and equipment through capital leases and other non-cash financing transactions in the six months ended June 30, 2014 and 2013, respectively, which have been excluded from the unaudited condensed consolidated statements of cash flows as non-cash investing and financing activities.

Note 10. Cash and Marketable Securities

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

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, June 30, 2014:				
Debt securities	$ 71	$ 1	$	$ 72
Equity securities	34	8		42
Total securities	$ 105	$ 9	$	$ 114
Available-for-sale and trading securities, December 31, 2013:				
Debt securities	$ 97	$ 3	$ (1)	$ 99
Equity securities	41	9		50
Total securities	$ 138	$ 12	$ (1)	$ 149

Unrealized losses which had been in a loss position for more than one year as of June 30, 2014 were less than $1 million. There were no unrealized losses which had been in a loss position for more than one year as of December 31, 2013. The aggregate fair value of the investments with unrealized losses was $15 million and $30 million as of June 30, 2014 and December 31, 2013, respectively.

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

	Three months ended June 30,		Six months ended June 30,	
(In millions)	**2014**	**2013**	**2014**	**2013**
Proceeds from sale of securities	$ 1	$ 2	$ 43	$ 6
Gross realized gains, pre-tax			5	1
Gross realized gains, net of tax			3	1
Gross realized losses, pre-tax			(1)	
Gross realized losses, net of tax				

Note 11. Long-Term Debt

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

(In millions)	**As of June 30, 2014**	**As of December 31, 2013**
Senior secured term loan facility maturing in 2017 (Tranche B)	$ 986	$ 991
Senior secured term loan facility maturing in 2017 (Tranche C)(1)	1,194	1,198
7.00% senior notes maturing in 2020	750	750
8.00% senior notes maturing in 2020(2)	602	602
Revolving credit facility maturing in 2017		
7.10% notes maturing in 2018(3)	72	71
7.45% notes maturing in 2027(3)	160	159
7.25% notes maturing in 2038	63	63
Vehicle capital leases(4)	34	32
Other	40	40
Less current portion	(42)	(39)
Total long-term debt	$ 3,859	$ 3,867

(1) As of June 30, 2014 and December 31, 2013, presented net of $8 million and $10 million, respectively, in unamortized original issue discount paid as part of the 2013 amendment (2013 Term Loan Facility Amendment).

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

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

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

Refinancing of Indebtedness

For details of the refinancing of the Existing Term Facilities on July 1, 2014 and the partial redemption of the 8% 2020 Notes and the 7% 2020 Notes on July 16, 2014, see Note 2.

Interest Rate Swaps

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

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effective interest rate on $300 million of the New Term Facilities is fixed at a rate of 1.786 percent, plus the incremental borrowing margin of 3.25 percent.

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

Note 12. Acquisitions

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

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

During the six months ended June 30, 2014, the Company completed several pest control, termite and franchise acquisitions. The total net purchase price for these acquisitions was $12 million. The Company recorded goodwill of $8 million and other intangibles of $4 million related to these acquisitions.

During the six months ended June 30, 2013, the Company completed several pest control, termite and franchise acquisitions, along with the purchase of a distributor license agreement with the Franchise Services Group. The total net purchase price for these acquisitions was $7 million. The Company recorded goodwill of $4 million and other intangibles of $3 million related to these acquisitions.

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

	Six months ended June 30,			
(In millions)	**2014**		**2013**	
Purchase price (including liabilities assumed)	$	78	$	7
Less liabilities assumed		(34)		
Net purchase price	$	44	$	7

Net cash paid for acquisitions	$	41	$	5
Seller financed debt		3		2
Payment for acquisitions	$	44	$	7

Note 13. Discontinued Operations

TruGreen Spin-off

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

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

As a result of the TruGreen Spin-off, the Company was required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions were developed with the view of the TruGreen Business as a stand-alone company, resulting in an increase in the assumed discount rate of 350 basis points, or bps, as compared to the discount rate used in the October 1, 2013 impairment test for the TruGreen trade name. This interim impairment analysis resulted in a pre-tax

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non-cash trade name impairment charge of $139 million ($84 million, net of tax) to reduce the carrying value of the TruGreen trade name to its estimated fair value. This impairment charge was recorded in Loss from discontinued operations, net of income taxes, in the three months and six months ended June 30, 2014. The impairment of the TruGreen trade name represented an adjustment of the carrying value of the asset to its estimated fair value on a non-recurring basis using significant unobservable inputs on the date of the TruGreen Spin-off.

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

(In millions)		
Assets:		
Cash and cash equivalents	$	57
Receivables, net		22
Inventories and other current assets		40
Property and equipment, net		181
Intangible assets, net		216
Other long-term assets		6
Total Assets	$	522
Liabilities:		
Current liabilities	$	149
Long-term debt and other long-term liabilities		93
Total Liabilities	$	242
Net assets distributed to New TruGreen	$	280

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

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

Under this transition services agreement, in the three and six months ended June 30, 2014, the Company recorded $9 million and $19 million, respectively, of fees due from TGLP, which is included, net of costs incurred, in Selling and administrative expenses in the unaudited condensed consolidated statement of operations and comprehensive income (loss). As of June 30, 2014, all amounts owed by TGLP under this agreement have been paid.

During the three and six months ended June 30, 2014, the Company processed certain of TGLP s accounts payable transactions. Through this process, in the three and six months ended June 30, 2014, $30 million and $74 million, respectively, was paid on TGLP s behalf, of which $27 million and $68 million, respectively, was repaid by TGLP. As of June 30, 2014, the Company recorded a $6 million receivable due from TGLP, which is included in Receivables on the unaudited condensed consolidated statement of financial position.

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

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Financial Information for Discontinued Operations

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

The operating results of discontinued operations are as follows:

	Three months ended June 30,		Six months ended June 30,	
(In millions)	2014	2013	2014	2013
Revenue	$	$ 308	$ 6	$ 402
Loss before income taxes(1)	(4)	(666)	(159)	(716)
Benefit for income taxes(1)	(2)	(141)	(62)	(162)
Loss from discontinued operations, net of income taxes(1)	$ (2)	$ (525)	$ (97)	$ (554)

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

Assets and liabilities of discontinued operations are summarized below:

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

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

Note 14. Income Taxes

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

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

The effective tax rate on income from continuing operations at Holdings was 47.2 percent for the three months ended June 30, 2014 compared to 63.0 percent for the three months ended June 30, 2013. The effective tax rate on income from continuing operations at SvM was 47.2 percent for the three months ended June 30, 2014 compared to 62.9 percent for the three months ended June 30, 2013. The effective tax rate on income from continuing operations for the three months ended June 30, 2014 was affected by various discrete events, including an adjustment to deferred state taxes resulting from changes in the Company s state apportionment factors. The effective tax rate on income from continuing operations for the three months ended June 30, 2013 was affected by the reclassification of the TruGreen Business to discontinued operations and the resulting impact on the allocation of the full year effective tax rate on income from continuing operations to interim periods.

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The effective tax rate on income from continuing operations at Holdings was 54.4 percent for the six months ended June 30, 2014 compared to 59.4 percent for the six months ended June 30, 2013. The effective tax rate on income from continuing operations at SvM was 54.2 percent for the six months ended June 30, 2014 compared to 59.4 percent for the six months ended June 30, 2013. The effective tax rate on income from continuing operations for the six months ended June 30, 2014 was affected by various discrete events, including an adjustment to deferred state taxes resulting from a change in the Company s state apportionment factors primarily attributable to the TruGreen Spin-off. The effective tax rate on income from continuing operations for the six months ended June 30, 2013 was affected by the reclassification of the TruGreen Business to discontinued operations and the resulting impact on the allocation of the full year effective tax rate on income from continuing operations to interim periods.

Note 15. Business Segment Reporting

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

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

Information regarding the accounting policies used by the Company is described in Note 3. The Company derives substantially all of its revenue from customers and franchisees in the United States with less than two percent generated in foreign markets. Operating expenses of the business units consist of direct costs and indirect costs allocated from Other Operations and Headquarters. In periods prior to the TruGreen Spin-off, expenses which were allocated to TruGreen but are not reflected in discontinued operations are included in Other Operations and Headquarters. Such expenses amounted to $11 million and $20 million in the three and six months ended June 30, 2013, respectively.

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

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

	Three months ended June 30,		Six months ended June 30,	
(In millions)	**2014**	**2013**	**2014**	**2013**
Revenue:				
Terminix	$ 376	$ 365	$ 696	$ 678
American Home Shield	241	206	393	349
Franchise Services Group	64	58	124	114
Reportable Segment Revenue	$ 681	$ 629	$ 1,213	$ 1,141
Other Operations and Headquarters	2	2	3	4
Total Revenue	$ 683	$ 631	$ 1,216	$ 1,145

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	Three months ended June 30,		Six months ended June 30,	
(In millions)	**2014**	**2013**	**2014**	**2013**
Reportable Segment Adjusted EBITDA:(1)				
Terminix	$ 93	$ 83	$ 171	$ 158
American Home Shield	61	40	83	61
Franchise Services Group	21	19	38	37
Reportable Segment Adjusted EBITDA	$ 175	$ 142	$ 292	$ 256

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

	Holdings Three months ended June 30,		SvM Three months ended June 30,	
(In millions)	**2014**	**2013**	**2014**	**2013**
Reportable Segment Adjusted EBITDA:				
Terminix	$ 93	$ 83	$ 93	$ 83
American Home Shield	61	40	61	40
Franchise Services Group	21	19	21	19
Reportable Segment Adjusted EBITDA	$ 175	$ 142	$ 175	$ 142
Unallocated corporate expenses(a)	$ (4)	$ (12)	$ (4)	$ (12)
Depreciation and amortization expense	(26)	(25)	(26)	(25)
Non-cash impairment of software and other related costs	1		1	
Non-cash stock-based compensation expense	(1)		(1)	
Restructuring charges	(1)		(1)	
Management and consulting fees	(2)	(2)	(2)	(2)
Loss from discontinued operations, net of income taxes	(2)	(525)	(2)	(525)
Provision for income taxes	(38)	(25)	(38)	(25)
Interest expense	(61)	(63)	(61)	(63)
Other	(1)			
Net Income (Loss)	$ 40	$ (510)	$ 41	$ (510)

	Holdings Six months ended June 30,		SvM Six months ended June 30,	
(In millions)	**2014**	**2013**	**2014**	**2013**
Reportable Segment Adjusted EBITDA:				
Terminix	$ 171	$ 158	$ 171	$ 158
American Home Shield	83	61	83	61
Franchise Services Group	38	37	38	37
Reportable Segment Adjusted EBITDA	$ 292	$ 256	$ 292	$ 256
Unallocated corporate expenses(a)	$ (6)	$ (23)	$ (6)	$ (23)
Depreciation and amortization expense	(51)	(50)	(51)	(50)
Non-cash impairment of software and other related costs	(47)		(47)	
Non-cash stock-based compensation expense	(3)	(1)	(3)	(1)
Restructuring charges	(6)	(3)	(6)	(3)
Management and consulting fees	(4)	(4)	(4)	(4)
Loss from discontinued operations, net of income taxes	(97)	(554)	(97)	(554)
Provision for income taxes	(29)	(31)	(29)	(31)
Interest expense	(122)	(123)	(122)	(123)
Other			1	
Net Loss	$ (73)	$ (533)	$ (72)	$ (533)

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

Note 16. Related Party Transactions

On July 24, 2007, the Company was acquired pursuant to a merger transaction (the 2007 Merger), and, immediately following the completion of the 2007 Merger, all of our outstanding common stock was owned by investment

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funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC (CD&R), or the CD&R Funds, Citigroup Private Equity LP, or Citigroup, BAS Capital Funding Corporation, or BAS, and JPMorgan Chase Funding Inc., or JPMorgan. On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that owned shares of our common stock to StepStone Group LP, or StepStone, and the investment funds managed by StepStone Group, the StepStone Funds. As of December 22, 2011, we purchased from BAS 5 million shares of our common stock. On March 30, 2012, an affiliate of BAS sold 5 million shares of our common stock to Ridgemont Partners Secondary Fund I, L.P, or Ridgemont. On July 24, 2012, BACSVM-A L.P., an affiliate of BAS, distributed 1,666,666 shares of our common stock to Charlotte Investor IV, L.P., its sole limited partner, (together with the CD&R Funds, the StepStone Funds, JPMorgan, Citigroup Capital Partners II Employee Master Fund, L.P., an affiliate of Citigroup, and BACSVM-A, L.P., an affiliate of BAS, the Equity Sponsors).

After completion of Holdings initial public offering on July 1, 2014, the Equity Sponsors continue to hold more than 65 percent of Holdings common stock.

Consulting Agreements

The Company was a party to a consulting agreement with CD&R under which CD&R provided the Company with ongoing consulting and management advisory services. The annual consulting fee payable under the consulting agreement with CD&R was $6 million. Under this agreement, the Company recorded consulting fees of $2 million and $3 million in each of the three and six month periods ended June 30, 2014 and 2013, which is included in Selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

The Company was a party to consulting agreements with StepStone, JPMorgan and Ridgemont (and formerly with BAS). The consulting agreements were scheduled to terminate on June 30, 2016 or upon the earlier termination of the consulting agreement with CD&R (the Ridgemont consulting agreement also provides for termination upon an initial public offering). Effective January 1, 2012, the annual consulting fee formerly payable to BAS (and now payable to Ridgemont) was reduced to $0.25 million. Pursuant to the consulting agreements, the Company was required to pay aggregate annual consulting fees of $1 million to StepStone, JPMorgan and Ridgemont (formerly payable to BAS), respectively.

On July 1, 2014, in connection with the completion of the initial public offering, the Company paid the Equity Sponsors aggregate fees of $21 million in connection with the termination of the consulting agreements.

Revolving Promissory Note

On April 19, 2013, SvM entered into a revolving promissory note with Holdings with a maximum borrowing capacity of $25 million that is scheduled to mature on April 18, 2018. Amounts outstanding under this agreement bear interest at the rate of 5.0 percent per annum. As of June 30, 2014 and December 31, 2013, amounts due to SvM by Holdings under this note was $16 million and $14 million, respectively. The funds borrowed under this note are used by Holdings to repurchase shares of its common stock from associates who have left the Company.

On July 1, 2014, Holdings used a portion of the proceeds from the initial public offering to repay this inter-company loan.

Note 17. Fair Value Measurements

The period-end carrying amounts of receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The period-end carrying amounts of long-term notes receivable approximate fair value as the effective interest rates for these instruments are comparable to period-end market rates. The period-end carrying amounts of short- and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net of tax as a component of accumulated other comprehensive income on the unaudited condensed consolidated statements of financial position, or, for certain unrealized losses, reported in interest and net investment income in the unaudited condensed consolidated statements of operations and comprehensive income (loss) if the decline in value is other than temporary. The carrying amount of total debt was $3,901 million and $3,906 million and the estimated fair value was $4,084 million and $3,906 million as of June 30, 2014 and December 31, 2013, respectively. The fair value of the Company s debt is estimated based on available market prices for the same or similar instruments which are considered significant other observable inputs (Level 2) within the fair value hierarchy. The fair values presented reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report are based on information available to the Company as of June 30, 2014 and December 31, 2013.

The Company has estimated the fair value of its financial instruments measured at fair value on a recurring basis using the market and income approaches. For investments in marketable securities, deferred compensation trust assets and derivative contracts, which are carried at their fair values, the Company s fair value estimates incorporate quoted market

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

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

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

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

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

		As of June 30, 2014			
			Estimated Fair Value Measurements		
(In millions)	**Statement of Financial Position Location**	**Carrying Value**	**Quoted Prices In Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets:					
Deferred compensation trust assets	Long-term marketable securities	$ 9	$ 9	$	$
Investments in marketable securities	Marketable securities and Long-term marketable securities	105	56	49	
Fuel swap contracts:					
Current	Prepaid expenses and other assets	1			1
Total financial assets		$ 115	$ 65	$ 49	$ 1

		As of December 31, 2013			
			Estimated Fair Value Measurements		
(In millions)	**Statement of Financial Position Location**	**Carrying Value**	**Quoted Prices In Active Markets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs (Level 3)**

			(Level 1)	**(Level 2)**	
Financial Assets:					
Deferred compensation trust assets	Long-term marketable securities	$ 13	$ 13	$	$
Investments in marketable securities	Marketable securities and Long-term marketable securities	136	61	75	
Fuel swap contracts:					
Current	Prepaid expenses and other assets	1			1
Total financial assets		$ 150	$ 74	$ 75	$ 1

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

(In millions)		Fuel Swap Contract Assets (Liabilities)
Balance as of December 31, 2013	$	1
Total gains (realized and unrealized)		
Included in accumulated other comprehensive income		
Balance as of June 30, 2014	$	1
Balance as of December 31, 2012	$	2
Total gains (realized and unrealized)		
Included in earnings		1
Included in accumulated other comprehensive income		(2)
Settlements, net		(1)
Balance as of June 30, 2013	$	

The following tables present information relating to the significant unobservable inputs of our Level 3 financial instruments:

	Fair Value (in millions)		Valuation Technique	Unobservable Input	Range	Weighted Average	
As of June 30, 2014:							
Fuel swap contracts	$	1	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	$3.06 - $3.89	$	3.61
As of December 31, 2013:							
Fuel swap contracts	$	1	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	$3.20 - $3.87	$	3.60

(1) Forward prices per gallon were derived from third-party market data providers. A decrease in the forward price would result in a decrease in the fair value of the fuel swap contracts.

The Company uses derivative financial instruments to manage risks associated with changes in fuel prices and has in the past used, and may in the future use, derivative financial instruments to manage risks associated with changes in interest rates. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. In designating its derivative financial instruments as hedging instruments under accounting standards for derivative instruments, the Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives to forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly thereafter, whether the derivative item is effective in offsetting the projected changes in cash flows of the associated forecasted transactions. All of the Company s designated hedging instruments are classified as cash flow hedges.

The Company has historically hedged a significant portion of its annual fuel consumption. The Company has also historically hedged the interest payments on a portion of its variable rate debt through the use of interest rate swap agreements, although the Company has no interest rate swap agreements outstanding as of June 30, 2014. All of the Company s fuel swap contracts and interest rate swap contracts are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the unaudited condensed consolidated statements of financial position as either an asset or liability at fair value, with the effective portion of changes in the fair value attributable to the hedged risks recorded in accumulated other comprehensive income. Any change in the fair value of the hedging instrument resulting from ineffectiveness, as defined by accounting standards, is recognized in current period earnings. Cash flows related to fuel and interest rate derivatives are classified as operating activities in the unaudited condensed consolidated statements of cash flows.

The effect of derivative instruments on the unaudited condensed consolidated statements of operations and comprehensive income (loss) and accumulated other comprehensive income on the unaudited condensed consolidated statements of financial position is presented as follows:

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(In millions) Derivatives designated as Cash Flow Hedge Relationships	Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Income		Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income Into Earnings		Location of Gain (Loss) included in Earnings
Six months ended June 30, 2014:					
Fuel swap contracts	$		$		Cost of services rendered and products sold
Six months ended June 30, 2013:					
Fuel swap contracts	$	(2)	$	1	Cost of services rendered and products sold
Interest rate swap contracts	$	4	$	(4)	Interest expense

Ineffective portions of derivative instruments designated in accordance with accounting standards as cash flow hedge relationships were insignificant during the six months ended June 30, 2014. As of June 30, 2014, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $17 million, maturing through 2015. Under the terms of its fuel swap contracts, the Company is required to post collateral in the event that the fair value of the contracts exceeds a certain agreed upon liability level and in other circumstances required by the counterparty. As of June 30, 2014, the Company had posted $1 million in letters of credit as collateral under its fuel hedging program, none of which were posted under the Company s existing senior secured revolving credit facility (the Existing Revolving Credit Facility).

The effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments is recorded in accumulated other comprehensive income. These amounts are reclassified into earnings in the same period or periods during which the hedged forecasted debt interest settlement or the fuel settlement affects earnings. The amount expected to be reclassified into earnings during the next 12 months includes unrealized gains and losses related to open fuel hedges. Specifically, as the underlying forecasted transactions occur during the next 12 months, the hedging gains and losses in accumulated other comprehensive income expected to be recognized in earnings is a gain of less than $1 million, net of tax, as of June 30, 2014. The amounts that are ultimately reclassified into earnings will be based on actual fuel prices at the time the positions are settled and may differ materially from the amount noted above.

Note 18. Earnings Per Share

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

A reconciliation of the amounts included in the computation of basic earnings per share from continuing operations and diluted earnings per share from continuing operations is as follows:

	Three months ended June 30,				Six months ended June 30,			
(In millions, except per share data)	2014		2013		2014		2013	
Income from continuing operations	$	42	$	15	$	24	$	21

Weighted average common shares outstanding		92		92		92		92
Effect of dilutive securities:								
RSUs								
Stock options(1)				1				1
Weighted average common share outstanding assuming dilution		92		92		92		93
Basic earnings per share from continuing operations	$	0.46	$	0.16	$	0.26	$	0.23
Diluted earnings per share from continuing operations	$	0.46	$	0.16	$	0.26	$	0.23

(1) Options to purchase 3 million and 1 million shares for the three months ended June 30, 2014 and 2013, respectively, and 3 million and 1 million shares for the shares for the six months ended June 30, 2014 and 2013, respectively, were not included in the computation because either their exercise price or proceeds per share exceeded the average market price of the Company s common stock for each respective reporting date.

On June 25, 2014, Holdings registration statement on Form S-1 was declared effective by the SEC for an initial public offering of its common stock, and, on July 1, 2014, Holdings completed the offering of 41,285,000 shares of its common stock. For further details, see Note 2.

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

The following condensed consolidating financial statements of SvM and its subsidiaries have been prepared pursuant to Rule 3-10 of Regulation S-X. These condensed consolidating financial statements have been prepared from SvM s financial information on the same basis of accounting as the unaudited condensed consolidated financial statements. Goodwill and other intangible assets have been allocated to all of SvM s subsidiaries based on management s estimates. ServiceMaster Global Holdings, Inc. is not an obligor, nor guarantor, to the 8% 2020 Notes and the 7% 2020 Notes (collectively, the 2020 Notes), the Existing Term Facilities or the New Term Loan Facility.

The payment obligations of SvM under the 2020 Notes are jointly and severally guaranteed on a senior unsecured basis by SvM s domestic subsidiaries that guarantee our indebtedness under the Existing Credit Facilities and New Credit Facilities (the Guarantors). Each of the Guarantors is wholly owned, directly or indirectly, by SvM, and all guarantees are full and unconditional. SvM s non-U.S. subsidiaries, SvM s subsidiaries subject to regulation as an insurance, home warranty, service contract or similar company, and certain other subsidiaries of SvM (the Non-Guarantors) do not guarantee the 2020 Notes. A Guarantor will be released from its obligations under its guarantee under certain customary circumstances, including, (i) the sale or disposition of the Guarantor, (ii) the release of the Guarantor from all of its obligations under all guarantees related to any indebtedness of SvM, (iii) the merger or consolidation of the Guarantor as specified in the indenture governing the 2020 Notes, (iv) the Guarantor becomes an unrestricted subsidiary under the indenture governing the 2020 Notes, (v) the defeasance of SvM s obligations under the indenture governing the 2020 Notes or (vi) the payment in full of the principal amount of the 2020 Notes.

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THE SERVICEMASTER COMPANY, LLC AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Income

For the Three Months Ended June 30, 2014 (Unaudited)

(In millions)

	Parent Issuer	Guarantors	Non-Guarantors	Eliminations	SvM Consolidated
Operating Revenue	$	$ 427	$ 270	$ (14)	$ 683
Cost of services rendered and products sold		237	128	(14)	351
Selling and administrative expenses	2	87	88		177
Amortization expense		12	2		14
Impairment of software and other related costs			(1)		(1)
Restructuring charges		1			1
Interest expense	61				61
Interest and net investment loss (income)	1		(2)		(1)
(Loss) Income from Continuing Operations before Income Taxes	(64)	90	55		81
(Benefit) Provision for income taxes	(43)	42	39		38
(Loss) Income from Continuing Operations	(21)	48	16		43
Loss from discontinued operations, net of income taxes	(2)				(2)
Equity in earnings of subsidiaries (net of tax)	64	16		(80)	
Net Income	$ 41	$ 64	$ 16	$ (80)	$ 41
Total Comprehensive Income	$ 43	$ 65	$ 17	$ (82)	$ 43

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THE SERVICEMASTER COMPANY, LLC AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Loss

For the Three Months Ended June 30, 2013 (Unaudited)

(In millions)

	Parent Issuer	Guarantors	Non-Guarantors	Eliminations	SvM Consolidated
Operating Revenue	$	$ 416	$ 232	$ (17)	$ 631
Cost of services rendered and products sold		234	112	(17)	329
Selling and administrative expenses	2	86	100		188
Amortization expense		12	1		13
Interest expense	29	28	6		63
Interest and net investment (income) loss	(2)	4	(4)		(2)
(Loss) Income from Continuing Operations before Income Taxes	(29)	52	17		40
(Benefit) Provision for income taxes	(22)	15	32		25
(Loss) Income from Continuing Operations	(7)	37	(15)		15
(Loss) income from discontinued operations, net of income taxes	(2)	140	(663)		(525)
Equity in earnings of subsidiaries (net of tax)	(501)	(676)		1,177	
Net Loss	$ (510)	$ (499)	$ (678)	$ 1,177	$ (510)
Total Comprehensive Loss	$ (514)	$ (502)	$ (681)	$ 1,183	$ (514)

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THE SERVICEMASTER COMPANY, LLC AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Loss

For the Six Months Ended June 30, 2014 (Unaudited)

(In millions)

	Parent Issuer	Guarantors	Non-Guarantors	Eliminations	SvM Consolidated
Operating Revenue	$	$ 798	$ 447	$ (29)	$ 1,216
Cost of services rendered and products sold		450	218	(29)	639
Selling and administrative expenses	4	157	167		328
Amortization expense		24	3		27
Impairment of software and other related costs			47		47
Restructuring charges		2	4		6
Interest expense	116	5	1		122
Interest and net investment loss (income)	2		(9)		(7)
(Loss) Income from Continuing Operations before Income Taxes	(122)	160	16		54
(Benefit) Provision for income taxes	(62)	61	30		29
(Loss) Income from Continuing Operations	(60)	99	(14)		25
(Loss) income from discontinued operations, net of income taxes	(6)	59	(150)		(97)
Equity in earnings of subsidiaries (net of tax)	(6)	(167)		173	
Net Loss	$ (72)	$ (9)	$ (164)	$ 173	$ (72)
Total Comprehensive Loss	$ (74)	$ (10)	$ (166)	$ 176	$ (74)

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THE SERVICEMASTER COMPANY, LLC AND SUBSIDIARIES

Condensed Consolidating Statement of Operations and Comprehensive Loss

For the Six Months Ended June 30, 2013 (Unaudited)

(In millions)

	Parent Issuer	Guarantors	Non-Guarantors	Eliminations	SvM Consolidated
Operating Revenue	$	$ 776	$ 401	$ (32)	$ 1,145
Cost of services rendered and products sold		443	188	(32)	599
Selling and administrative expenses	4	154	188		346
Amortization expense		25	1		26
Restructuring charges		1	2		3
Interest expense	56	56	11		123
Interest and net investment (income) loss	(2)	4	(6)		(4)
(Loss) Income from Continuing Operations before Income Taxes	(58)	93	17		52
(Benefit) Provision for income taxes	(25)	10	46		31
(Loss) Income from Continuing Operations	(33)	83	(29)		21
(Loss) income from discontinued operations, net of income taxes	(3)	161	(712)		