SERVICEMASTER CO, LLC
Form 10-K
March 05, 2014

Use these links to rapidly review the document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

Commission File Number 1-14762

THE SERVICEMASTER COMPANY, LLC

(Exact name of registrant as specified in its charter)

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

860 Ridge Lake Boulevard, Memphis, Tennessee 38120
(Address of principal executive offices, including zip code)

(901) 597-1400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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). Yes ý No o

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

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

THE SERVICEMASTER COMPANY, LLC
ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

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

OUR COMPANY

The ServiceMaster Company, LLC ("ServiceMaster," the "Company," "we," "us" or "our") is a global company serving both residential and commercial customers with a network of approximately 7,400 company-owned, franchised and licensed locations as of December 31, 2013. As of December 31, 2013, ServiceMaster's services included termite and pest control, lawn care, home warranties and preventative maintenance contracts, janitorial, cleaning and disaster restoration, home cleaning, wood furniture repair and home inspection. As of December 31, 2013, we provided these services primarily under the following leading brands: Terminix, TruGreen, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec.

As of December 31, 2013, we were organized into five principal reportable segments: Terminix, TruGreen, American Home Shield, ServiceMaster Clean, and Other Operations and Headquarters. Financial information for each operating segment for 2013, 2012 and 2011 is contained in Note 3 to the Consolidated Financial Statements in this Annual Report on Form 10-K. During 2013, we employed an average of approximately 22,000 company associates, and we estimate that our franchise network independently employed over 33,000 additional people. Approximately 98 percent of our 2013 operating revenue was generated by sales in the United States. A significant portion of our assets is located in the United States, and the consolidated value of all assets located outside of the United States is not material. Organized in Delaware in 2013, ServiceMaster is the successor to various entities dating back to 1947.

On January 14, 2014, ServiceMaster Global Holdings, Inc. ("Holdings"), the ultimate parent company of ServiceMaster, completed the previously announced separation transaction (the "TruGreen Separation Transaction") resulting in the spin-off of the assets and certain liabilities of the business that comprises the lawn, tree and shrub care services previously conducted by 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 Separation Transaction, TruGreen Holding Corporation ("New TruGreen") operates the TruGreen Business as a private independent company.

The TruGreen Business is reported in this Annual Report on Form 10-K in continuing operations. Beginning with the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2014, the TruGreen Business will be reported in discontinued operations.

Pursuant to an agreement and plan of merger entered into by ServiceMaster in connection with the TruGreen Separation Transaction, on January 14, 2014, the company formerly known as The ServiceMaster Company ("Old ServiceMaster") was merged with and into ServiceMaster, with ServiceMaster continuing as the surviving entity in such merger. Pursuant to the terms of the merger agreement, all of the capital stock of Old ServiceMaster issued and outstanding immediately prior to the effective time of the merger was cancelled, and the sole stockholder of Old ServiceMaster immediately prior to the effective time of the merger (CDRSVM Holding, Inc., now known as CDRSVM Holding, LLC) was admitted as the sole member of ServiceMaster.

Table of Contents

OUR SERVICES

The following table shows the percentage of ServiceMaster's consolidated revenue from continuing operations derived from each of ServiceMaster's reportable segments in the years indicated:

Segment	2013	2012	2011
Terminix	41%	40%	37%
TruGreen	28%	31%	34%
American Home Shield	23%	22%	22%
ServiceMaster Clean	5%	4%	4%
Other Operations and Headquarters	3%	3%	3%

Terminix Segment

The Terminix segment provides termite and pest control services primarily under the Terminix brand name and also distributes pest control products. Terminix is a leading provider of termite and pest control services in the United States, serving both residential and commercial customers. Of Terminix's 2013 operating revenue, 39 percent and 17 percent were generated from residential and commercial pest control services, respectively, and 36 percent and 3 percent were generated from residential and commercial termite control services, respectively (with the remainder from other services and distribution of pest control products).

As of December 31, 2013, Terminix provided these services in 47 states and the District of Columbia through approximately 285 company-owned locations and 100 franchised locations. As of December 31, 2013, Terminix also provided termite and pest control services through subsidiaries in Canada, Mexico, the Caribbean and Central America and a joint venture in India and had licensing arrangements whereby licensees provided these services in Japan, China, South Korea, Southeast Asia, Central America, the Caribbean and the Middle East.

The Terminix business is seasonal in nature. The termite swarm season, which typically occurs in early spring, but varies in timing and intensity by region depending on climate and other factors, leads to the highest demand for termite control services and, therefore, the highest level of revenues. Similarly, increased pest activity in the warmer months generally leads to the highest demand for pest control services and, therefore, the highest level of revenues.

TruGreen Segment

As described above, on January 14, 2014, Holdings completed the TruGreen Separation Transaction, resulting in the spin-off of the assets and certain liabilities of the TruGreen Business. The TruGreen Business is reported in this Annual Report on Form 10-K in continuing operations. Beginning with the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2014, the TruGreen Business will be reported in discontinued operations.

During 2013, the TruGreen segment provided lawn, tree and shrub care services primarily under the TruGreen brand name. TruGreen is a leading provider of lawn, tree and shrub care services in the United States, serving both residential and commercial customers. Of TruGreen's 2013 operating revenue, 55 percent was generated from residential weed control and fertilization services, while expanded lawn services (such as aeration and grub control) (16 percent), commercial weed control and fertilization services (18 percent), and tree and shrub services (11 percent) accounted for the remainder.

As of December 31, 2013, TruGreen provided these services in 48 states and the District of Columbia through approximately 195 company-owned locations and 35 franchised locations. As of

Table of Contents

December 31, 2013, TruGreen also provided lawn care services through a subsidiary in Canada and had licensing arrangements whereby licensees provided these services in Japan, the United Kingdom and Canada.

The TruGreen business is seasonal in nature. In the winter and spring, this business sells to customers a series of lawn applications, which are rendered primarily in March through October. Weather conditions such as droughts, severe winter storms and snowfall, whether created by climate change factors or otherwise, can adversely impact the timing of product or service delivery or demand for lawn care services and may result in a decrease in revenues or an increase in costs.

American Home Shield Segment

The American Home Shield segment provides home warranties and preventative maintenance contracts for household systems and appliances primarily under the American Home Shield brand name. American Home Shield is a leading provider of home warranties for household systems and appliances in the United States and also offers preventative maintenance contracts. It provides residential customers with contracts to repair or replace electrical, plumbing, central heating and central air conditioning systems, water heaters and other covered household systems and appliances and services those contracts through independent repair contractors. In 2013, 69 percent of the home warranties written by American Home Shield were derived from existing contract renewals, while 18 percent and 13 percent were derived from sales made in conjunction with existing home resale transactions and direct-to-consumer sales, respectively. As of December 31, 2013, American Home Shield issued and administered home warranties in 49 states and the District of Columbia and had no international operations.

Weather conditions such as extreme temperatures can lead to an increase in service requests related to household systems and appliances, resulting in a more expensive mix of claims or higher claim costs and lower profitability, thereby adversely impacting results of operations and cash flows.

ServiceMaster Clean Segment

The ServiceMaster Clean segment provides residential and commercial disaster restoration, janitorial and cleaning services through franchises primarily under the ServiceMaster, ServiceMaster Restore, and ServiceMaster Clean brand names, 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. Of ServiceMaster Clean's 2013 operating revenue, 48 percent was generated from domestic royalty fees from residential and commercial disaster restoration and cleaning services, while international (19 percent), national janitorial accounts (14 percent), product sales (9 percent), new license sales (4 percent), lead generation fees (3 percent), on-site wood furniture repair and restoration (2 percent) and home inspection services (1 percent) accounted for the remainder.

ServiceMaster Clean. ServiceMaster Clean is a leading franchisor in the residential and commercial disaster restoration and cleaning fields in the United States. As of December 31, 2013, ServiceMaster Clean provided these services in 50 states and the District of Columbia through approximately 3,040 franchised locations. ServiceMaster Clean also has company locations in Canada, Honduras and the United Kingdom. As of December 31, 2013, ServiceMaster Clean had licensing arrangements whereby licensees provided disaster restoration, janitorial and cleaning services in Japan, Russia, the United Kingdom, Canada, India, the Middle East, Southeast Asia and Central America.

Furniture Medic. Furniture Medic is a leading provider of on-site wood furniture repair and restoration services serving residential customers in the United States. As of December 31, 2013, Furniture Medic provided these services in 42 states and the District of Columbia through approximately 245 franchised locations. As of December 31, 2013, Furniture Medic also had licensing arrangements whereby licensees provided on-site wood furniture repair and restoration services in the United Kingdom, Canada and Turkey.

AmeriSpec. AmeriSpec is a leading provider of home inspection services serving residential customers in the United States. As of December 31, 2013, AmeriSpec provided these services in 38 states and the District of Columbia through approximately 285 franchised locations. AmeriSpec also had licensing arrangements whereby licensees provided home inspection services in Canada.

Other Operations and Headquarters Segment

The Other Operations and Headquarters segment includes the Merry Maids business unit, The ServiceMaster Acceptance Company Limited Partnership ("SMAC"), and ServiceMaster's corporate headquarters functions.

Merry Maids. Merry Maids is a leading provider of home cleaning services in the United States. As of December 31, 2013, Merry Maids provided these services in 49 states and the District of Columbia through approximately 75 company-owned locations and 395 franchised locations. As of December 31, 2013, Merry Maids also had licensing arrangements whereby licensees provided home cleaning services in Japan, the United Kingdom, Canada, South Korea, Hong Kong, Australia and Southeast Asia.

SMAC. SMAC provides financing to our franchisees through commercial loans for franchise fees and royalties, equipment and vehicle purchases, and working capital needs. Commercial loans are typically for a term of one to seven years and are generally secured by the assets of the franchisee and other collateral. As of December 31, 2013, the outstanding balance of commercial loans was $32.5 million with a bad debt reserve for commercial loans of $3.6 million. SMAC wrote off $0.6 million in commercial loans in the year ended December 31, 2013. SMAC also provides financing to consumer customers of Terminix and TruGreen through retail installment sales contracts. Retail installment sales contracts are typically for a term of 12 months and are unsecured. As of December 31, 2013, the outstanding balance of retail installment sales contracts was $26.4 million. In the event a customer fails to make payments under a retail installment sales contract for 120 days after the due date, Terminix and TruGreen purchase the installment contract from SMAC.

Headquarters functions. The Business Support Center, headquartered in Memphis, Tennessee, includes company-wide administrative functions that we refer to as "centers of excellence," which administer payroll, benefits, risk management and certain procurement services for our operations. We have various other centers of excellence that provide communications, marketing, government and public relations, administrative, accounting, financial, tax, certain information technology, human resources and legal services for our businesses.

OWNERSHIP AND ORGANIZATIONAL STRUCTURE

On July 24, 2007 (the "2007 Closing Date"), ServiceMaster was acquired pursuant to a merger transaction (the "2007 Merger"), and, immediately following the completion of the 2007 Merger, all of the outstanding common stock of Holdings was owned by investment funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC ("CD&R" or the "CD&R Funds"), Citigroup Private Equity LP ("Citigroup"), BAS Capital Funding Corporation ("BAS") and JPMorgan Chase Funding Inc. ("JPMorgan"). On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that owned shares of common stock of Holdings to StepStone Group LP ("StepStone" or such investment funds as managed by StepStone Group, the "StepStone Funds") and its proprietary interests in such investment funds to Lexington Partners

Table of Contents

Advisors LP. As of December 22, 2011, ServiceMaster purchased from BAS 7.5 million shares of Holdings' common stock. On March 30, 2012, an affiliate of BAS sold 7.5 million shares of Holdings' common stock to Ridgemont Partners Secondary Fund I, L.P. ("Ridgemont"). On July 24, 2012, BACSVM-A, L.P., an affiliate of BAS, distributed 2.5 million shares of Holdings' 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 Ridgemont, the "Equity Sponsors").

COMPETITION

We compete in residential and commercial services industries, focusing on termite and pest control, home warranties and preventative maintenance contracts, janitorial, cleaning and disaster restoration, home cleaning, wood furniture repair and home inspection. ServiceMaster competes with many other companies in the sale of its services, franchises and products. The principal methods of competition in ServiceMaster's businesses include quality and speed of service, name recognition and reputation, pricing and promotions, customer satisfaction, brand awareness, professional sales forces and referrals. We target market segments that meet our criteria for size, growth and profit potential. While we compete with a broad range of competitors in each discrete segment, we do not believe that any of our competitors provides all of the services we provide in all of the market segments we serve. We believe that our widely recognized brands, size, geographic footprint and reputation for service quality provide us with significant competitive advantages in reaching both residential and commercial customers. All of the primary segments in which we operate are highly fragmented, and we believe they are characterized by attractive industry conditions.

Termite and pest control

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

Home warranties

Competition for home warranties and preventative maintenance contracts that cover household systems and appliances comes mainly from regional providers. Our largest national competitor is First American Financial Corporation.

Disaster restoration and reconstruction, emergency response and other services

Competition in the market segment for disaster restoration and cleaning services comes mainly from local, independently-owned firms and a few national professional cleaning companies such as Servpro Industries, Inc., Belfor, a subsidiary of Belfor Europe GmbH, BMS CAT, Inc., in disaster restoration and reconstruction; Stanley Steemer International, Inc., and Sears, in floor care; and ABM Industries Incorporated and Jani-King International, Inc. in janitorial.

Home cleaning services

Competition in the market segment for home cleaning services comes mainly from local, independently owned firms, from homeowners and tenants who clean their own homes and from a few national companies such as The Maids International, Inc., Molly Maid, Inc. and The Cleaning Authority, LLC.

Table of Contents

MARKETING AND DISTRIBUTION

ServiceMaster markets its services primarily through national sales teams, the internet, direct mail, television and radio advertising, print advertisements, door-to-door solicitation, telemarketing and yellow pages advertisements. Additionally, American Home Shield and Terminix, in certain jurisdictions, market their services through various participants in the residential real estate market place, such as real estate brokerages, financial institutions and insurance agencies and, for American Home Shield, an internal sales organization that supports these distribution channels.

SERVICE MARKS, TRADEMARKS AND TRADE NAMES

As of December 31, 2013, ServiceMaster held various service marks, trademarks and trade names, such as ServiceMaster, Terminix, TruGreen, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec, that it deems particularly important to the advertising activities conducted by each of its reportable segments as well as the franchising activities conducted by certain reportable segments. As of December 31, 2013, ServiceMaster had marks that were protected by registration (either by direct registration or by treaty) in the United States and approximately 90 other countries. In connection with the TruGreen Separation Transaction, on January 14, 2014, all of the service marks, trade marks and trade names related to the TruGreen Business were transferred to New TruGreen and its subsidiaries.

FRANCHISES

Franchises are important to the Terminix, TruGreen, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. For the years ended December 31, 2013, 2012 and 2011, total franchise fees (initial and recurring) were $138.8 million, $127.8 million and $127.1 million, respectively, related franchise operating expenses were $59.7 million, $54.8 million and $53.0 million, respectively, and total profits from the franchised operations were $79.1 million, $73.0 million and $74.1 million, respectively. We evaluate the performance of our franchise businesses based primarily on operating profit before corporate general and administrative expenses, interest expense and amortization of intangible assets. Franchise agreements entered into in the course of these businesses are generally for a term of five to ten years. The majority of these franchise agreements are renewed prior to expiration. The majority of international licenses are for ten-year terms.

MAJOR CUSTOMERS

ServiceMaster has no single customer that accounts for more than ten percent of its consolidated operating revenue. Additionally, no operating segment has a single customer that accounts for more than ten percent of its operating revenue. None of ServiceMaster's operating segments is dependent on a single customer or a few customers, the loss of which would have a material adverse effect on the segment.

REGULATORY COMPLIANCE

Government Regulations

ServiceMaster's businesses are subject to various international, federal, state, provincial and local laws and regulations, compliance with which increases ServiceMaster's operating costs, limits or restricts the services provided by ServiceMaster's operating segments or the methods by which ServiceMaster's operating segments offer, sell and fulfill those services or conduct their respective businesses, or subjects ServiceMaster and its businesses to the possibility of regulatory actions or proceedings. Noncompliance with these laws and regulations can subject ServiceMaster to fines or

Table of Contents

various forms of civil or criminal prosecution and lawsuits, any of which could have a material adverse effect on its reputation, business, financial condition, results of operations and cash flows.

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

Consumer Protection and Solicitation Matters

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

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

Franchise Matters

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

Table of Contents

Environmental, Health and Safety Matters

ServiceMaster's businesses are subject to various international, federal, state, provincial and local laws and regulations regarding environmental, health and safety matters. Compliance with such laws increases ServiceMaster's operating costs, limits or restricts the services provided by ServiceMaster's businesses or the methods by which they offer, sell and fulfill those services or conduct their respective businesses, or subjects ServiceMaster and its businesses to the possibility of regulatory or private actions or proceedings. Terminix is regulated under many federal and state environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA" or "Superfund"), the Superfund Amendments and Reauthorization Act of 1986, the Federal Environmental Pesticide Control Act of 1972, the Federal Insecticide, Fungicide and Rodenticide Act of 1947, the Resource Conservation and Recovery Act of 1976, the Clean Air Act, the Emergency Planning and Community Right-to-Know Act of 1986, the Oil Pollution Act of 1990 and the Clean Water Act of 1977, each as amended. ServiceMaster cannot predict the effect of possible future environmental laws on its operations. Changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, may lead to additional compliance or other costs. During 2013, there were no material capital expenditures for environmental control facilities, and there are no material expenditures anticipated for 2014 or 2015 related to such facilities.

INSURANCE

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

EMPLOYEES

The average number of persons employed by ServiceMaster during 2013 was approximately 22,000. Due to the seasonal nature of some of the Company's businesses, employee headcount can fluctuate during the course of a year, reaching approximately 24,000 during peak service periods.

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

The following discussion of risk factors contains "forward-looking statements," as discussed in Part II, Item 7 below. These risk factors are important to understanding the contents of this Annual Report on Form 10-K and of other reports. Our reputation, business, financial position, results of operations and cash flows are subject to various risks. The risks and uncertainties described below are not the only ones relevant to us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also adversely impact our reputation, business, financial *position, results of operations and cash flows. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.*

Risks Related to Our Business and Our Industry

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

A substantial portion of our results of operations is dependent upon spending by consumers. Deterioration in general economic conditions and consumer confidence could affect the demand for our services. Consumer spending and confidence tend to decline during times of declining economic conditions. A worsening of macroeconomic indicators, including weak home sales, higher home foreclosures, declining consumer confidence or rising unemployment rates, could adversely affect consumer spending levels, reduce the demand for our services and adversely impact our business, financial position, results of operations and cash flows. These factors could also negatively impact the timing or the ultimate collection of accounts receivable, which would adversely impact our business, financial position, results of operations and cash flows.

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

We may not be able to fully implement our business strategies or realize, in whole or in part within the expected time frames, the anticipated benefits of our various growth or other initiatives. Our various business strategies and initiatives, including our growth, productivity and customer retention, cost reduction and management initiatives are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control.

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

For example, in February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. We expect to record an impairment charge of approximately $50 million in the first quarter of 2014 relating to this decision.

We may be required to recognize additional impairment charges.

We have significant amounts of goodwill and intangible assets, such as trade names, and have incurred impairment charges in 2013 and earlier periods with respect to goodwill and intangible assets. We have also incurred impairment charges in the past in connection with our disposition activities. In accordance with applicable accounting standards, goodwill and intangible assets that are not amortized are subject to assessment for impairment by applying a fair-value based test annually, or more frequently if there are indicators of impairment, including:

- significant adverse changes in the business climate, including economic or financial conditions;

- significant adverse changes in expected operating results;

Table of Contents

- adverse actions or assessments by regulators;
- unanticipated competition;
- loss of key personnel; and
- a current expectation that more-likely-than-not (e.g., a likelihood that is more than 50%) a reporting unit or intangible asset will be sold or otherwise disposed of.

In 2013, based on lower projected revenue and operating results for TruGreen, we recorded pre-tax non-cash impairment charges of $417.5 million and $255.8 million to reduce the carrying value of TruGreen's goodwill and the TruGreen trade name, respectively, as a result of our interim impairment testing of indefinite-lived intangibles assets as of June 30, 2013.

In 2012, based on lower projected revenue and operating results for TruGreen, we recorded pre-tax non-cash impairment charges of $790.2 million and $118.7 million to reduce the carrying value of TruGreen's goodwill and the TruGreen trade name, respectively, as a result of our interim impairment testing of indefinite-lived intangible assets as of September 30, 2012 and June 30, 2012.

In February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. We expect to record an impairment charge of approximately $50 million in the first quarter of 2014 relating to this decision.

As a result of the TruGreen Separation Transaction, the Company will be required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions used in this analysis will be developed with the view of the TruGreen business as a standalone company, resulting in an expected impairment charge of approximately $150 million in the first quarter of 2014.

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

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

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

Table of Contents

federal, state and local governments decreasing their purchasing of our products or services and/or increasing taxes or other fees on businesses, including ServiceMaster, to generate more tax revenues, which could negatively impact spending by commercial customers and municipalities on our services.

Adverse developments in the credit and financial markets could adversely affect our ability to borrow under our senior secured revolving credit facility (the "Revolving Credit Facility"), senior secured term loan facility (the "Term Loan Facility") or letter of credit facility (together with the Term Loan Facility, the "Term Facilities" and, together with the Revolving Credit Facility, the "Credit Facilities") in the future or to refinance our debt. Liquidity or capital problems at one or more of the Revolving Credit Facility lenders could reduce or eliminate the amount available for us to draw under such facility. We may not be able to access additional capital on terms acceptable to us or at all.

Adverse developments in the credit and financial markets, along with other economic uncertainties, could also worsen over time. Adverse developments in the credit and financial markets and economic uncertainties make it difficult for us to accurately forecast and plan future business activities. The continuance of the current uncertain economic conditions or further deterioration of such conditions could have a material adverse impact on our business, financial position, results of operations and cash flows.

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

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

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

The demand for our services and our results of operations are affected by weather conditions, including, without limitation, potential impacts, if any, from climate change, known and unknown, and by the seasonal nature of our termite and pest control services, home inspection services, home warranties and disaster restoration services. Adverse weather conditions (e.g., droughts, severe storms and significant rain or snow fall), whether created by climate change factors or otherwise, can adversely impact the timing of product or service delivery, and cooler temperatures or droughts can impede the development of the termite swarm and lead to lower demand for our termite control services. Severe winter storms can also impact our home cleaning business if personnel cannot travel to service locations due to hazardous road conditions. In addition, extreme temperatures can lead to an increase in service requests related to household systems and appliances in our American Home Shield business, resulting in higher claim frequency and costs and lower profitability thereby adversely impacting our business, financial position, results of operations and cash flows.

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

Our financial performance is affected by the level of our operating expenses, such as fuel, chemicals, refrigerants, appliances and equipment, parts, raw materials, wages and salaries, employee benefits, health care, vehicle maintenance, self-insurance costs and other insurance premiums as well as various regulatory compliance costs, all of which may be subject to inflationary pressures. In particular, our financial performance is adversely affected by increases in these operating costs. In recent years, fuel prices have fluctuated widely, and previous increases in fuel prices increased our costs of operating vehicles and equipment. We cannot predict what effect recent global events or any future Middle East or other crisis could have on fuel prices, but it is possible that such events could lead to higher fuel prices. With respect to fuel, our Terminix fleet, which consumes approximately 11 million gallons annually, has been negatively impacted by significant increases in fuel prices in the past and could be negatively impacted in the future. Although we hedge a significant portion of our fuel costs, we do not hedge all of those costs. In 2014, the Company expects to use approximately 11 million gallons. A ten percent change in fuel prices would result in a change of approximately $4.1 million in our 2014 fuel cost before considering the impact of fuel swap contracts. Based upon Department of Energy fuel price forecasts, as well as the hedges we have executed to date for 2014, we have projected that fuel prices will not significantly increase our fuel costs for 2014 compared to 2013. Fuel price increases can also result in increases in the cost of chemicals and other materials used in our business. We cannot predict the extent to which we may experience future increases in costs of fuel, chemicals, refrigerants, appliances and equipment, parts, raw materials, wages and salaries, employee benefits, health care, vehicle maintenance, self-insurance costs and other insurance premiums as well as various regulatory compliance costs and other operating costs. To the extent such costs increase, we may be prevented, in whole or in part, from passing these cost increases through to our existing and prospective customers, and the rates we pay to our subcontractors and suppliers may increase, any of which could have a material adverse impact on our business, financial position, results of operations and cash flows.

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

The execution of our business strategy and our financial performance will continue to depend in significant part on our executive management team and other key management personnel and the smooth transition of new senior leadership. We have recently enhanced our senior management team, including through the hiring of Robert J. Gillette as Chief Executive Officer ("CEO") and Alan J. M. Haughie as Chief Financial Officer ("CFO"). Any inability to attract in a timely manner other qualified key executives, retain our leadership team and recruit other important personnel could have a material adverse impact on our business, financial position, results of operations and cash flows.

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

Our franchisees, third party distributors and vendors are contractually obligated to operate their businesses in accordance with the standards set forth in our agreements with them. Each franchising brand also provides training and support to franchisees. However, franchisees, third party distributors and vendors are independent third parties that we do not control, and the franchisees, third party distributors and vendors own, operate and oversee the daily operations of

Table of Contents

their businesses. As a result, the ultimate success of any franchise operation rests with the franchisee. If franchisees do not successfully operate their businesses in a manner consistent with required standards, royalty payments to us will be adversely affected and a brand's image and reputation could be harmed, which in turn could adversely impact our business, financial position, results of operations and cash flows. Similarly, if third party distributors and vendors do not successfully operate their businesses in a manner consistent with required laws, standards and regulations, we could be subject to claims from regulators or legal claims for the actions or omissions of such third party distributors and vendors. In addition, our relationship with our franchisees, third party distributors and vendors could become strained (including resulting in litigation) as we impose new standards or assert more rigorous enforcement practices of the existing required standards. These strains in our relationships or claims could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

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

Our information technology systems facilitate our ability to monitor, operate and control our operations. Changes or modifications to our information technology systems could cause disruption to our operations or cause challenges with respect to our compliance with laws, regulations or other applicable standards. As the development and implementation of our information technology systems (including our operating systems) evolve, we may elect to modify, replace or abandon certain technology initiatives, which could result in write-downs. For example, in February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. We expect to record an impairment charge of approximately $50 million in the first quarter of 2014 relating to this decision.

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

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

Our financial performance is affected by changes in the services and products we offer our customers. For example, American Home Shield recently initiated the offering of preventative maintenance contracts and other new products. There can be no assurance that our new strategies or product offerings will succeed in increasing operating revenue and growing profitability. An unsuccessful execution of new strategies, including the rollout or adjustment of our new services or products or sales and marketing plans, could cause us to re-evaluate or change our business strategies and could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows and our future plans.

Table of Contents

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

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

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

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

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

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

write-offs or impairment charges relating to goodwill and other intangible assets; unanticipated liabilities relating to acquired businesses; and potential expense associated with litigation with sellers of such businesses. Any future disposition transactions could also impact our business and may subject us to various risks, including failure to obtain appropriate value for the disposed businesses, post-closing claims being levied against us and disruption to our other businesses during the sale process or thereafter.

Laws and government regulations applicable to our businesses could increase our legal and regulatory expenses, and impact our business, financial position, results of operations and cash flows.

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

The enactment of new federal or state legislation or the promulgation of new regulations or interpretations at any level of government may also expose us to potential new liabilities or costs, or may require us to modify our business model or business practices, including regulations related to health care coverage. Additional or new regulations, or changes in current regulations, promulgated by the U.S. Consumer Financial Protection Bureau may also require us to modify our business model or business practices.

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Risks Related to Our Capital Structure and Our Debt

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

As of December 31, 2013, we had $3.956 billion of total long-term debt outstanding. On November 27, 2013, the Company entered into Amendment No. 3 (the "2013 Revolver Amendment") to the Revolving Credit Facility. Pursuant to the 2013 Revolver Amendment, and after completion of the TruGreen Separation Transaction, the Company has $241.7 million of available

Table of Contents

borrowing capacity through July 23, 2014 and $182.7 million from July 24, 2014 through January 31, 2017. Our substantial debt could have important consequences to holders of our debt and other stakeholders in the Company. Because of our substantial indebtedness:

- our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing is limited;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and our ability to satisfy our obligations with respect to our indebtedness may be impaired in the future;
- a large portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;
- we are exposed to the risk of increased interest rates because a portion of our borrowings, including under the Credit Facilities, and certain floating rate operating and capital leases are at variable rates of interest;
- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such indebtedness;
- we may be more vulnerable to general adverse economic and industry conditions;
- we may be at a competitive disadvantage compared to our competitors with proportionately less indebtedness or with comparable indebtedness on more favorable terms and, as a result, they may be better positioned to withstand economic downturns;
- our ability to refinance indebtedness may be limited or the associated costs may increase;
- our flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited; and
- we may be prevented from carrying out capital spending and restructurings that are necessary or important to our growth strategy and efforts to improve operating margins of our businesses.

Increases in interest rates would increase the cost of servicing our indebtedness and could reduce our profitability.

A significant portion of our outstanding indebtedness, including indebtedness under the Credit Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our indebtedness and could materially reduce our profitability and cash flows. As of December 31, 2013, each one percentage point change in interest rates would result in an approximately $22.0 million change in the annual interest expense on our Term Loan Facility. Assuming all revolving loans were fully drawn as of December 31, 2013, each one percentage point change in interest rates would result in an approximately $3.2 million change in annual interest expense on our Revolving Credit Facility. The impact of increases in interest rates could be more significant for us than it would be for some other companies because of our substantial indebtedness and floating rate leases.

A lowering or withdrawal of the ratings, outlook or watch assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Our indebtedness currently has a non-investment grade rating, and any rating, outlook or watch assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, current or future circumstances relating to the basis of the rating, outlook or watch, such

20

as adverse changes to our business, so warrant. Based on the financial performance of our businesses and the outlook for future years, our credit ratings, outlook or watch could be negatively impacted. Any future lowering of our ratings, outlook or watch likely would make it more difficult or more expensive for us to obtain additional debt financing.

The agreements and instruments governing our indebtedness contain restrictions and limitations that could significantly impact our ability to operate our business.

The Credit Facilities and the indenture governing our 8% senior notes and 7% senior notes (collectively, the "2020 Notes") contain covenants that, among other things, restrict our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness (including guarantees of other indebtedness);
- pay dividends, redeem stock or make other restricted payments, including investments and in the case of the Revolving Credit Facility, make acquisitions;
- prepay, repurchase or amend the terms of certain outstanding indebtedness;
- enter into certain types of transactions with affiliates;
- transfer or sell assets;
- create liens;
- merge, consolidate or sell all or substantially all of our assets; and
- enter into agreements restricting dividends or other distributions by subsidiaries to ServiceMaster.

The restrictions in the indenture governing the 2020 Notes, the Credit Facilities and the instruments governing our other indebtedness may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. We may be unable to refinance our indebtedness, at maturity or otherwise, on terms acceptable to us, or at all.

Our ability to comply with the covenants and restrictions contained in the Credit Facilities, the indenture governing the 2020 Notes and the instruments governing our other indebtedness may be affected by economic, financial and industry conditions beyond our control including credit or capital market disruptions. The breach of any of these covenants or restrictions could result in a default that would permit the applicable lenders or noteholders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, lenders having secured obligations, such as the lenders under the Credit Facilities, could proceed against the collateral securing the indebtedness. In any such case, we may be unable to borrow under the Credit Facilities and may not be able to repay the amounts due under the Credit Facilities or our other outstanding indebtedness. This could have serious consequences to our financial position and results of operations and could cause us to become bankrupt or insolvent.

Our ability to generate the significant amount of cash needed to pay interest and principal on our indebtedness and our ability to refinance all or a portion of our indebtedness or obtain additional financing depends on many factors beyond our control.

As a holding company, we have no independent operations or material assets other than our ownership of equity interests in our subsidiaries, and we depend on our subsidiaries to distribute

Table of Contents

funds to us so that we may pay our obligations and expenses, including satisfying our obligations under our indebtedness. Our ability to make scheduled payments on, or to refinance our obligations under, our indebtedness depends on the financial and operating performance of our subsidiaries and their ability to make distributions and dividends to us, which, in turn, depends on their results of operations, cash flows, cash requirements, financial position and general business conditions and any legal and regulatory restrictions on the payment of dividends to which they may be subject, many of which may be beyond our control, and as described under " Risks Related to Our Business and Our Industry" above.

There are third party restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company. If we cannot receive sufficient distributions from our subsidiaries, we may not be able to meet our obligations to fund general corporate expenses or service our debt obligations. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at SMAC. The payment of ordinary and extraordinary dividends by the Company's home warranty and similar subsidiaries (through which ServiceMaster conducts its American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to ServiceMaster. As of December 31, 2013, the total net assets subject to these third party restrictions was $160.2 million. We expect that such limitations will be in effect in 2014.

We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or restructure our indebtedness. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our indebtedness, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

The $2.2 billion of outstanding borrowings under the Term Facilities will have a maturity date of January 31, 2017. The Revolving Credit Facility is also scheduled to mature on January 31, 2017. Our 8% senior notes will mature on February 15, 2020, and our 7% senior notes will mature on August 15, 2020. We may be unable to refinance any of our indebtedness or obtain additional financing, particularly because of our high levels of indebtedness. Market disruptions, such as those experienced in 2008 and 2009, as well as our significant indebtedness levels, may increase our cost of borrowing or adversely affect our ability to refinance our obligations as they become due. If we are unable to refinance our indebtedness or access additional credit, or if short-term or long-term borrowing costs dramatically increase, our ability to finance current operations and meet our short-term and long-term obligations could be adversely affected.

If we cannot make scheduled payments on our indebtedness, we will be in default and holders of the 2020 Notes could declare all outstanding principal and interest to be due and payable, the lenders under the Credit Facilities could terminate their commitments to loan money, our secured lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

We may from time to time take steps to reduce or refinance outstanding debt or otherwise to reduce interest expense and other debt service obligations. These steps may include open market repurchases, debt repricings, maturity extensions, and other retirements, purchases or refinancings of outstanding debt in whole or in part, in addition to making any required scheduled installment payments. The timing of any such step and the amount of debt that would be repurchased, refinanced or otherwise retired will depend on market conditions, our cash requirements and other considerations. The implementation of any such steps or other capital structure changes could adversely affect debtholders, including by reducing the size of or yield on an applicable debt issue held by them.

Despite our indebtedness levels, we and our subsidiaries may be able to incur substantially more indebtedness. This could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the instruments governing our indebtedness do not prohibit us or fully prohibit our subsidiaries from doing so. The Credit Facilities permit additional borrowings beyond the committed amounts under certain circumstances. If new indebtedness is added to our current indebtedness levels, the related risks we face would increase, and we may not be able to meet all of our debt obligations.

We are indirectly owned and controlled by the Equity Sponsors, and their interests as equity holders may conflict with the interests of our other stakeholders.

We are indirectly owned and controlled by the Equity Sponsors, who have the ability to control our policies and operations. The directors appointed by the Equity Sponsors are able to make decisions affecting our capital structure, including decisions to issue or repurchase capital stock, pay dividends and incur or repurchase debt. The interests of the Equity Sponsors may not in all cases be aligned with the interests of our other stakeholders. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of the Equity Sponsors might conflict with the interests of holders of our debt. In addition, the Equity Sponsors may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to our business or the holders of our debt. Furthermore, the Equity Sponsors may in the future own businesses that directly or indirectly compete with us. One or more of the Equity Sponsors also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

Risks related to the TruGreen Separation Transaction

If the TruGreen Separation Transaction were ultimately determined to be a taxable transaction for U.S. federal income tax purposes, then we could be subject to significant tax liability.

In connection with the TruGreen Separation Transaction we received an opinion of tax counsel with respect to the tax-free nature of the TruGreen Separation Transaction to Holdings, TruGreen and Holdings' stockholders under Section 355 and related provisions of the Internal Revenue Code of 1986, as amended. The opinion relied on an Internal Revenue Service ("IRS") private letter ruling as to matters covered by the ruling. The tax opinion was based on, among other things, certain assumptions and representations as to factual matters made by us, which, if incorrect or inaccurate in any material respect, would jeopardize the conclusions reached by tax counsel in its opinion. The opinion is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. If the TruGreen Separation Transaction were ultimately determined not to be tax-free, we could be liable for the U.S. federal income taxes in the event such liability is incurred. Furthermore, events subsequent to the TruGreen Separation Transaction could cause us to recognize a gain in connection therewith.

In addition, as is customary with tax-free spin-off transactions, we and the Equity Sponsors are limited in our ability to pursue certain strategic transactions with respect to ServiceMaster.

Table of Contents

Federal and state fraudulent transfer laws and Delaware corporate law may permit a court to void the TruGreen Separation Transaction, which would adversely affect our financial condition and our results of operations.

In connection with the TruGreen Separation Transaction, we undertook several corporate restructuring transactions which, along with the contributions and distributions to be made as part of the spin-off, may be subject to challenge under federal and state fraudulent conveyance and transfer laws as well as under Delaware corporate law.

Under applicable laws, any transaction, contribution or distribution completed as part of the spin-off could be voided as a fraudulent transfer or conveyance if, among other things, the transferor received less than reasonably equivalent value or fair consideration in return and was insolvent or rendered insolvent by reason of the transfer.

We cannot be certain as to the standards a court would use to determine whether or not any entity involved in the spin-off was insolvent at the relevant time. In general, however, a court would look at various facts and circumstances related to the entity in question, including evaluation of whether or not:

- the sum of its debts, including contingent and unliquidated liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they became due.

If a court were to find that any transaction, contribution or distribution involved in the spin-off was a fraudulent transfer or conveyance, the court could void the transaction, contribution or distribution. In addition, the spin-off could also be voided if a court were to find that the spin-off is not a legal dividend under Delaware corporate law. The resulting complications, costs and expenses of either finding would materially adversely affect our financial condition and results of operations.

Our directors and officers may have actual or potential conflicts of interest because of their equity ownership in New TruGreen.

Our directors and officers may own shares of New TruGreen's common stock or be affiliated with certain equity owners of New TruGreen. This ownership may create, or may create the appearance of, conflicts of interest when these directors and officers are faced with decisions that could have different implications for ServiceMaster and New TruGreen. In connection with the TruGreen Separation Transaction, we entered into a transition services agreement and other separation support services agreements with New TruGreen under which we will provide a range of support services to New TruGreen for a limited period of time. Potential conflicts of interest could arise in connection with the resolution of any dispute that may arise between ServiceMaster and New TruGreen regarding the terms of the transition services agreement or other agreements governing the TruGreen Separation Transaction and the relationship thereafter between the companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The headquarters for Terminix and TruGreen, along with the corporate headquarters, are located in leased premises at 860 Ridge Lake Boulevard, Memphis, Tennessee. The headquarters for American Home Shield are located in leased premises at 889 Ridge Lake Boulevard, Memphis, Tennessee. The headquarters for ServiceMaster Clean, AmeriSpec, Furniture Medic, Merry Maids and a training facility are located in owned premises at 3839 Forest Hill Irene Road, Memphis, Tennessee. In addition, ServiceMaster leases space for a call center located at 6399 Shelby View Drive, Memphis, Tennessee; offices located at 850 and 855 Ridge Lake Boulevard, Memphis, Tennessee; a training facility located at 1650 Shelby Oaks Drive North, Memphis, Tennessee; and a warehouse located at 1575 Two Place, Memphis, Tennessee.

ServiceMaster and its operating companies own and lease a variety of facilities, principally in the United States, for branch and service center operations and for office, storage, call center and data processing space. The following chart identifies the number of owned and leased facilities used by each of its operating segments and Merry Maids as of December 31, 2013. ServiceMaster believes that these facilities, when considered with the corporate headquarters, call center facility, offices, training facilities and warehouse described above, are suitable and adequate to support the current needs of its business.

Operating Company	Owned Facilities	Leased Facilities
Terminix	21	398
TruGreen	37	232
American Home Shield	1	4
ServiceMaster Clean		7
Merry Maids		77

ITEM 3. LEGAL PROCEEDINGS

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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's sole class of equity is membership interests, all of which were owned by CDRSVM Holding, LLC, as of March 5, 2014.

On July 24, 2007, the Company completed the 2007 Merger pursuant to which the Company's publicly traded securities were cancelled in exchange for cash. As a result of the 2007 Merger transaction, the Company became a privately held entity, and its equity interests were no longer publicly traded. The Company has not paid any cash dividends since the 2007 Merger. The TruGreen Separation Transaction was accomplished through a tax-free, stock dividend. There are restrictions on the Company's, and its subsidiaries', ability to pay dividends in the future. For further discussion see "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Financial Summary

	Year Ended December 31,				
(In thousands, except per share data)	**2013**	**2012**	**2011**	**2010**	**2009**
Operating Results:					
Operating revenue	$ 3,188,835	$ 3,193,281	$ 3,205,872	$ 3,127,394	$ 2,977,885
Cost of services rendered and products sold	1,906,054	1,861,669	1,813,706	1,777,304	1,691,251
Selling and administrative expenses	920,478	872,026	880,492	895,950	830,747
Goodwill and trade name impairment(1)	673,253	908,873	36,700		26,600
Interest expense	249,033	246,906	273,823	287,666	300,081
(Loss) Income from continuing operations(1)(2)	(504,804)	(713,343)	67,837	17,439	6,142
Adjusted EBITDA(3)	$ 475,989	$ 571,234	$ 610,475	$ 551,052	$ 539,497
Adjusted EBITDA Margin(4)	14.9%	17.9%	19.0%	17.6%	18.1%
Financial Position:					
Total assets	$ 5,911,526	$ 6,410,914	$ 7,146,823	$ 7,098,090	$ 7,146,389
Total liabilities	$ 5,859,101	$ 5,856,264	$ 5,898,904	$ 5,910,563	$ 5,960,058
Total long-term debt outstanding	$ 3,955,529	$ 3,961,253	$ 3,875,870	$ 3,948,487	$ 3,974,944
Total shareholder's equity(1)(2)	$ 52,425	$ 554,650	$ 1,247,919	$ 1,187,527	$ 1,186,331

(1) The Company recorded pre-tax non-cash impairment charges of $673.3 million and $908.9 million in 2013 and 2012, respectively, to reduce the carrying value of TruGreen's goodwill and the TruGreen trade name and $36.7 million in 2011 to reduce the carrying value of the TruGreen trade name. See Note 1 to the Consolidated Financial Statements for further details.

In 2009, the Company recorded a pre-tax non-cash impairment charge of $26.6 million to reduce the carrying value of trade names as a result of the Company's annual impairment testing of goodwill and indefinite-lived intangible assets. There were no similar impairment charges included in continuing operations in 2010.

Table of Contents

(2) The 2013, 2012 and 2011 results include restructuring charges of $20.8 million, $18.2 million and $8.2 million, respectively, as described in Note 8 to the Consolidated Financial Statements.

The 2010 and 2009 results include restructuring charges of $11.4 million and $26.7 million, respectively. For 2010 and 2009, these charges included lease termination and severance costs related to a branch optimization project at Terminix; consulting, lease termination, severance and other costs related to the reorganization of field leadership and of restructuring of branch operations at TruGreen; reserve adjustments, severance, employee retention, consulting and other costs associated with previous restructuring initiatives; severance, employee retention, legal fees and other costs associated with the 2007 Merger; and, for 2009, transition fees, employee retention and severance costs and consulting and other costs related to the information technology outsourcing initiative.

The 2012 results include a $55.6 million ($35.4 million, net of tax) loss on extinguishment of debt related to the redemption of the remaining $996 million aggregate principal amount of the Company's 10.75% senior notes maturing in 2015 (the "2015 Notes") and repayment of $276 million of outstanding borrowings under the Term Facilities.

The 2009 results include a $46.1 million ($29.6 million, net of tax) gain on extinguishment of debt related to the completion of open market purchases of $89.0 million in face value of the Company's 2015 Notes.

(3) For our definition of Adjusted EBITDA and a reconciliation thereof to net (loss) income, see Note 3 to the Consolidated Financial Statements.

(4) Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of operating revenue.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recent Developments

On January 14, 2014, Holdings completed the TruGreen Separation Transaction resulting in the spin-off of the assets and certain liabilities of the TruGreen Business through a tax-free, pro rata dividend to the stockholders of Holdings. As a result of the completion of the TruGreen Separation Transaction, New TruGreen will operate the TruGreen Business as a private independent company. The TruGreen Business is reported in this Annual Report on Form 10-K in continuing operations. Beginning with the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2014, the TruGreen Business will be reported in discontinued operations.

Results of Operations

The Company reported operating revenue of $3.189 billion for the year ended December 31, 2013, $3.193 billion for the year ended December 31, 2012 and $3.206 billion for the year ended December 31, 2011. The operating revenue changes from year to year were driven by the results of our business units as described in our "Segment Review."

Loss from continuing operations before income taxes was $627.2 million for the year ended December 31, 2013 and $827.4 million for the year ended December 31, 2012. Income from continuing operations before income taxes was $111.7 million for the year ended December 31, 2011.

The improvement in loss from continuing operation before income taxes for 2013 compared to 2012 of $200.1 million and decrease in income from continuing operations before income taxes for

Table of Contents

2012 compared to 2011of $939.1 million primarily reflect the net effect of year over year changes in the following items:

(In thousands)	2013 Compared to 2012	2012 Compared to 2011
Non-cash goodwill and trade name impairment(1)	$ 235,620	$ (872,173)
Loss on extinguishment of debt(2)	55,554	(54,780)
Segment results(3)	(95,245)	(39,241)
Restructuring charges(4)	(2,663)	(10,015)
Non-cash asset impairment(5)	8,567	(8,732)
Interest expense(6)	(2,127)	26,917
Depreciation and amortization expense(7)	(2,870)	17,194
Other	3,299	1,704
	$ 200,135	$ (939,126)

(1)

Represents pre-tax non-cash impairment charges of $673.3 million and $908.9 million recorded in 2013 and 2012, respectively, to reduce the carrying value of TruGreen's goodwill and the TruGreen trade name and $36.7 million recorded in 2011 to reduce the carrying value of the TruGreen trade name. See Note 1 to the Consolidated Financial Statements for further details.

(2)

Represents the loss on extinguishment of debt recorded in 2012 related to the redemption of $996 million aggregate principal amount of the 2015 Notes and repayment of $276 million of outstanding borrowings under the Term Facilities and the loss on extinguishment of debt recorded in 2011 related to the purchase of $65.0 million in face value of the 2015 Notes from Holdings. There were no debt extinguishments by the Company in 2013.

(3)

Represents the net change in Adjusted EBITDA as described in our "Segment Review." Includes key executive transition charges of $9.8 million, $4.8 million and $6.6 million recorded in 2013, 2012 and 2011, respectively, as described in our "Segment Review." Additionally, at American Home Shield, a $3.3 million reduction in tax related reserves was recorded in 2013, and a $5.4 million increase in tax related reserves was recorded in 2012.

(4)

Represents the net change in restructuring charges related primarily to the impact of a branch optimization project at Terminix, a reorganization of field leadership and a restructuring of branch operations at TruGreen, a reorganization of leadership at American Home Shield and ServiceMaster Clean, the transaction to separate TruGreen from the Company and an initiative to enhance capabilities and reduce costs in our centers of excellence at Other Operations and Headquarters. See Note 8 to the Consolidated Financial Statements for further details.

(5)

Primarily represents a $3.3 million impairment of licensed intellectual property and a $1.2 million impairment of abandoned real estate at Terminix, and a $4.2 million impairment of certain internally developed software at Merry Maids recorded in 2012 for which there were no similar impairments recorded in 2013.

(6)

The increase in 2013 compared to 2012 is primarily due to an increase in our average long-term debt balance. The decrease in 2012 compared to 2011 is primarily due to decreases in our weighted average interest rate and average long-term debt balance.

Table of Contents

(7) The increase in 2013 compared to 2012 is primarily driven by increased depreciation of property and equipment as a result of property additions, offset, in part, by decreased amortization of intangible assets as a result of certain finite lived intangible assets recorded in connection with the 2007 Merger. The decrease in 2012 compared to 2011 is primarily driven by decreased amortization of intangible assets as a result of certain finite lived intangible assets recorded in connection with the 2007 Merger being fully amortized, offset, in part, by increased depreciation of property and equipment as a result of property additions.

The Company has historically hedged a significant portion of its annual fuel consumption. The Company has historically used approximately 20 million gallons of fuel on an annual basis, with Terminix using approximately 11 million gallons. Fuel costs, after the impacts of the hedges and after adjusting for the impact of year over year changes in the number of gallons used, decreased $1.8 million for 2013 compared to 2012 and increased $8.9 million for 2012 compared to 2011. Based upon current Department of Energy fuel price forecasts, as well as the hedges the Company has executed to date for 2014, the Company projects that fuel prices will not significantly increase our fuel costs for 2014 compared to 2013.

After adjusting for the impact of year over year changes in the number of covered employees, health care and related costs for 2013 were comparable to 2012 while costs in 2012 were $6.6 million higher than 2011. We expect to incur incremental aggregate health care costs in 2014 as compared to 2013 as a result of continued inflation in the cost of health care services and due to certain provisions of the Patient Protection and Affordable Care Act.

The Company has historically entered into multiple interest rate swap agreements as further discussed in Note 12 to the Consolidated Financial Statements. Changes in interest rates, including the impact of the interest rate swap agreements, increased the Company's net interest costs by approximately $21 million for 2013 compared to 2012 by virtue of the unfavorable effect on floating rate debt and investment income. The corresponding impact of changes in interest rates for 2012 compared to 2011 was an approximately $5 million decrease in the Company's net interest cost.

Cost of Services Rendered and Products Sold

The Company reported cost of services rendered and products sold of $1.906 billion for the year ended December 31, 2013 compared to $1.862 billion for the year ended December 31, 2012. As a percentage of revenue, these costs increased to 59.8 percent for the year ended December 31, 2013 from 58.3 percent for the year ended December 31, 2012. This percentage increase primarily reflects reduced leverage due to the decline in operating revenue; labor, chemical and vehicle inefficiency and higher bad debt expense at TruGreen; higher bad debt expense at Terminix; and higher expenses in our automobile, general liability and workers' compensation insurance program. These items were offset, in part, by lower claims costs at American Home Shield, including a favorable adjustment to reserves for prior year contract claims. Additionally, in 2012 we recorded a $3.3 million impairment of licensed intellectual property and a $1.2 million impairment of abandoned real estate at Terminix, and a $4.2 million impairment of certain internally developed software at Merry Maids for which there were no similar impairments recorded in 2013.

The Company reported cost of services rendered and products sold of $1.862 billion for the year ended December 31, 2012 compared to $1.814 billion for the year ended December 31, 2011. As a percentage of revenue, these costs increased to 58.3 percent for the year ended December 31, 2012 from 56.6 percent in 2011. This percentage increase primarily reflects higher fuel and fertilizer prices; a reduction in labor productivity and higher fertilizer usage rates at TruGreen; a $3.3 million impairment of licensed intellectual property, a $1.2 impairment of abandoned real estate and higher product distribution revenue at Terminix, which has lower margins than termite or pest revenue; a $4.2 million impairment of certain internally developed software at Merry Maids; and higher expenses in our automobile, general liability and workers' compensation insurance program due primarily to the reversal, in 2011, of claims reserves driven by favorable claims experience. These items were offset, in part, by improved labor efficiencies and the favorable impact of acquiring assets in connection with exiting certain fleet leases at Terminix; a reduction in ice melt sales at TruGreen, which has lower margins than core lawn services; lower claims costs at American Home Shield; and other cost reductions realized through ongoing initiatives.

Selling and Administrative Expenses

The Company reported selling and administrative expenses of $920.5 million for the year ended December 31, 2013 compared to $872.0 million for the year ended December 31, 2012. As a percentage of revenue, these costs increased to 28.9 percent for the year ended December 31, 2013 from 27.3 percent for the year ended December 31, 2012. This percentage increase primarily reflects reduced leverage due to the decline in operating revenue; higher sales staffing levels, increased investments in sales tools and higher costs related to telephone and information technology systems at TruGreen; increased investments in sales and marketing and higher technology costs at American Home Shield; and a $5.0 million increase in key executive transition charges. These items were offset, in part, by an $8.7 million reduction in tax related reserves and lower provisions for certain legal matters at American Home Shield; lower incentive compensation expense at Terminix; and lower costs in our centers of excellence.

The Company reported selling and administrative expenses of $872.0 million for the year ended December 31, 2012 compared to $880.5 million for the year ended December 31, 2011. As a percentage of revenue, these costs decreased to 27.3 percent for the year ended December 31, 2012 from 27.5 percent in 2011. This percentage decrease primarily reflects lower sales and marketing expense and a $1.9 million reduction in key executive transition charges. These items were offset, in part, by increased investments in productivity and standardization initiatives and higher technology costs related to a new operating system at TruGreen; a $5.4 million increase in tax related reserves, higher provisions for certain legal matters and increased investments to drive improvements in service delivery at American Home Shield; and higher technology costs related to PCI standards compliance purposes at Other Operations and Headquarters.

Amortization Expense

Amortization expense was $55.5 million, $65.3 million and $91.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decreases are a result of certain finite lived intangible assets recorded in connection with the 2007 Merger being fully amortized.

Goodwill and Trade Name Impairment

The Company recorded non-cash goodwill impairment charges of $417.5 million and $790.2 million for the years ended December 31, 2013 and 2012, respectively, to reduce the carrying value of TruGreen's goodwill to its then estimated fair value. The Company also recorded non-cash trade name impairment charges of $255.8 million, $118.7 million and $36.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, to reduce the carrying value of the TruGreen trade name to its fair value. See "Critical Accounting Policies and Estimates" below and Note 1 to the Consolidated Financial Statements for further discussion of the Company's goodwill and indefinite-lived intangible asset impairment testing.

Table of Contents

As a result of the TruGreen Separation Transaction, the Company will be required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions used in this analysis will be developed with the view of the TruGreen Business as a standalone company, resulting in an expected impairment charge of approximately $150 million in the first quarter of 2014.

Restructuring Charges

The Company incurred restructuring charges of $20.8 million, $18.2 million and $8.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. Restructuring charges were comprised of the following:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
TruGreen Separation Transaction(1)	$ 13,398	$	$
Terminix branch optimization(2)	2,099	3,652	3,560
TruGreen reorganization and restructuring(3)	1,362	3,241	1,115
American Home Shield reorganization(4)		647	
ServiceMaster Clean reorganization(4)	360	1,370	
Centers of excellence initiative(5)	3,629	9,267	3,416
Other(6)	(8)		71
Total restructuring charges	$ 20,840	$ 18,177	$ 8,162

(1) Represents expenses incurred by the Company directly related to the TruGreen Separation Transaction. These charges included professional fees of $12.8 million and severance of $0.6 million.

(2) For the years ended December 31, 2013, 2012 and 2011, these charges included severance costs of $0.9 million, $0.4 million and $0.1 million, respectively, and lease termination costs of $1.2 million, $3.3 million and $3.5 million, respectively.

(3) For the year ended December 31, 2013, these charges included severance costs. For the years ended December 31, 2012 and 2011, these charges included severance costs of $2.7 million and $0.8 million, respectively, and lease termination costs of $0.5 million and $0.3 million, respectively.

(4) For the years ended December 31, 2013 and 2012, these charges included severance costs.

(5) 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 years ended December 31, 2013, 2012 and 2011, these charges included severance and other costs of $0.9 million, $4.6 million and $1.9 million, respectively, and professional fees of $2.7 million, $4.7 million and $1.5 million, respectively.

(6) These charges included reserve adjustments associated with previous restructuring initiatives.

Interest Expense

Interest expense totaled $249.0 million, $246.9 million and $273.8 million for the years ended December 31, 2013, 2012 and 2011, respectively. The increase in 2013 compared to 2012 is

Table of Contents

primarily due to an increase in our average long-term debt balance. The decrease in 2012 compared to 2011 is primarily due to decreases in our weighted average interest rate and average long-term debt balance.

Interest and Net Investment Income

Interest and net investment income totaled $9.1 million, $7.8 million and $10.9 million for the years ended December 31, 2013, 2012 and 2011, respectively, and was comprised of the following:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Realized gains(1)	$ 5,056	$ 6,191	$ 9,972
Impairments of securities(2)			(195)
Deferred compensation trust(3)	2,271	1,417	(49)
Other(4)	1,786	237	1,158
Interest and net investment income	$ 9,113	$ 7,845	$ 10,886

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

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

(3) Represents investment income (loss) resulting from a change in the market value of investments within an employee deferred compensation trust (for which there is a corresponding and offsetting change in compensation expense within income from continuing operations before income taxes).

(4) Includes interest income on other cash balances and, in 2012, a $2.5 million charge for the impairment of a loan related to a prior business disposition.

Loss on Extinguishment of Debt

Loss on extinguishment of debt totaled $55.6 million and $0.8 million for the years ended December 31, 2012 and 2011, respectively. The increase in 2012 compared to 2011 is primarily due to the redemption of $996 million aggregate principal amount of the 2015 Notes and repayment of $276 million of outstanding borrowings under the Term Facilities. There was no similar loss on extinguishment of debt in 2013.

(Benefit) Provision for Income Taxes

The effective tax rate on (loss) income from continuing operations was a benefit of 19.6 percent and 13.8 percent for the year ended December 31, 2013 and 2012, respectively, and a provision of 39.3 percent for the year ended December 31, 2011. The effective tax rates for the years ended December 31, 2013 and 2012 were impacted by the impairment of permanently nondeductible goodwill at TruGreen that did not produce a tax benefit. For a reconciliation of our effective tax rates to the statutory rate see Note 5 to the Consolidated Financial Statements.

Net (Loss) Income

Net loss for the year ended December 31, 2013 was $505.9 million compared to a net loss of $713.5 million for the year ended December 31, 2012 and net income of $40.8 million for the year ended December 31, 2011. The $207.6 million improvement for 2013 compared to 2012 was

Table of Contents

primarily driven by a $200.1 million improvement in (loss) income from continuing operations before income taxes and a $8.6 million increase in (benefit) provision for income taxes, offset, in part, by a $0.9 million increase in loss from discontinued operations, net of tax. The $754.4 million decrease for 2012 compared to 2011 was primarily driven by a $939.1 million reduction in (loss) income from continuing operations before income taxes, offset, in part, by a $158.2 million reduction in (benefit) provision for income taxes and a $26.8 million improvement in loss from discontinued operations, net of income taxes.

Key Performance Indicators

The table below presents selected operating metrics related to customer counts and customer retention for our three largest revenue generating businesses. These measures are presented on a rolling, twelve-month basis in order to avoid seasonal anomalies. The impact of changes in our key performance indicators on the operating results of our business units is described in "   Segment Review."

	Key Performance Indicators as of December 31,		
	2013	**2012**	**2011**
Terminix			
(Reduction) Growth in Pest Control Customers	(1.6)%	0.8%	6.4%
Pest Control Customer Retention Rate	79.3%	79.3%	80.6%
Reduction in Termite Customers	(2.3)%	(1.4)%	(1.0)%
Termite Customer Retention Rate	85.1%	85.6%	86.1%
TruGreen			
Reduction in Full Program Accounts(1)	(7.9)%	(12.2)%	(5.3)%
Customer Retention Rate(1)	65.4%	67.9%	66.7%
American Home Shield			
Growth in Home Warranties	1.0%		1.6%
Customer Retention Rate	72.8%	73.7%	75.1%

(1) During 2013, the Company refined its customer count data, which impacted the above metrics as of December 31, 2012 and subsequent periods. As of December 31, 2012, the adjusted Reduction in Full Program Accounts is 12.2 percent compared to the previously reported reduction of 11.3 percent. As of December 31, 2012, the adjusted Customer Retention Rate is 67.9 percent compared to the previously reported rate of 68.6 percent.

Table of Contents

Segment Review

The following business segment reviews should be read in conjunction with the required footnote disclosures presented in the Notes to the Consolidated Financial Statements.

Operating Revenues and Adjusted EBITDA by operating segment are as follows:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Operating Revenue:			
Terminix	$ 1,309,469	$ 1,265,417	$ 1,193,075
TruGreen	895,943	979,081	1,100,741
American Home Shield	740,062	720,860	686,737
ServiceMaster Clean	150,929	139,441	138,691
Other Operations and Headquarters	92,432	88,482	86,628
Total Operating Revenue	$ 3,188,835	$ 3,193,281	$ 3,205,872
Adjusted EBITDA(1):			
Terminix	$ 318,903	$ 319,838	$ 299,485
TruGreen	25,999	152,813	209,031
American Home Shield	170,866	141,542	131,977
ServiceMaster Clean	67,942	61,041	64,018
Other Operations and Headquarters	(107,721)	(104,000)	(94,036)
Total Adjusted EBITDA	$ 475,989	$ 571,234	$ 610,475

(1) For our definition of Adjusted EBITDA and a reconciliation thereof to net (loss) income, see Note 3 to the Consolidated Financial Statements.

Terminix Segment

Year ended December 31, 2013

The Terminix segment, which provides termite and pest control services to residential and commercial customers and distributes pest control products, reported a 3.5 percent increase in operating revenue and a 0.3 percent decrease in Adjusted EBITDA for the year ended December 31, 2013 compared to 2012. Pest control revenue, which was 56 percent of the segment's operating revenue in 2013, increased 4.3 percent compared to 2012, reflecting improved price realization, offset, in part, by a 0.4 percent decrease in average pest control customer counts. Absolute pest control customer counts as of December 31, 2013 compared to 2012 decreased 1.6 percent, driven by a decrease in new unit sales and acquisitions. The pest control customer retention rate for the year ended December 31, 2013 was comparable to 2012. Termite revenue, which was 39 percent of the segment's operating revenue in 2013, increased 1.8 percent compared to 2012. Termite renewal revenue comprised 52 percent of total termite revenue, while the remainder consisted of termite new unit revenue. The increase in termite revenue reflects an increase in non-renewable sales and improved price realization, offset, in part, by a 2.1 percent decrease in average customer counts. Absolute termite customer counts as of December 31, 2013 compared to 2012 declined 2.3 percent driven by a decrease in new unit sales and a

50 basis points ("bps") decrease in the customer retention rate. Product distribution revenue, which has lower margins than pest or termite revenue and accounted for approximately five percent of the segment's operating revenue in 2013, increased $3.8 million compared to 2012.

Terminix's Adjusted EBITDA decreased $0.9 million for the year ended December 31, 2013 compared to 2012. Key executive transition charges of $0.9 million were recorded in 2013, which

Table of Contents

included recruiting costs and a signing bonus related to the hiring of the new President of Terminix. Excluding the impact of key executive transition charges, Terminix's Adjusted EBITDA for 2013 was comparable to 2012, reflecting the impact of higher operating revenue and lower incentive compensation expense offset by higher bad debt expense and increased provisions for certain legal matters.

Year ended December 31, 2012

The Terminix segment reported a 6.1 percent increase in operating revenue and a 6.8 percent increase in Adjusted EBITDA for the year ended December 31, 2012 compared to 2011. Pest control revenue, which was 56 percent of the segment's operating revenue in 2012, increased 7.1 percent compared to 2011, reflecting a 4.2 percent increase in average customer counts, a $12.2 million increase in other pest revenue, primarily bed bug services, and improved price realization. Absolute pest control customer counts as of December 31, 2012 compared to 2011 increased 0.8 percent, driven by new unit sales and acquisitions, offset, in part, by a 130 bps decrease in the customer retention rate. Termite revenue, which was 39 percent of the segment's operating revenue in 2012, increased 3.5 percent compared to 2011. Termite renewal revenue comprised 55 percent of total termite revenue, while the remainder consisted of termite new unit revenue. The increase in termite revenue reflected improved price realization and a 0.6 percent increase in new unit sales, offset, in part, by a 1.1 percent decrease in average customer counts. Absolute termite customer counts as of December 31, 2012 compared to 2011 declined 1.4 percent driven by a 50 bps decrease in the customer retention rate, offset, in part, by new unit sales and acquisitions. Product distribution revenue, which has lower margins than pest or termite revenue and accounted for approximately five percent of the segment's operating revenue in 2012, increased $10.1 million compared to 2011.

Terminix's Adjusted EBITDA increased $20.4 million for the year ended December 31, 2012 compared to 2011. This increase primarily reflects the impact of higher operating revenue, a reduction in sales and marketing expense, as a percent of revenue, cost efficiencies realized through ongoing initiatives, including the benefits of sales mobility and routing and scheduling tools, the favorable impact of acquiring assets in connection with exiting certain fleet leases, and improved production labor efficiencies, offset, in part, by higher fuel prices and product distribution revenue, which has lower margins than pest or termite revenue.

TruGreen Segment

As described in "Recent Developments", on January 14, 2014, Holdings completed the TruGreen Separation Transaction, resulting in the spin-off of the assets and certain liabilities of the TruGreen Business. The TruGreen Business is reported in this Annual Report on Form 10-K in continuing operations. Beginning with the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2014, the TruGreen Business will be reported in discontinued operations.

Year ended December 31, 2013

The TruGreen segment, which during 2013 provided residential and commercial lawn, tree and shrub care services, reported an 8.5 percent decrease in operating revenue and an 83.0 percent decrease in Adjusted EBITDA for the year ended December 31, 2013 compared to 2012. Revenue from residential lawn service customers, which was 82 percent of the segment's operating revenue in 2013, decreased 8.8 percent compared to 2012, reflecting an 8.9 percent decline in average residential full program customer counts and inefficiencies in service delivery caused, in part, by integration issues with newly implemented technology, offset, in part, by improved price realization. Absolute customer counts as of December 31, 2013 compared to 2012 declined 7.9 percent, driven by a 250 bps decrease in the residential full program customer retention rate, offset, in part, by new unit sales. For the year ended December 31, 2013 compared to 2012, the segment's operating revenue also reflects a $14.4 million decrease in revenue from commercial customers.

TruGreen's Adjusted EBITDA decreased $126.8 million for the year ended December 31, 2013 compared to 2012. Key executive transition charges of $0.5 million and $1.4 million were recorded in 2013 and 2012, respectively, which included recruiting costs and a signing bonus related to the hiring of David Alexander, the President of TruGreen, and separation charges related to the resignation in 2012 of Thomas Brackett, a former President of TruGreen. The remaining decrease of $127.7 million primarily reflects the impact of lower operating revenue; labor, chemical and vehicle inefficiency driven, in part, by integration issues with newly implemented technology; higher bad debt expense; higher sales staffing levels; higher costs related to telephone and information technology systems; and increased investments in sales tools.

As a result of the TruGreen Separation Transaction, the Company will be required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions used in this analysis will be developed with the view of the TruGreen business as a standalone company, resulting in an expected impairment charge of approximately $150 million in the first quarter of 2014.

Year ended December 31, 2012

The TruGreen segment reported an 11.1 percent decrease in operating revenue and a 26.9 percent decrease in Adjusted EBITDA for the year ended December 31, 2012 compared to 2011. Revenue from residential lawn service customers, which was 83 percent of the segment's operating revenue in 2012, decreased 13.0 percent compared to 2011, reflecting an 11.3 percent decline in average residential full program customer counts and a steep decline in less than full program sales, offset, in part, by improved price realization. Absolute customer counts as of December 31, 2012 compared to 2011 declined 12.2 percent, driven by a decrease in new unit sales and acquisitions, offset, in part, by a 120 bps increase in the residential full program customer retention rate. The decrease in new unit sales was significantly impacted by changes in our product offerings and the rebalancing of our sales channel mix. For the year ended December 31, 2012 compared to 2011, the segment's operating revenue also reflected a $13.5 million increase in revenue from commercial customers, offset, in part, by a $14.4 million decrease in third party revenue, primarily sales of ice melt products.

TruGreen's Adjusted EBITDA decreased $56.2 million for the year ended December 31, 2012 compared to 2011. Key executive transition charges of $1.4 million and $1.0 million were recorded in 2012 and 2011, respectively, which included recruiting costs related to the hiring of David Alexander, the President of TruGreen, and separation charges related to the resignation in 2012 of Thomas Brackett, a former President of TruGreen, and the resignation in 2011 of Stephen Donly, also a former President of TruGreen. The remaining decrease of $55.8 million primarily reflects the impact of lower operating revenue, a reduction in labor productivity, higher fertilizer prices and usage rates, higher technology costs related to a new operating system, higher fuel prices and increased investments in productivity and standardization initiatives, offset, in part, by lower sales staffing, driven by our decision to reduce our focus on the neighborhood sales channel, and a reduction in ice melt sales, which has lower margins than core lawn services.

American Home Shield Segment

Year ended December 31, 2013

The American Home Shield segment, which provides home warranties and preventative maintenance contracts for household systems and appliances, reported a 2.7 percent increase in operating revenue and a 20.7 percent increase in Adjusted EBITDA for the year ended

Table of Contents

December 31, 2013 compared to 2012. The operating revenue results reflect improved price realization and a 1.1 percent increase in average customer counts. Absolute customer counts as of December 31, 2013 increased 1.0 percent compared to 2012, driven by an increase in new unit sales, offset, in part, by a 90 bps decrease in the customer retention rate.

American Home Shield's Adjusted EBITDA increased $29.3 million for the year ended December 31, 2013 compared to 2012. The segment's Adjusted EBITDA included interest and net investment income from the American Home Shield investment portfolio of $5.1 million and $6.2 million recorded in 2013 and 2012, respectively, and key executive transition charges of $1.2 million recorded in 2012, which included recruiting costs and a signing bonus related to the hiring of the new President of American Home Shield and separation charges related to the retirement of the former President of American Home Shield. Additionally, a $3.3 million reduction in tax related reserves was recorded in 2013, and a $5.4 million increase in tax related reserves was recorded in 2012. The remaining increase of $20.5 million primarily reflects the impact of higher operating revenue, lower claims costs, including a favorable adjustment to reserves for prior year contract claims, and lower provisions for certain legal matters, offset, in part, by increased investments in sales and marketing and higher technology costs.

In February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. This decision will allow us to more effectively focus our energy and resources on driving growth and serving our customers. Important factors that led to this decision include:

- the ongoing operational costs of the new operating system are high;
- plans to achieve economies of scale by expanding the technology beyond American Home Shield to other business units were adversely impacted by the TruGreen Separation Transaction;
- enhancements to our existing operating system enabled it to support our needs;
- certain planned benefits of the new operating system can be achieved through other means; and
- we will now be able to invest our resources in areas that will allow us to focus on growing our business.

We expect to record an impairment charge of approximately $50 million in the first quarter of 2014 relating to this decision.

Year ended December 31, 2012

The American Home Shield segment reported a 5.0 percent increase in operating revenue and a 7.2 percent increase in Adjusted EBITDA for the year ended December 31, 2012 compared to 2011. The operating revenue results reflect improved price realization and a 0.3 percent increase in average customer counts. Absolute customer counts as of December 31, 2012 were comparable to 2011 driven by an increase in new unit sales, offset by a 140 bps decrease in the customer retention rate.

American Home Shield's Adjusted EBITDA increased $9.6 million for the year ended December 31, 2012 compared to 2011. The segment's Adjusted EBITDA included interest and net investment income from the American Home Shield investment portfolio of $6.2 million and $9.8 million recorded in 2012 and 2011, respectively. Additionally, a $5.4 million increase in tax related reserves and key executive transition charges of $1.2 million, which included recruiting costs and a signing bonus related to the hiring of the new President of American Home Shield and separation charges related to the retirement of the former President of American Home Shield, were

Table of Contents

recorded in 2012. The remaining increase of $19.8 million primarily reflects the impact of higher operating revenue and a reduction, as a percent of revenue, in home warranty claims costs and sales and marketing costs, offset, in part, by higher provisions for certain legal matters and increased investments to drive improvements in service delivery.

ServiceMaster Clean Segment

Year ended December 31, 2013

The ServiceMaster Clean segment, which provides residential and commercial disaster restoration, janitorial and cleaning services through franchises primarily under the ServiceMaster, ServiceMaster Restore, and ServiceMaster Clean brand names, 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, reported an 8.2 percent increase in operating revenue and an 11.3 percent increase in Adjusted EBITDA for the year ended December 31, 2013 compared to 2012. Domestic royalty fees, which were 51 percent of the segment's operating revenue in 2013, increased 3.4 percent compared to 2012, primarily driven by increases in disaster restoration services. Revenue from janitorial national accounts, which was 14 percent of the segment's operating revenue in 2013, increased 32.4 percent compared to 2012, driven by strong sales activity. Sales of products to franchisees, which were 10 percent of the segment's operating revenue in 2013, were comparable to 2012.

ServiceMaster Clean's Adjusted EBITDA increased $6.9 million for the year ended December 31, 2013 compared to 2012. Key executive transition charges of $1.0 million recorded in 2012, which included relocation costs related to the hiring of the new President of ServiceMaster Clean and Merry Maids and separation charges related to the retirement of the former President of ServiceMaster Clean. The remaining increase of $5.9 million primarily reflects the impact of higher operating revenue.

Year ended December 31, 2012

The ServiceMaster Clean segment reported a 0.5 percent increase in operating revenue and a 4.7 percent decrease in Adjusted EBITDA for the year ended December 31, 2012 compared to 2011. Domestic royalty fees, which were 52 percent of the segment's operating revenue in 2012, decreased 3.1 percent compared to 2011, primarily driven by decreases in disaster restoration services. Revenue from janitorial national accounts, which was 12 percent of the segment's operating revenue in 2012, increased 36.1 percent compared to 2011, driven by strong sales activity. Sales of products to franchisees, which were 10 percent of the segment's operating revenue in 2012, decreased 12.9 percent compared to 2011, driven by lower franchisee demand for equipment.

ServiceMaster Clean's Adjusted EBITDA decreased $3.0 million for the year ended December 31, 2012 compared to 2011. Key executive transition charges of $1.0 million and $0.4 million were recorded in 2012 and 2011, respectively, which included recruiting, relocation costs and a signing bonus related to the hiring of the new President of ServiceMaster Clean and Merry Maids and separation charges related to the retirement of the former President of ServiceMaster Clean. The remaining decrease of $2.4 million primarily reflects the impact of lower domestic royalty fees, which have higher margins than janitorial national accounts, and lower sales of products to franchisees.

Other Operations and Headquarters Segment

Year ended December 31, 2013

This segment includes the franchised and Company-owned operations of Merry Maids, SMAC and the Company's headquarters functions. The segment reported a 4.5 percent increase in operating revenue and a 3.6 percent decrease in Adjusted EBITDA for the year ended December 31, 2013 compared to 2012.

Merry Maids, which accounted for 91.5 percent of the segment's operating revenue in 2013, reported a 3.1 percent increase in operating revenue and a 2.4 percent decrease in Adjusted EBITDA for the year ended December 31, 2013 compared to 2012. Revenue from company-owned branches, which was 75 percent of Merry Maids' operating revenue in 2013, increased 4.3 percent compared to 2012, reflecting a 5.3 percent increase in average customer counts, primarily driven by acquisitions, and improved price realization, offset, in part, by a decline in non-recurring services. Absolute customer counts as of December 31, 2013 were comparable to 2012. Royalty fees, which were 18 percent of Merry Maids' operating revenue in 2013, and sales of products to franchisees, which were 7 percent of Merry Maids' operating revenue in 2013, were comparable to 2012.

Merry Maids' Adjusted EBITDA decreased $0.5 million for the year ended December 31, 2013 compared to 2012. This decrease primarily reflects higher technology costs, offset, in part, by the impact of higher operating revenue.

The Adjusted EBITDA of the Company's headquarters functions and SMAC decreased $3.2 million for the year ended December 31, 2013 compared to 2012. The segment's Adjusted EBITDA included interest and net investment income of $1.6 million and $0.1 million in 2013 and 2012, respectively. Additionally, key executive transition charges of $8.3 million and $1.2 million were recorded in 2013 and 2012, respectively, which included recruiting costs and signing bonuses for Robert J. Gillette, our new CEO, Alan J. M. Haughie, our new CFO, and other key executives and separation charges related to the resignation of Harry J. Mullany III, our former CEO, and other key executives. The remaining change in Adjusted EBITDA of the Company's headquarters functions and SMAC is an increase of $2.4 million. This increase primarily reflects lower costs in our centers of excellence, offset, in part, by higher expenses in our automobile, general liability and workers' compensation insurance program.

Year ended December 31, 2012

The segment reported a 2.1 percent increase in operating revenue and a 10.6 percent decrease in Adjusted EBITDA for the year ended December 31, 2012 compared to 2011.

Merry Maids, which accounted for 93 percent of the segment's operating revenue in 2012, reported a 1.3 percent increase in operating revenue and a 0.8 percent increase in Adjusted EBITDA for the year ended December 31, 2012 compared to 2011. Revenue from company-owned branches, which was 74 percent of Merry Maids' operating revenue in 2012, decreased 0.8 percent compared to 2011, reflecting a $4.6 million reduction in operating revenue driven by the sale of ten company-owned branches to existing and new franchisees in the fourth quarter of 2011, offset, in part, by improved price realization. As adjusted for branch dispositions in 2011, operating revenue reflected a 7.3 percent increase in average customer counts at company-owned branches. Absolute customer counts as of December 31, 2012 compared to 2011 increased 10.5 percent driven by a 420 bps increase in the customer retention rate and an increase in acquisitions, offset, in part, by a decrease in new unit sales. Royalty fees, which were 20 percent of Merry Maids' operating revenue in 2012, increased 7.7 percent compared to 2011, driven by organic franchise growth, franchise license sales and the sale of the company-owned branches to existing and new franchisees. Sales of products to franchisees, which were 6 percent of Merry Maids' operating revenue in 2012, increased 7.7 percent compared to 2011, driven by higher equipment sales.

Merry Maids' Adjusted EBITDA increased $0.2 million for the year ended December 31, 2012 compared to 2011. Key executive transition charges of $0.6 million, which included separation charges related to the resignation of the former President of Merry Maids, and a gain of $1.3 million, resulting from the sale of the company-owned branches, were recorded in 2011. The remaining increase of $0.9 million reflects the impact of higher operating revenue and improved labor efficiencies.

The Adjusted EBITDA of the Company's headquarters functions and SMAC decreased $10.1 million for the year ended December 31, 2012 compared to 2011. The segment's Adjusted EBITDA included interest and net investment income of $0.1 million and $1.0 million in 2012 and 2011, respectively. Additionally, key executive transition charges of $1.2 million and $4.7 million were recorded in 2012 and 2011, respectively. The remaining decrease of $12.7 million primarily reflects higher expenses in our automobile, general liability and workers' compensation insurance program due primarily to the reversal, in 2011, of claims reserves driven by favorable claims experience, and higher technology costs related to PCI standards compliance purposes.

Pro Forma Financial Information

On January 14, 2014, Holdings completed the TruGreen Separation Transaction resulting in the spin-off of the assets and certain liabilities of the TruGreen Business through a tax-free, pro rata dividend to the stockholders of Holdings.

The unaudited pro forma operating revenue and Adjusted EBITDA presented below for the years ended December 31, 2013, 2012 and 2011 give effect to the TruGreen Separation Transaction and have been derived from the Consolidated Financial Statements and notes thereto. The unaudited pro forma operating revenue and Adjusted EBITDA are based upon available information and assumptions that ServiceMaster believes are reasonable, are provided for informational purposes only, and do not purport to project the future operating results of ServiceMaster. The unaudited pro forma operating revenue and Adjusted EBITDA have been prepared as if the TruGreen Separation Transaction occurred on January 1, 2011. The unaudited pro forma operating revenue and Adjusted EBITDA should be read in conjunction with ServiceMaster's Consolidated Financial Statements and notes thereto.

ServiceMaster historically incurred the cost of certain corporate-level activities which it performed on behalf of the TruGreen Business. Such corporate costs include: accounting and finance, legal, human resources, information technology, insurance, operations, real estate, tax services and other costs. These costs will be transitioned to New TruGreen through a combination of (1) transfers of certain activities to New TruGreen at the time of the spin-off transaction and (2) payments to ServiceMaster by New TruGreen under transition services agreements. ServiceMaster expects an approximate $25 million reduction in annual costs associated with the transition of these activities to New TruGreen. This amount is not reflected in pro forma Adjusted EBITDA as presented below.

Table of Contents

Operating revenue and Adjusted EBITDA by operating segment on a pro forma basis are as follows:

(In thousands)	As Reported	Adjustments(1)	Pro Forma
Year Ended December 31, 2013			
Operating Revenue:			
Terminix	$ 1,309,469	$	$ 1,309,469
TruGreen	895,943	895,943	
American Home Shield	740,062		740,062
ServiceMaster Clean	150,929		150,929
Other Operations and Headquarters	92,432		92,432
Total Operating Revenue	$ 3,188,835	$ 895,943	$ 2,292,892
Adjusted EBITDA:			
Terminix	$ 318,903	$	$ 318,903
TruGreen	25,999	25,999	
American Home Shield	170,866		170,866
ServiceMaster Clean	67,942		67,942
Other Operations and Headquarters	(107,721)	58	(107,779)
Total Adjusted EBITDA	$ 475,989	$ 26,057	$ 449,932
Year Ended December 31, 2012			
Operating Revenue:			
Terminix	$ 1,265,417	$	$ 1,265,417
TruGreen	979,081	979,081	
American Home Shield	720,860		720,860
ServiceMaster Clean	139,441		139,441
Other Operations and Headquarters	88,482		88,482
Total Operating Revenue	$ 3,193,281	$ 979,081	$ 2,214,200
Adjusted EBITDA:			
Terminix	$ 319,838	$	$ 319,838
TruGreen	152,813	152,813	
American Home Shield	141,542		141,542
ServiceMaster Clean	61,041		61,041
Other Operations and Headquarters	(104,000)	5,443	(109,443)
Total Adjusted EBITDA	$ 571,234	$ 158,256	$ 412,978

Year Ended December 31, 2011						
Operating Revenue:						
Terminix	$	1,193,075	$		$	1,193,075
TruGreen		1,100,741		1,100,741		
American Home Shield		686,737				686,737
ServiceMaster Clean		138,691				138,691
Other Operations and Headquarters		86,628				86,628
Total Operating Revenue	$	3,205,872	$	1,100,741	$	2,105,131
Adjusted EBITDA:						
Terminix	$	299,485	$		$	299,485
TruGreen		209,031		209,031		
American Home Shield		131,977				131,977
ServiceMaster Clean		64,018				64,018
Other Operations and Headquarters		(94,036)		4,550		(98,586)
Total Adjusted EBITDA	$	610,475	$	213,581	$	396,894

(1) Adjustments reflect results of operations of the TruGreen Business and, for the year ended December 31, 2013, the elimination of non-recurring costs of $3.6 million, which were directly related to the TruGreen Separation Transaction.

Table of Contents

As a result of the TruGreen Separation Transaction, the Company will be required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions used in this analysis will be developed with the view of the TruGreen business as a standalone company, resulting in an expected impairment charge of approximately $150 million.

Discontinued Operations

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

In the first quarter of 2011, ServiceMaster concluded that TruGreen LandCare did not fit within the long-term strategic plans of the Company and committed to a plan to sell the business. On April 21, 2011, the Company entered into a purchase agreement to sell the TruGreen LandCare business, and the disposition was effective as of April 30, 2011. As a result of the decision to sell this business, a $34.2 million impairment charge ($21.0 million, net of tax) was recorded in loss from discontinued operations, net of income taxes, in the first quarter of 2011 to reduce the carrying value of TruGreen LandCare's assets to their estimated fair value less cost to sell in accordance with applicable accounting standards. Upon completion of the sale, a $6.2 million loss on sale ($1.9 million, net of tax) was recorded. During the year ended December 31, 2012, upon finalization of certain post-closing adjustments and disputes, the Company recorded an additional $1.3 million loss on sale ($0.5 million gain, net of tax).

FINANCIAL POSITION AND LIQUIDITY

Cash Flows from Operating Activities from Continuing Operations

Net cash provided from operating activities from continuing operations increased $17.4 million to $252.0 million for the year ended December 31, 2013 compared to $234.6 million for the year ended December 31, 2012 and $295.0 million for the year ended December 31, 2011.

Net cash provided from operating activities in 2013 was comprised of $220.9 million in earnings adjusted for non-cash charges and a $49.0 million decrease in cash required for working capital, offset, in part, by $17.8 million in cash payments related to restructuring charges. For the year ended December 31, 2013, working capital requirements were favorably impacted by a change in the timing of customer prepayments.

Net cash provided from operating activities in 2012 was comprised of $312.4 million in earnings adjusted for non-cash charges and $3.0 million in premiums received on issuance of the 2020 Notes, offset, in part, by a $20.5 million increase in cash required for working capital, $42.9 million in cash payments for the call premium paid on the redemption of $996 million aggregate principal amount of the 2015 Notes and $17.3 million in cash payments related to restructuring charges. For the year ended December 31, 2012, working capital requirements were adversely impacted by the timing of interest payments on the Senior Notes and decreased accruals for incentive compensation.

Net cash provided from operating activities in 2011 was comprised of $334.4 million in earnings adjusted for non-cash charges, offset, in part, by $7.5 million in cash payments related to restructuring charges and a $31.9 million increase in cash required for working capital. For the year ended December 31, 2011, working capital requirements were adversely impacted by a reduction in reserve levels under certain self-insurance programs and unrecognized tax benefits.

Cash Flows from Investing Activities from Continuing Operations

Net cash used for investing activities from continuing operations was $105.5 million for the year ended December 31, 2013 compared to $118.3 million for the year ended December 31, 2012 and $135.2 million for the year ended December 31, 2011.

Capital expenditures decreased to $60.4 million in 2013 from $73.2 million in 2012 and $96.5 million in 2011 and included recurring capital needs, including vehicle fleet purchases in 2011, and information technology projects, including a new operating system and telecommunications infrastructure at TruGreen and technology costs at American Home Shield. The Company anticipates that capital expenditures for the full year 2014 will range from $55 million to $65 million, reflecting recurring needs and the continuation of investments in information systems and productivity enhancing technology. The Company fulfilled its vehicle fleet needs through vehicle capital leases in 2012 and 2013 and expects to fulfill its ongoing vehicle fleet needs in the same manner. The Company has no additional material capital commitments at this time.

Cash payments for acquisitions in 2013 totaled $32.1 million, compared with $46.1 million in 2012 and $44.4 million in 2011. Consideration paid for tuck-in acquisitions consisted of cash payments and debt payable to sellers. The Company expects to continue its tuck-in acquisition program at levels consistent with prior periods. Additionally, the Company announced that as of February 28, 2014, it has acquired HSA Home Warranty, based in Madison, Wisconsin. This acquisition will result in a cash outlay of approximately $32 million, net of cash acquired, in the first quarter of 2014.

Cash flows used for notes receivable, financial investments and securities, net, in 2013 were $0.4 million and were primarily driven by growth in customer financing through SMAC. Cash flows used for notes receivable, financial investments and securities, net, in 2012 were $1.2 million and were primarily driven by increased investments in marketable securities at American Home Shield and growth in customer financing through SMAC. Cash flows provided from notes receivable, financial investments and securities, net, were $3.0 million for the year ended December 31, 2011.

Cash flows used for notes receivable from affiliate reflect the amount outstanding under the revolving promissory note with Holdings. See Note 10 to the Consolidated Financial Statements for further details.

Cash Flows from Financing Activities from Continuing Operations

Net cash used for financing activities from continuing operations was $81.6 million for the year ended December 31, 2013 compared to $18.0 million for the year ended December 31, 2012 and $102.2 million for the year ended December 31, 2011.

During 2013, the Company made scheduled principal payments on long-term debt of $60.6 million, including the payment of the amounts outstanding under the former accounts receivable securitization facility, and made payments on other long-term financing obligations of $4.1 million. Additionally, the Company borrowed an incremental $0.9 million, paid $12.2 million in original issue discount and paid debt issuance costs of $5.6 million as part of the 2013 Term Loan Facility Amendment.

During 2012, the Company sold $1.350 billion aggregate principal amount of the 2020 Notes and used a majority of the proceeds to redeem $996.0 million aggregate principal amount of the 2015 Notes and to repay $276.3 million of outstanding borrowings under the Term Facilities. During 2012, the Company made scheduled principal payments on long-term debt of $55.7 million, made payments on other long-term financing obligations of $6.9 million and paid debt issuance costs of $33.1 million related to the sale of the 2020 Notes.

Table of Contents

During 2011, the Company borrowed $4.0 million under other financing arrangements, purchased from Holdings $65.0 million face value of 2015 Notes and made scheduled principal payments of long-term debt of $40.9 million.

Liquidity

The Company is highly leveraged, and a substantial portion of the Company's liquidity needs are due to service requirements on indebtedness and from funding the Company's operations, seasonal working capital needs and capital expenditures. The agreements governing the Term Facilities, the 2020 Notes and the Revolving Credit Facility contain covenants that limit or restrict the ability of the Company to incur additional indebtedness, repurchase debt, incur liens, sell assets, make certain payments (including dividends) and enter into transactions with affiliates. As of December 31, 2013, the Company was in compliance with the covenants under these agreements that were in effect on such date.

The Company's ongoing liquidity needs are expected to be funded by cash on hand, net cash provided by operating activities and, as required, borrowings under the Revolving Credit Facility. We expect that cash provided from operations and available capacity under the Revolving Credit Facility will provide sufficient funds to operate our business, make expected capital expenditures and meet our liquidity requirements for the following 12 months, including payment of interest and principal on our debt. As of December 31, 2013, the Company had $324.2 million of remaining capacity available under the Revolving Credit Facility. On November 27, 2013, the Company entered into the 2013 Revolver Amendment. Pursuant to the 2013 Revolver Amendment, after completion of the TruGreen Separation Transaction, the Company has $241.7 million of available borrowing capacity through July 23, 2014 and $182.7 million from July 24, 2014 through January 31, 2017.

Cash and Marketable Securities

Cash and short- and long-term marketable securities totaled $634.8 million as of December 31, 2013, compared with $568.5 million as of December 31, 2012. Cash and short- and long-term marketable securities include balances associated with regulatory requirements at American Home Shield. See " Limitations on Distributions and Dividends by Subsidiaries." American Home Shield's investment portfolio has been invested in a combination of high-quality, short-duration fixed-income securities and equities. The Company closely monitors the performance of the investments. From time to time, the Company reviews the statutory reserve requirements to which its regulated entities are subject and any changes to such requirements. These reviews may result in identifying current reserve levels above or below minimum statutory reserve requirements, in which case the Company may adjust its reserves. The reviews may also identify opportunities to satisfy certain regulatory reserve requirements through alternate financial vehicles.

Fleet and Equipment Financing Arrangements

A portion of the Company's vehicle fleet and some equipment are leased through operating leases. The lease terms are non-cancelable for the first twelve-month term, and then are month-to-month, cancelable at the Company's option. There are residual value guarantees by the Company (which approximate 84 percent of the estimated terminal value at the inception of the lease) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. The fair value of the assets under all of the fleet and equipment leases is expected to substantially mitigate the Company's guarantee obligations under the agreements. As of December 31, 2013, the Company's residual value guarantees related to the leased assets totaled $11.4 million for which the Company has recorded as a liability the estimated fair value of these guarantees of $0.1 million in the Consolidated Statements of Financial Position.

Table of Contents

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. The Company fulfilled substantially all of its vehicle fleet needs in 2012 and 2013 through the leasing program under the Fleet Agreement. For the year ended December 31, 2013, the Company acquired $50.9 million of vehicles under the Fleet Agreement 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%. The Company has no minimum commitment for the number of vehicles to be obtained under the Fleet Agreement. As a result of the TruGreen Separation Transaction, the Company anticipates that new lease financings under the Fleet Agreement for the full year 2014 will range from $15 million to $25 million.

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 December 31, 2013, the estimated fair value of the Company's fuel swap contracts was a net asset of $1.0 million, and the Company had posted $2.5 million in letters of credit as collateral under its fuel hedging program, none of which were issued under the Company's Revolving Credit Facility. The continued use of letters of credit for this purpose could limit the Company's ability to post letters of credit for other purposes and could limit the Company's borrowing availability under the Revolving Credit Facility. However, the Company does not expect the fair value of its outstanding fuel swap contracts to materially impact its financial position or liquidity.

Term Facilities

In August 2012, the Company entered into an amendment (the "2012 Term Loan Facility Amendment") to its Term Loan Facility to amend the credit agreement governing the Term Loan Facility (the "Credit Agreement") primarily to extend the maturity date of a portion of the borrowings under the Term Loan Facility. Pursuant to the 2012 Term Loan Facility Amendment, the Tranche B loans have a maturity date of January 31, 2017. The interest rates applicable to the Tranche B loans under the Term Loan Facility are based on a fluctuating rate of interest measured by reference to either, at ServiceMaster's option, (i) an adjusted London inter-bank offered rate (adjusted for maximum reserves), plus a borrowing margin or (ii) an alternate base rate, plus a borrowing margin. As of December 31, 2013, the borrowing margin for the outstanding Tranche B loans was 4.25 percent. The 2012 Term Loan Facility Amendment also includes mechanics for future extension amendments, permits borrower buy-backs of term loans, increases the size of certain baskets and makes certain other changes to the Credit Agreement, including the reduction of the availability under the synthetic letter of credit facility from $150.0 million to $137.6 million.

On February 22, 2013, the Company entered into Amendment No. 2 to its Term Loan Facility (the "2013 Term Loan Facility Amendment") to amend the Credit Agreement primarily to extend the maturity date of a portion of the borrowings under the Term Loan Facility. Pursuant to the 2013 Term Loan Facility Amendment, the maturity of the outstanding Tranche A loans was extended, and such loans were converted into a new tranche of term loans in an aggregate principal amount, along with new loans extended by certain new lenders, of $1.220 billion (the "Tranche C loans"). The maturity date for the Tranche C loans is January 31, 2017. The interest rates applicable to the Tranche C loans under the Term Loan Facility are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) an adjusted London inter-bank offered rate (adjusted for maximum reserves) plus 3.25 percent, with a minimum adjusted London inter-bank offered rate of 1.00 percent or (ii) an alternate base rate plus 2.25 percent, with a minimum alternate base rate of 2.00 percent. As part of the 2013 Term Loan Facility Amendment, the

Company paid an original issue discount equal to 1.00 percent of the outstanding borrowings, or $12.2 million. Voluntary prepayments of borrowings under the Tranche C Loans are permitted at any time, in minimum principal amounts, without premium or penalty.

As a result of the 2012 Term Loan Facility Amendment and the 2013 Term Loan Facility Amendment, the Company has, as of December 31, 2013, approximately $2.2 billion of outstanding borrowings maturing January 31, 2017, after including the unamortized portion of the original issue discount paid. Additionally, following the 2012 Term Loan Facility Amendment and the 2013 Term Loan Facility Amendment, the availability under the synthetic letter of credit facility will be reduced from the current availability of $137.6 million to $77.9 million as of July 24, 2014. The remaining $77.9 million of availability under the synthetic letter of credit facility will mature January 31, 2017.

Senior Notes

During the fourth quarter of 2011, the Company purchased $65.0 million in face value of the 2015 Notes from Holdings for a cost of $68.0 million, which included payment of accrued interest of $3.0 million. The debt acquired by the Company has been retired, and the Company has discontinued the payment of interest. The Company recorded a loss on extinguishment of debt of $0.8 million in its Consolidated Statements of Operations and Comprehensive (Loss) Income for the year ended December 31, 2011 for the write-off of unamortized debt issuance costs related to the extinguished debt.

The 2020 Notes, sold in February 2012, will mature on February 15, 2020 and bear interest at a rate of 8 percent per annum. The proceeds from the 2020 Notes, sold in February 2012, together with available cash, were used to redeem $600 million in aggregate principal amount of the Company's outstanding 2015 Notes in the first quarter of 2012. The 2020 Notes, sold in August 2012, will mature on August 15, 2020 and bear interest at a rate of 7 percent per annum. The Company used a majority of the proceeds from the 2020 Notes, sold in August 2012, to redeem the remaining $396 million aggregate principal amount of its 2015 Notes and to repay $276 million of outstanding borrowings under its Term Facilities during the third quarter of 2012. The Company recorded a loss on extinguishment of debt of $55.6 million in its Consolidated Statements of Operations and Comprehensive (Loss) Income for the year ended December 31, 2012 related to these transactions and the redemption of the 2015 Notes in the first quarter of 2012 discussed above. The 2020 Notes are jointly and severally guaranteed on a senior unsecured basis by the Company's domestic subsidiaries that guarantee our indebtedness under the Credit Facilities (the "Guarantors"). The 2020 Notes are not guaranteed by any of our non-U.S. subsidiaries, any subsidiaries subject to regulation as an insurance, home warranty or similar company, or certain other subsidiaries (the "Non-Guarantors").

Limitations on Distributions and Dividends by Subsidiaries

As a holding company, we depend on our subsidiaries to distribute funds to us so that we may pay our obligations and expenses, including our debt service obligations. The ability of our subsidiaries to make distributions and dividends to us depends on their operating results, cash requirements and financial condition and general business conditions, as well as restrictions under the laws of its subsidiaries' jurisdictions.

Table of Contents

There are third party restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at SMAC. The payment of ordinary and extraordinary dividends by the Company's home warranty and similar subsidiaries (through which ServiceMaster conducts its American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to ServiceMaster. As of December 31, 2013, the total net assets subject to these third party restrictions was $160.2 million. We expect that such limitations will be in effect in 2014. None of the subsidiaries of ServiceMaster are obligated to make funds available to ServiceMaster through the payment of dividends.

We consider undistributed earnings of our foreign subsidiaries as of December 31, 2013 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. The amount of cash associated with indefinitely reinvested foreign earnings was approximately $19.0 million and 28.7 million as of December 31, 2013 and 2012, respectively. We have not repatriated, nor do we anticipate the need to repatriate, funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

Contractual Obligations

The following table presents the Company's contractual obligations and commitments as of December 31, 2013. The amounts presented do not give effect to the TruGreen Separation Transaction.

(In millions)	Total	Less than 1 Yr	1 - 3 Yrs	3 - 5 Yrs	More than 5 Yrs
Principal repayments*	$ 3,948.9	$ 32.7	$ 72.8	$ 2,215.7	$ 1,627.7
Capital leases	78.0	18.6	33.4	23.6	2.4
Estimated interest payments(1)	1,351.2	224.9	442.9	258.8	424.6
Non-cancelable operating leases(2)	125.3	38.7	52.1	27.1	7.4
Purchase obligations:					
Supply agreements and other(3)	72.0	38.0	24.3	9.7	
Outsourcing agreements(4)	57.9	15.4	20.7	21.8	
Other long-term liabilities:*					
Insurance claims	222.5	80.3	51.2	19.4	71.6
Discontinued Operations	1.3	1.3			
Other, including deferred compensation trust(2)	15.1	1.3	2.3	2.0	9.5
Total Amount	$ 5,872.2	$ 451.2	$ 699.7	$ 2,578.1	$ 2,143.2

* These items are reported in the Consolidated Statements of Financial Position.

(1) These amounts represent future interest payments related to the Company's existing debt obligations based on fixed and variable interest rates and principal maturities specified in the associated debt agreements. Payments related to variable debt are based on applicable rates at December 31, 2013 plus the specified margin in the associated debt agreements for each period presented as of December 31, 2013. The estimated debt balance (including capital leases) as of each fiscal year end from 2014 through 2018 is $3.976 billion, $3.913 billion, $3.869 billion, $1.721 billion and $1.630 billion, respectively. The weighted average interest rate

on the estimated debt balances at each fiscal year end from 2014 through 2018 is expected to be 5.6 percent, 5.7 percent, 5.7 percent, 7.4 percent and 7.4 percent, respectively. See Note 12 of the Consolidated Financial Statements for the terms and maturities of existing debt obligations.

(2) A portion of the Company's vehicle fleet and some equipment are leased through operating leases. For further discussion see "Liquidity Fleet and Equipment Financing Arrangements". The amounts in non-cancelable operating leases exclude all prospective cancelable payments under these agreements. The liability for the estimated fair value of the residual value guarantees related to the leased assets has been included in other long-term liabilities above.

(3) These obligations include commitments for various products and services including, among other things, inventory purchases, telecommunications services, marketing and advertising services and other professional services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transactions. Most arrangements are cancelable without a significant penalty and with short notice (usually 30-120 days) and amounts reflected above include the minimum contractual obligation of the Company (inclusive of applicable cancellation penalties). For obligations with significant penalties associated with termination, the minimum required expenditures over the term of the agreement have been included in the table above.

(4) Outsourcing agreements include commitments for the purchase of certain outsourced services from third party vendors. Because the services provided through these agreements are integral to the operations of the Company, the Company has concluded that it is appropriate to include the total anticipated costs for services under these agreements in the table above.

Due to the uncertainty with respect to the timing of future cash flows associated with unrecognized tax benefits at December 31, 2013, the Company is unable to reasonably estimate the period of cash settlement with the respective taxing authority. Accordingly, $7.8 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See the discussion of income taxes in Note 5 of the Consolidated Financial Statements.

Financial Position Continuing Operations

Prepaid expenses and other assets increased from prior year levels, primarily reflecting the inclusion, in 2013, of the current portion of insurance recoverables related to insured claims, which has historically been netted with loss reserves within Accrued liabilities Self-insured claims and related expenses.

Property and equipment increased from prior year levels, primarily reflecting purchases for recurring capital needs and information technology projects and the acquisition of vehicles under the Fleet Agreement.

Goodwill decreased from prior year levels as a result of the goodwill impairment in 2013 in the TruGreen business. See Note 1 to the Consolidated Financial Statements for further information.

Intangible assets, primarily trade names, service marks and trademarks, net, decreased from prior year levels due to amortization expense and the trade name impairment in 2013 in the TruGreen business. See Note 1 to the Consolidated Financial Statements for further information.

Other assets increased from prior year levels, primarily reflecting the inclusion, in 2013, of the non-current portion of insurance recoverables related to insured claims, which has historically been netted with loss reserves within Other long-term obligations, primarily self-insured claims.

Table of Contents

Accounts payable increased from prior year levels, primarily reflecting a change in the timing of payments to vendors.

Deferred revenue increased from prior year levels, primarily reflecting higher customer prepayments at Terminix, TruGreen and American Home Shield.

Deferred taxes decreased from prior year levels, primarily reflecting the goodwill and trade name impairment.

Other long-term obligations, primarily self-insured claims, increased from prior year levels, primarily reflecting the exclusion, in 2013, of the non-current portion of insurance recoverables related to insured claims, which is now reported within Other assets.

Total shareholder's equity was $52.4 million as of December 31, 2013 compared to $554.7 million as of December 31, 2012.

Financial Position Discontinued Operations

The assets and liabilities related to discontinued operations have been classified in a separate caption on the Consolidated Statements of Financial Position.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements in the form of guarantees as discussed in Note 9 of the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

The preparation of the 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 2013, 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.

Table of Contents

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 lawn care and 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, termite inspection and protection contracts, as well as home warranties, are frequently sold through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for home warranties) 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 home warranties and adjusts the estimates when appropriate.

The Company has franchise agreements in its Terminix, TruGreen, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. Franchise revenue (which in the aggregate represents approximately four percent of annual consolidated operating revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee's customer level revenue. Monthly fee revenue is recognized when the related customer level revenue 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.

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.

Property and equipment, intangible assets and goodwill: 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

Table of Contents

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.

As required under accounting standards for goodwill and other intangibles, goodwill is not subject to amortization, and intangible assets with indefinite useful lives are not amortized until their useful lives are determined to no longer be indefinite. Goodwill and intangible assets that are not subject to amortization 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 adopted the provisions of ASU 2011-08, "Testing Goodwill for Impairment," in the fourth quarter of 2011. This Accounting Standards Update ("ASU") gives entities the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not greater than its carrying amount, the two-step impairment test would not be required. For the 2013 and 2012 annual goodwill impairment review performed as of October 1, 2013 and October 1, 2012, respectively, the Company did not perform qualitative assessments on any reporting unit, but instead completed Step 1 of the goodwill impairment test for all reporting units. For the 2011 annual goodwill impairment review performed as of October 1, 2011, the Company performed qualitative assessments on the Terminix, American Home Shield and ServiceMaster Clean reporting units. Based on these assessments, the Company determined that, more likely than not, the fair values of Terminix, American Home Shield and ServiceMaster Clean were greater than their respective carrying amounts. As a result, the two-step goodwill impairment test was not performed for Terminix, American Home Shield and ServiceMaster Clean in 2011.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a combination of a discounted cash flow ("DCF") analysis, a market-based comparable approach and a market-based transaction approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based comparable approach and relevant transaction multiples for the market-based transaction approach. The cash flows employed in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based on estimated growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. In addition, the market-based comparable and transaction approaches utilize comparable company public trading values, comparable company historical results, research analyst estimates and, where available, values observed in private market transactions. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. The DCF methodology used to value trade names is known as the relief from royalty method and entails identifying the hypothetical cash flows generated by an assumed royalty rate that a third party would pay to license the trade names and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates and hypothetical royalty rates, estimating the amount and timing of estimated future cash flows attributable to the hypothetical royalty rates and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

Goodwill and indefinite-lived intangible assets, primarily the Company's trade names, are assessed annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. The Company performed an interim goodwill impairment analysis at TruGreen as of June 30, 2013 that resulted in a pre-tax non-cash goodwill impairment of $417.5 million. After this impairment charge, there was no goodwill remaining at TruGreen. The Company performed an interim goodwill impairment analysis at TruGreen as of September 30, 2012 that resulted in a pre-tax non-cash goodwill impairment of $794.2 million. During the fourth quarter of 2012, the Company finalized its September 30, 2012 TruGreen valuation resulting in a $4.0 million adjustment to goodwill decreasing the 2012 goodwill impairment charge to $790.2 million. The Company's 2013, 2012, and 2011 annual impairment analyses, which were performed as of October 1 of each year, did not result in any goodwill impairments.

The Company performed an interim trade name impairment analysis at TruGreen as of June 30, 2013 resulting in a pre-tax non-cash trade name impairment charge of $255.8 million recorded in the second quarter of 2013. The Company performed an interim trade name impairment analysis at TruGreen as of June 30, 2012 resulting in a pre-tax non-cash trade name impairment charge of $67.7 million recorded in the second quarter of 2012. Further, the Company performed an interim trade name impairment analysis at TruGreen as of September 30, 2012 resulting in a pre-tax non-cash trade name impairment charge of $51.0 million recorded in the third quarter of 2012. The Company's annual trade name impairment analyses, which were performed as of October 1 of each year, resulted in pre-tax non-cash impairment of $36.7 million in 2011 related to the TruGreen trade name. The Company's October 1, 2013 and 2012 trade name impairment analyses did not result in any trade name impairments. The impairment charges by business segment for the years ended December 31, 2013, 2012 and 2011, as well as the remaining value of the trade names not subject to amortization by business segment as of December 31, 2013 and 2012 are as follows:

(In thousands)	Terminix	TruGreen	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters(1)	Total
Balance at December 31, 2010	$ 875,100	$ 762,200	$ 140,400	$ 152,600	$ 439,900	$ 2,370,200
2011 Impairment		(36,700)				(36,700)
Balance at December 31, 2011	875,100	725,500	140,400	152,600	439,900	2,333,500
2012 Impairment		(118,700)				(118,700)
Balance at December 31, 2012	875,100	606,800	140,400	152,600	439,900	2,214,800
2013 Impairment		(255,800)				(255,800)
Balance at December 31, 2013	$ 875,100	$ 351,000	$ 140,400	$ 152,600	$ 439,900	$ 1,959,000

(1) The Other Operations and Headquarters segment includes Merry Maids.

The goodwill impairment charge recorded in 2013 was primarily attributable to a decline in forecasted 2013 and future cash flows at TruGreen over a defined projection period as of June 30, 2013 compared to the projections used in the last annual impairment assessment performed on October 1, 2012. The changes in projected cash flows at TruGreen arose in part from the business challenges at TruGreen described in "Segment Review TruGreen Segment" in Management's Discussion and Analysis above. Although the Company projected future improvement in cash flows at TruGreen as a part of its June 30, 2013 impairment analysis, total cash flows and projected growth in those cash flows were lower than those projected at the time TruGreen was last tested for impairment in 2012. The long-term growth rates used in the impairment tests at June 30, 2013 and October 1, 2012 were the same and were in line with historical U.S. gross domestic product growth rates. The discount rate used in the June 30, 2013 impairment test was 100 bps lower than the discount rate used in the October 1, 2012 impairment test for TruGreen. The decrease in the discount rate is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets and a higher risk tolerance for investors since the 2012 analysis.

The goodwill impairment charge recorded in 2012 was primarily attributable to a decline in forecasted 2012 cash flows and a decrease in projected future growth in cash flows at TruGreen over a defined projection period as of September 30, 2012 compared to the projections used in the previous annual impairment assessment performed on October 1, 2011. Although the Company projected future growth in cash flows at TruGreen as a part of its September 30, 2012 impairment analysis, total cash flows and projected growth in those cash flows were lower than that projected at the time TruGreen was tested for impairment in 2011. The long-term growth rates used in the impairment tests at September 30, 2012 and October 1, 2011 were the same and in line with historical U.S. gross domestic product growth rates. The discount rate used in the September 30, 2012 impairment test was 50 bps lower than the discount rate used in the October 1, 2011 impairment test for TruGreen. The decrease in the discount rate is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets since the 2011 analysis.

Table of Contents

Based on the revenue results at TruGreen in the first six months of 2013 and a lower revenue outlook for the remainder of 2013 and future years, the Company concluded that there was an impairment indicator requiring the performance of an interim indefinite-lived intangible asset impairment test for the TruGreen trade name as of June 30, 2013. The impairment analysis resulted in a $255.8 million impairment charge recorded in the second quarter 2013.

The impairment charge recorded in the second quarter of 2013 was primarily attributable to a decrease in the assumed royalty rate and a decrease in projected future growth in revenue at TruGreen over a defined projection period as of June 30, 2013 compared to the royalty rate and projections used in the last annual impairment assessment performed on October 1, 2012. The decrease in the assumed royalty rate was due to lower current and projected earnings as a percent of revenue as compared to the last annual impairment test. Although the Company projected future growth in revenue at TruGreen as part of its June 30, 2013 impairment analysis, total projected revenue was lower than the revenue projected at the time the trade name was last tested for impairment in October 2012. The changes in projected future revenue growth at TruGreen arose in part from the business challenges at TruGreen described in "Segment Review TruGreen Segment" in Management's Discussion and Analysis above. The long-term revenue growth rates used in the impairment tests at October 1, 2013, June 30, 2013 and October 1, 2012 were the same and in line with historical U.S. gross domestic product growth rates. The discount rates used in the October 1, 2013 and June 30, 2013 impairment tests were the same, but were 100 bps lower than the discount rate used in the October 1, 2012 impairment test for the TruGreen trade name. The decrease in the discount rate from 2012 is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets and a higher risk tolerance for investors since the last analysis.

Based on the revenue results at TruGreen in the first six months of 2012 and a then lower revenue outlook for the remainder of 2012 and future years, the Company concluded that there was an impairment indicator requiring the performance of an interim indefinite-lived intangible asset impairment test for the TruGreen trade name as of June 30, 2012. That impairment analysis resulted in a $67.7 million impairment charge recorded in the second quarter of 2012. Based on the revenue results of TruGreen in the third quarter of 2012 and the revised outlook for the remainder of the year and future years, the Company performed another impairment analysis on its TruGreen trade name to determine its fair value as of September 30, 2012. Based on the revised projected revenue for TruGreen as compared to the projections used in the second quarter 2012 impairment test, the Company determined the fair value attributable to the TruGreen trade name was less than its carrying value by $51.0 million, which was recorded as a trade name impairment in the third quarter of 2012. Total non-cash trade name impairments recorded in 2012 related to the TruGreen trade name were $118.7 million.

The impairment charge recorded in the second quarter of 2012 was primarily attributable to a decrease in projected future growth in revenue at TruGreen over a defined projection period as of June 30, 2012 compared to the projections used in the previous annual impairment assessment performed on October 1, 2011. The third quarter impairment charge was primarily attributable to a further reduction in projected revenue growth as compared to expectations in the second quarter of 2012. Although the Company projected future growth in revenue at TruGreen over a defined projection period as a part of its September 30, 2012 impairment analysis, such growth was lower than the revenue growth projected at the time the trade name was tested for impairment in the second quarter of 2012. The long-term revenue growth rates used for periods after the defined projection period in the impairment tests at September 30, 2012, June 30, 2012 and October 1, 2011 were the same and in line with historical U.S. gross domestic product growth rates. The discount rates used in the September 30, 2012 and June 30, 2012 impairment tests were the same, but were 50 bps lower than the discount rate used in the October 1, 2011 impairment test for the

Table of Contents

TruGreen trade name. The decrease in the discount rate from 2011 is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets since the last analysis.

The impairment charge in 2011 was primarily attributable to the use of higher discount rates in the DCF valuation analyses as compared to the discount rates used in the 2010 impairment analyses. Although the projected future growth in cash flows in 2011 were slightly higher than in the 2010 valuation, the increase in the discount rates more than offset the improved cash flows. The increase in the discount rates is primarily attributable to changes in market conditions which indicated a lower risk tolerance in 2011 as compared to 2010. This lower risk tolerance is exhibited through the marketplace's desire for higher returns in order to accept market risk. The long-term revenue growth rates used in the analyses for the October 1, 2011 and 2010 impairment tests were the same and in line with historical U.S. gross domestic product growth rates.

Had the Company used a discount rate in assessing the impairment of its trade names as of October 1, 2013 that was one percent higher across all business segments (holding all other assumptions unchanged), the Company would have recorded an additional trade name impairment charge of approximately $55.3 million in 2013.

As a result of the TruGreen Separation Transaction, the Company will be required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions used in this analysis will be developed with the view of the TruGreen business as a standalone company, resulting in an expected impairment charge of approximately $150 million in the first quarter of 2014.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company has entered into specific financial arrangements in the normal course of business to manage certain market risks, with a policy of matching positions and limiting the terms of contracts to relatively short durations.

The Company has historically hedged a significant portion of its annual fuel consumption. The Company has historically used approximately 20 million gallons of fuel on an annual basis, with Terminix using approximately 11 million gallons. 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 December 31, 2013. 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 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 (loss).

See Note 1 of the Consolidated Financial Statements for a summary of newly issued accounting statements and positions applicable to the Company.

Disclosure under Section 13(r) of the Exchange Act

Under Section 13(r) of the Exchange Act as added by the Iran Threat Reduction and Syrian Human Rights Act of 2012, we are required to include certain disclosures in our periodic reports if we or any of our "affiliates" (as defined in Rule 12b-2 thereunder) knowingly engage in certain activities specified in Section 13(r) during the period covered by the report. Because the SEC defines the term "affiliate" broadly, it includes any entity that controls us or is under common control with us ("control" is also construed broadly by the SEC). Our affiliate, CD&R, has informed us that an indirect subsidiary of SPIE S.A. ("SPIE"), an affiliate of CD&R based in France, maintained bank accounts during the period covered by this report at Bank Melli with the approval of the French financial regulator (applying European Union law) and, since May 21, 2013, with the approval of the Office of Foreign Assets Control in the U.S. Treasury Department ("OFAC"). Bank Melli is an Iranian bank designated under Executive Order No. 13382. We had no knowledge of, or control over, the activities of SPIE or its subsidiaries. CD&R has informed us that during the period covered by this report (specifically, in January and February of 2013), the SPIE subsidiary used the accounts to make two tax payments to the Government of Iran, withdrew cash to pay various administrative expenses, and received a transfer of funds from a vendor. The total volume of these transactions in the SPIE subsidiary's accounts at Bank Melli, excluding transfers between those accounts, during the period covered by this report was the equivalent of less than $200,000 at the Iranian Central Bank's official exchange rate. CD&R has informed us that there has been no further activity in the accounts after February 2013, that SPIE and its subsidiaries obtained no revenue or profit from the maintenance of these accounts, that CD&R and SPIE have disclosed past transactions in the accounts to OFAC, that SPIE and its subsidiaries intended to comply with all applicable laws, and that SPIE and its subsidiaries intend to conduct only such transactions and dealings with Bank Melli in the future as are authorized by the applicable French governmental authority and OFAC.

Information Regarding Forward-Looking Statements

This report contains forward-looking statements and cautionary statements. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "shall," "should," "would," "could," "seeks," "aims," "projects," "is optimistic," "intends," "plans," "estimates," "anticipates" or other comparable terms. Forward-looking statements include, without limitation, all matters that are not historical facts. They appear in a number of places throughout this report and include, without limitation, statements regarding our intentions, beliefs, assumptions or current expectations concerning, among other things, financial position; results of operations; cash flows; prospects; commodities trends; growth strategies or expectations; issues related to the TruGreen Separation Transaction; human resources, finance and other outsourcing and insourcing arrangements; customer retention; an expected impairment charge of $50 million at American Home Shield and an expected $150 million TruGreen trade name impairment charge; the continuation of acquisitions, including the integration of any acquired company and risks relating to any such acquired company; fuel prices; estimates of future amortization expense for intangible assets; attraction and retention of key personnel; the impact of interest rate hedges and fuel swaps; the cost savings from restructurings and reorganizations and expected charges related to such restructurings and reorganizations; the impact on the amount of unrecognized tax benefits resulting from pending tax settlements and expiration of statutes of limitations; the valuation of marketable securities; estimates of accruals for self-insured claims related to workers' compensation, auto and general liability risks; estimates of accruals for home warranty claims; estimates of future payments under operating and capital leases; the outcome (by judgment or settlement) and costs of legal or administrative proceedings, including, without limitation, collective, representative or class action litigation; and the impact of prevailing economic conditions.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance or outcomes and that actual performance and outcomes, including, without limitation, our actual results of operations, financial condition and liquidity, and the development of the market segments in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and cash flows, and the development of the market segments in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in

Table of Contents

subsequent periods. A number of important factors, including, without limitation, the risks and uncertainties discussed in "Risk Factors" in this report and the Company's annual and quarterly reports filed with the SEC, could cause actual results and outcomes to differ materially from those reflected in the forward-looking statements. Additional factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

- the effects of our substantial indebtedness and the limitations contained in the agreements governing such indebtedness;
- our ability to generate the significant amount of cash needed to fund our operations and service our debt obligations, among other things;
- changes in interest rates, because a significant portion of our indebtedness bears interest at variable rates;
- changes in the discount rates, revenue growth, cash flow growth rates or other assumptions used by the Company in its assessment for impairment of goodwill and intangible assets and adverse economic conditions or other factors that would result in significant impairment charges to our goodwill and/or intangible assets;
- our ability to secure sources of financing or other funding to allow for leasing of commercial vehicles, primarily for Terminix;
- changes in the source and intensity of competition in our market segments;
- our ability to attract and retain key personnel;
- weather conditions, including, without limitation, potential impacts, if any, from climate change, known and unknown, and seasonality factors that affect the demand for, or our ability to provide, our services and the cost and quantity of our claims and services;
- higher commodity prices and lack of availability thereof, including, without limitation, fuel and chemicals (primarily at Terminix), which could impact our ability to provide our services and the profitability of our brands;
- increases in operating costs, such as higher insurance premiums, self-insurance costs, labor expense and compensation and benefits costs, including, without limitation, costs related to the comprehensive health care reform law enacted in 2010;
- associate retention and labor shortages, changes in employment and wage and hour laws and regulations, such as equal pay initiatives, additional anti-discrimination rules or tests and different interpretations of exemptions from overtime laws;
- a continuation or change in general economic, financial and credit conditions in the United States and elsewhere (for example, any adverse developments in the global credit and financial markets due to the ongoing European financial and economic crisis and the United States debt ceiling, deficit and budget issues), especially as such may affect home sales, consumer or business liquidity, bank failures, consumer or commercial confidence or spending levels including as a result of inflation or deflation, unemployment, interest rate fluctuations, changes in discount rates, mortgage foreclosures and subprime credit dislocations;

non-payment by, or failure of, any insurance company that provides insurance or reinsurance to us or of third-party contract partners, including counterparties to our fuel swaps;

changes in our services or products;

existing and future governmental regulation and the enforcement thereof, including, without limitation, regulation relating to the environment, including the Federal Trade Commission rules on green marketing; restricting or banning of telemarketing, including sales calls to cellular phones; door-to-door solicitation; direct mail or other marketing activities; Terminix's termite inspection and protection plan; chemicals used in our businesses; regulations impacting contractual provisions requiring arbitration or automatic renewals of contracts; or other legislation, regulation or interpretations impacting our business;

laws and regulations relating to financial reform and the use of derivative instruments and any new regulations or changes in existing regulations promulgated by the U.S. Consumer Financial Protection Bureau;

the success of, and costs associated with, restructuring initiatives;

the number, type, outcomes (by judgment or settlement) and costs of legal, regulatory or administrative proceedings, including, without limitation, collective, representative or class action litigation, and changes in the law regarding arbitration and conduct of collective, representative and class action litigation;

labor organizing activities at our subsidiaries or our franchisees and new regulations or changes in existing regulations and procedures by the National Labor Relations Board, including those that may affect our associates, such as our arbitration and other policies;

risk of liabilities being passed through from our franchisees and licensees;

risks associated with acquisitions or other strategic transactions, including, without limitation, acquired liabilities, retaining customers from businesses acquired, achieving expected synergies from acquired businesses and difficulties in integrating acquired businesses or implementing strategic transactions generally, in addition to risks associated with international acquisition transactions or joint ventures;

risks associated with dispositions, for example, post-closing claims being made against us, post-closing purchase price adjustments (including, without limitation, items related to working capital), disruption to our other businesses during the disposition process or thereafter; credit risks associated with any buyer of such disposed businesses and our ability to collect funds due from any such buyer related to seller financings, licensing arrangements, transition services arrangements or surety bond guarantees;

constraints associated with non-compete agreements or other restrictive covenants entered into by the Company, including, without limitation, in connection with business dispositions or strategic contracts, some or all of which may restrict our ability to conduct business in particular market segments or compete in particular geographic regions;

risks associated with budget deficits at federal, state and local levels resulting from economic conditions, which could result in federal, state and local governments decreasing their purchasing of our products or services and/or increasing taxes or other fees on businesses, including ServiceMaster, to generate more tax revenues, which could negatively impact spending by commercial customers and municipalities on our services;

regulations imposed by several states related to our home warranty and insurance subsidiaries, including those limiting the amount of funds that can be paid to the Company by its subsidiaries;

changes in claims trends in our medical plan and our automobile, general liability and workers' compensation program;

- significant disruptions, terminations or substandard performance of our outsourced services, including possible breaches by third-party vendors of their agreements with us;

- the cost, timing, structuring or results of our business process outsourcing (and insourcing), including, without limitation, any current or future outsourcing (or insourcing) or restructuring of all or portions of our information technology, call center, certain human resource functions and other corporate functions, and risks associated with such outsourcing (or insourcing) or restructuring or transitioning from outsourcing providers to insourcing;

- costs of maintaining and enhancing our information technology systems to: enhance customer service; protect against theft of customer and corporate sensitive information; comply with industry standards; and minimize disruptions in the Company's operations and centers of excellence; and

- other factors described in this report and from time to time in documents that we file with the SEC.

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The economy and its impact on discretionary consumer spending, labor wages, fuel prices, fertilizer and other material costs, home re-sales, unemployment rates, insurance costs and medical costs could have a material adverse impact on future results of operations.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company has entered into specific financial arrangements, primarily fuel swap agreements, and in the past interest rate swap agreements, in the normal course of business to manage certain market risks, with a policy of matching positions and limiting the terms of contracts to relatively short durations. The effect of derivative financial instrument transactions could have a material impact on the Company's financial statements.

Interest Rate Risk

The Company has historically entered into various interest rate swap agreements, although the Company has no interest rate swap agreements outstanding as of December 13, 2013.

The Company believes its exposure to interest rate fluctuations, when viewed on both a gross and net basis, is material to its overall results of operations. A significant portion of our outstanding debt, including debt under the Credit Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our debt and could materially reduce our profitability and cash flows. As of December 31, 2013, each one percentage point change in interest rates would result in an approximate $22.0 million change in the annual interest expense on our Term Facilities. Assuming all revolving loans were fully drawn as of December 31, 2013, each one percentage point change in interest rates would result in an approximate $3.2 million change in

Table of Contents

annual interest expense on our Revolving Credit Facility. The Company's exposure to interest rate fluctuations has not changed significantly since December 31, 2012. The impact of increases in interest rates could be more significant for us than it would be for some other companies because of our substantial debt and floating rate leases.

The following table summarizes information about the Company's debt as of December 31, 2013, including the principal cash payments and related weighted-average interest rates by expected maturity dates based on applicable rates at December 31, 2013.

As of December 31, 2013	2014	2015	Expected Year of Maturity 2016	2017	2018	Thereafter	Total	Fair Value
				($ in millions)				
Debt:								
Fixed rate	$ 13.1	$ 10.7	$ 6.5	$ 3.4	$ 80.6	$ 1,627.7	$ 1,742.0	$ 1,691.5
Average interest rate	8.3%	8.1%	7.6%	7.0%	7.1%	7.4%	7.4%	
Variable rate	$ 38.2	$ 51.5	$ 37.5	$ 2,145.4	$ 9.9	$ 2.4	$ 2,284.9	$ 2,264.2
Average interest rate	3.5%	3.3%	3.6%	4.3%	2.5%	2.5%	4.3%	

Fuel Price Risk

The Company is exposed to market risk for changes in fuel prices through the consumption of fuel by its vehicle fleet in the delivery of services to its customers. The Company has historically used approximately 20 million gallons of fuel on an annual basis, with Terminix using approximately 11 million gallons. In 2014, the Company expects to use approximately 11 million gallons. A ten percent change in fuel prices would result in a change of approximately $4.1 million in the Company's 2014 fuel cost before considering the impact of fuel swap contracts. The Company's exposure to changes in fuel prices has not changed significantly since December 31, 2012.

The Company uses fuel swap contracts to mitigate the financial impact of fluctuations in fuel prices. As of December 31, 2013, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $26.0 million, maturing through 2014. The estimated fair value of these contracts as of December 31, 2013 was a net asset of $1.0 million. These fuel swap contracts provide a fixed price for approximately 66 percent of the Company's estimated fuel usage for 2014.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
The ServiceMaster Company, LLC
Memphis, Tennessee

We have audited the accompanying consolidated statements of financial position of The ServiceMaster Company, LLC and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive (loss) income, shareholder's equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The ServiceMaster Company, LLC and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework* (*1992*) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2014, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Memphis, Tennessee
March 4, 2014

Table of Contents

Consolidated Statements of Operations and Comprehensive (Loss) Income

(In thousands)

	Year Ended December 31, 2013	2012	2011
Operating Revenue	$ 3,188,835	$ 3,193,281	$ 3,205,872
Cost of services rendered and products sold	1,906,054	1,861,669	1,813,706
Selling and administrative expenses	920,478	872,026	880,492
Amortization expense	55,532	65,298	91,352
Goodwill and trade name impairment	673,253	908,873	36,700
Restructuring charges	20,840	18,177	8,162
Interest expense	249,033	246,906	273,823
Interest and net investment income	(9,113)	(7,845)	(10,886)
Loss on extinguishment of debt		55,554	774
(Loss) Income from Continuing Operations before Income Taxes	(627,242)	(827,377)	111,749
(Benefit) provision for income taxes	(122,906)	(114,260)	43,912
Equity in losses of joint venture	(468)	(226)	
(Loss) Income from Continuing Operations	(504,804)	(713,343)	67,837
Loss from discontinued operations, net of income taxes	(1,135)	(200)	(27,016)
Net (Loss) Income	(505,939)	(713,543)	40,821
Other Comprehensive Income, Net of Income Taxes:			
Net unrealized gains (losses) on securities	1,384	965	(695)
Net unrealized gains on derivative instruments	2,635	12,239	13,314
Foreign currency translation	(3,974)	(426)	(1,460)
Other Comprehensive Income, Net of Income Taxes	45	12,778	11,159
Total Comprehensive (Loss) Income	$ (505,894)	$ (700,765)	$ 51,980

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Financial Position

(In thousands, except share data)

	As of December 31, 2013	As of December 31, 2012
Assets:		
Current Assets:		
Cash and cash equivalents	$ 486,188	$ 422,745
Marketable securities	27,060	19,347
Receivables, less allowances of $35,076 and $21,347, respectively	421,346	403,705
Inventories	56,323	56,562
Prepaid expenses and other assets	64,234	37,344
Deferred customer acquisition costs	39,130	33,921
Deferred taxes	111,073	107,499
Total Current Assets	1,205,354	1,081,123
Property and Equipment:		
At cost	732,426	633,582
Less: accumulated depreciation	(374,315)	(293,534)
Net Property and Equipment	358,111	340,048
Other Assets:		
Goodwill	2,018,340	2,412,251
Intangible assets, primarily trade names, service marks and trademarks, net	2,075,706	2,373,469
Notes receivable	36,815	22,419
Long-term marketable securities	121,572	126,456
Other assets	55,072	10,197
Debt issuance costs	40,556	44,951
Total Assets	$ 5,911,526	$ 6,410,914
Liabilities and Shareholder's Equity:		
Current Liabilities:		
Accounts payable	$ 111,466	$ 86,710
Accrued liabilities:		
Payroll and related expenses	75,494	78,188
Self-insured claims and related expenses	80,257	83,035
Accrued interest payable	51,118	54,156
Other	61,728	58,994
Deferred revenue	539,338	483,897
Liabilities of discontinued operations	1,320	905
Current portion of long-term debt	51,399	52,214

Total Current Liabilities	972,120	898,099
Long-Term Debt	3,904,130	3,909,039
Other Long-Term Liabilities:		
Deferred taxes	811,406	934,271
Other long-term obligations, primarily self-insured claims	171,445	114,855
Total Other Long-Term Liabilities	982,851	1,049,126
Commitments and Contingencies (See Note 9)		
Shareholder's Equity:		
Common stock $0.01 par value, authorized 1,000 shares; issued 1,000 shares		
Additional paid-in capital	1,475,458	1,471,789
Retained deficit	(1,429,644)	(923,705)
Accumulated other comprehensive income	6,611	6,566
Total Shareholder's Equity	52,425	554,650
Total Liabilities and Shareholder's Equity	$ 5,911,526	$ 6,410,914

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Shareholder's Equity

(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance December 31, 2010	$	$ 1,455,881	$ (250,983)	$ (17,371)	$ 1,187,527
Net income			40,821		40,821
Other comprehensive income, net of tax				11,159	11,159
Total comprehensive income			40,821	11,159	51,980
Stock-based employee compensation contribution from Holdings		8,412			8,412
Balance December 31, 2011	$	$ 1,464,293	$ (210,162)	$ (6,212)	$ 1,247,919
Net loss			(713,543)		(713,543)
Other comprehensive income, net of tax				12,778	12,778
Total comprehensive (loss) income			(713,543)	12,778	(700,765)
Stock-based employee compensation contribution from Holdings		7,119			7,119
Other		377			377
Balance December 31, 2012	$	$ 1,471,789	$ (923,705)	$ 6,566	$ 554,650
Net loss			(505,939)		(505,939)
Other comprehensive income, net of tax				45	45
Total comprehensive (loss) income			(505,939)	45	(505,894)
Stock-based employee compensation contribution from Holdings		4,046			4,046
Other		(377)			(377)
Balance December 31, 2013	$	$ 1,475,458	$ (1,429,644)	$ 6,611	$ 52,425

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Cash and Cash Equivalents at Beginning of Period	$ 422,745	$ 328,930	$ 252,698
Cash Flows from Operating Activities from Continuing Operations:			
Net (Loss) Income	(505,939)	(713,543)	40,821
Adjustments to reconcile net (loss) income to net cash provided from operating activities:			
Loss from discontinued operations, net of income taxes	1,135	200	27,016
Equity in losses of joint venture	468	226	
Depreciation expense	93,580	80,944	72,084
Amortization expense	55,532	65,298	91,352
Amortization of debt issuance costs	9,970	13,275	14,061
Loss on extinguishment of debt		55,554	774
Call premium paid on retirement of debt		(42,893)	
Premium received on issuance of debt		3,000	
Deferred income tax (benefit) provision	(131,987)	(123,759)	35,048
Stock-based compensation expense	4,046	7,119	8,412
Goodwill and trade name impairment	673,253	908,873	36,700
Restructuring charges	20,840	18,177	8,162
Cash payments related to restructuring charges	(17,847)	(17,342)	(7,530)
Change in working capital, net of acquisitions:			
Current income taxes	(795)	657	(2,856)
Receivables	(17,090)	(25,734)	(22,992)
Inventories and other current assets	(6,905)	7,898	1,538
Accounts payable	17,267	6,495	2,581
Deferred revenue	55,329	9,173	22,134
Accrued liabilities	(521)	(41,218)	(33,642)
Other, net	1,711	22,209	1,338
Net Cash Provided from Operating Activities from Continuing Operations	252,047	234,609	295,001
Cash Flows from Investing Activities from Continuing Operations:			
Property additions	(60,404)	(73,228)	(96,540)
Sale of equipment and other assets	1,421	2,197	4,605
Acquisition of The ServiceMaster Company			(35)
Other business acquisitions, net of cash acquired	(32,085)	(46,138)	(44,365)
Purchase of other intangibles			(1,900)
Notes receivable, financial investments and securities, net	(444)	(1,176)	3,009
Notes receivable from affiliate	(13,958)		
Net Cash Used for Investing Activities from Continuing Operations	(105,470)	(118,345)	(135,226)
Cash Flows from Financing Activities from Continuing Operations:			
Borrowings of debt	855	1,350,000	4,000
Payments of debt	(64,717)	(1,334,947)	(105,905)
Discount paid on issuance of debt	(12,200)		
Debt issuance costs paid	(5,575)	(33,089)	(267)

Net Cash Used for Financing Activities from Continuing Operations	(81,637)	(18,036)	(102,172)
Cash Flows from Discontinued Operations:			
Cash used for operating activities	(1,497)	(802)	(5,888)
Cash (used for) provided from investing activities:			
Proceeds from sale of businesses		(3,611)	26,134
Other investing activities			(1,617)
Net Cash (Used for) Provided from Discontinued Operations	(1,497)	(4,413)	18,629
Cash Increase During the Period	63,443	93,815	76,232
Cash and Cash Equivalents at End of Period	$ 486,188	$ 422,745	$ 328,930

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

Notes to the Consolidated Financial Statements

Note 1. Significant Accounting Policies

The Consolidated Financial Statements include the accounts of ServiceMaster and its majority-owned subsidiary partnerships, limited liability companies and corporations. All consolidated ServiceMaster subsidiaries are wholly owned. Intercompany transactions and balances have been eliminated.

Summary: The preparation of the 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 2013, there have been no changes in the significant areas that require estimates or in the underlying methodologies used in determining the amounts of these associated estimates.

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

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

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

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

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

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 lawn care and 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, termite inspection and protection contracts, as well as home warranties, are frequently sold through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for home warranties) 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 home warranties and adjusts the estimates when appropriate.

The Company has franchise agreements in its Terminix, TruGreen, ServiceMaster Clean, Merry Maids, AmeriSpec and Furniture Medic businesses. Franchise revenue (which in the aggregate represents approximately four percent of annual consolidated operating revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee's customer level revenue. Monthly fee revenue is recognized when the related customer level revenue 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 $79.1 million, $73.0 million and $74.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company evaluates the performance of its franchise businesses based primarily on operating profit before corporate general and administrative expenses, interest expense and amortization of intangible assets. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company's Consolidated Financial Statements for all periods.

Revenues are presented net of sales taxes collected and remitted to government taxing authorities in the accompanying Consolidated Statements of Operations and Comprehensive (Loss) Income.

The Company had $539.3 million and $483.9 million of deferred revenue as of December 31, 2013 and 2012, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection, pest control and lawn care services.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

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 $39.1 million and $33.9 million as of December 31, 2013 and 2012, respectively.

Advertising: On an interim basis, certain pre-season 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. Advertising expense for the years ended December 31, 2013, 2012 and 2011 was $166.9 million, $163.9 million and $161.0 million, respectively.

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, Intangible Assets and Goodwill:

Property and equipment consist of the following:

	Balance as of December 31,		Estimated Useful Lives
(In millions)	**2013**	**2012**	**(Years)**
Land	$ 21.6	$ 21.7	N/A
Buildings and improvements	80.1	77.4	10 - 40
Technology and communications	307.2	259.0	3 - 7
Machinery, production equipment and vehicles	303.9	255.7	3 - 9
Office equipment, furniture and fixtures	19.6	19.7	5 - 7
	732.4	633.5	
Less accumulated depreciation	(374.3)	(293.5)	
Net property and equipment	$ 358.1	$ 340.0	

Depreciation of property and equipment, including depreciation of assets held under capital leases, was $93.6 million, $80.9 million and $72.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Intangible assets consisted primarily of goodwill in the amount of $2.018 billion and $2.412 billion, indefinite-lived trade names in the amount of $1.959 billion and $2.215 billion, and other intangible assets in the amount of $116.7 million and $158.7 million as of December 31, 2013 and 2012, respectively.

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

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

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.

As required under accounting standards for goodwill and other intangibles, goodwill is not subject to amortization, and intangible assets with indefinite useful lives are not amortized until their useful lives are determined to no longer be indefinite. Goodwill and intangible assets that are not subject to amortization 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 adopted the provisions of ASU 2011-08, "Testing Goodwill for Impairment," in the fourth quarter of 2011. This ASU gives entities the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not greater than its carrying amount, the two-step impairment test would not be required. For the 2013 and 2012 annual goodwill impairment review performed as of October 1, 2013 and October 1, 2012, respectively, the Company did not perform qualitative assessments on any reporting unit, but instead completed Step 1 of the goodwill impairment test for all reporting units. For the 2011 annual goodwill impairment review performed as of October 1, 2011, the Company performed qualitative assessments on the Terminix, American Home Shield and ServiceMaster Clean reporting units. Based on these assessments, the Company determined that, more likely than not, the fair values of Terminix, American Home Shield and ServiceMaster Clean were greater than their respective carrying amounts. As a result, the two-step goodwill impairment test was not performed for Terminix, American Home Shield and ServiceMaster Clean in 2011.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a combination of a DCF analysis, a market-based comparable approach and a market-based transaction approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based comparable approach and relevant transaction multiples for the market-based transaction approach. The cash flows employed in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based on estimated growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. In addition, the market-based comparable and transaction approaches utilize comparable company public trading values, comparable company historical results, research analyst estimates and, where available, values observed in private market transactions. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. The DCF methodology used to value trade names is known as the relief from royalty method and entails identifying the hypothetical cash flows generated by an assumed royalty rate that a third party would pay to license the trade names and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates and hypothetical royalty rates, estimating the amount and timing of estimated future cash flows attributable to the hypothetical royalty rates and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

Goodwill and indefinite-lived intangible assets, primarily the Company's trade names, are assessed annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. The Company performed an interim goodwill impairment analysis at TruGreen as of June 30, 2013 that resulted in a pre-tax non-cash goodwill impairment of $417.5 million. After this impairment charge, there was no goodwill remaining at TruGreen. The Company performed an interim goodwill impairment analysis at TruGreen as of September 30, 2012 that resulted in a pre-tax non-cash goodwill impairment of $794.2 million. During the fourth quarter of 2012, the Company finalized its September 30, 2012 TruGreen valuation resulting in a $4.0 million adjustment to goodwill decreasing the 2012 goodwill impairment charge to $790.2 million. The Company's 2013, 2012, and 2011 annual impairment analyses, which were performed as of October 1 of each year, did not result in any goodwill impairments.

The Company performed an interim trade name impairment analysis at TruGreen as of June 30, 2013 resulting in a pre-tax non-cash trade name impairment charge of $255.8 million recorded in the second quarter of 2013. The Company performed an interim trade name impairment analysis at TruGreen as of June 30, 2012 resulting in a pre-tax non-cash trade name impairment charge of $67.7 million recorded in the second quarter of 2012. Further, the Company performed an interim trade name impairment analysis at TruGreen as of September 30, 2012 resulting in a pre-tax non-cash trade name impairment charge of $51.0 million recorded in the third quarter of 2012. The Company's annual trade name impairment analyses, which were performed as of October 1 of each year, resulted in pre-tax non-cash impairment of $36.7 million in 2011 related to the TruGreen trade name. The Company's October 1, 2013 and 2012 trade name impairment analyses did not result in any trade name impairments. The impairment charges by business segment for the years ended December 31, 2013, 2012 and 2011, as well as the remaining value of

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

the trade names not subject to amortization by business segment as of December 31, 2013 and 2012 are as follows:

(In thousands)	Terminix	TruGreen	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters(1)	Total
Balance at December 31, 2010	$ 875,100	$ 762,200	$ 140,400	$ 152,600	$ 439,900	$ 2,370,200
2011 Impairment		(36,700)				(36,700)
Balance at December 31, 2011	875,100	725,500	140,400	152,600	439,900	2,333,500
2012 Impairment		(118,700)				(118,700)
Balance at December 31, 2012	875,100	606,800	140,400	152,600	439,900	2,214,800
2013 Impairment		(255,800)				(255,800)
Balance at December 31, 2013	$ 875,100	$ 351,000	$ 140,400	$ 152,600	$ 439,900	$ 1,959,000

(1) The Other Operations and Headquarters segment includes Merry Maids.

The goodwill impairment charge recorded in 2013 was primarily attributable to a decline in forecasted 2013 and future cash flows at TruGreen over a defined projection period as of June 30, 2013 compared to the projections used in the last annual impairment assessment performed on October 1, 2012. The changes in projected cash flows at TruGreen arose in part from the business challenges at TruGreen described in "Segment Review TruGreen Segment" in Management's Discussion and Analysis above. Although the Company projected future improvement in cash flows at TruGreen as a part of its June 30, 2013 impairment analysis, total cash flows and projected growth in those cash flows were lower than those projected at the time TruGreen was last tested for impairment in 2012. The long-term growth rates used in the impairment tests at June 30, 2013 and October 1, 2012 were the same and were in line with historical U.S. gross domestic product growth rates. The discount rate used in the June 30, 2013 impairment test was 100 bps lower than the discount rate used in the October 1, 2012 impairment test for TruGreen. The decrease in the discount rate is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets and a higher risk tolerance for investors since the 2012 analysis.

The goodwill impairment charge recorded in 2012 was primarily attributable to a decline in forecasted 2012 cash flows and a decrease in projected future growth in cash flows at TruGreen over a defined projection period as of September 30, 2012 compared to the projections used in the previous annual impairment assessment performed on October 1, 2011. Although the Company projected future growth in cash flows at TruGreen as a part of its September 30, 2012 impairment analysis, total cash flows and projected growth in those cash flows were lower than that projected at the time TruGreen was tested for impairment in 2011. The long-term growth rates used in the impairment tests at September 30, 2012 and October 1, 2011 were the same and in line with historical U.S. gross domestic product growth rates. The discount rate used in the September 30, 2012 impairment test was 50 bps lower than the discount rate used in the October 1, 2011 impairment test for TruGreen. The decrease in the discount rate is primarily attributable to changes

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

in market conditions which indicated an improved outlook for the U.S. financial markets since the 2011 analysis.

Based on the revenue results at TruGreen in the first six months of 2013 and a lower revenue outlook for the remainder of 2013 and future years, the Company concluded that there was an impairment indicator requiring the performance of an interim indefinite-lived intangible asset impairment test for the TruGreen trade name as of June 30, 2013. The impairment analysis resulted in a $255.8 million impairment charge recorded in the second quarter of 2013.

The impairment charge recorded in the second quarter of 2013 was primarily attributable to a decrease in the assumed royalty rate and a decrease in projected future growth in revenue at TruGreen over a defined projection period as of June 30, 2013 compared to the royalty rate and projections used in the last annual impairment assessment performed on October 1, 2012. The decrease in the assumed royalty rate was due to lower current and projected earnings as a percent of revenue as compared to the last annual impairment test. Although the Company projected future growth in revenue at TruGreen as part of its June 30, 2013 impairment analysis, total projected revenue was lower than the revenue projected at the time the trade name was last tested for impairment in October 2012. The changes in projected future revenue growth at TruGreen arose in part from the business challenges at TruGreen described in "Segment Review TruGreen Segment" in Management's Discussion and Analysis above. The long-term revenue growth rates used in the impairment tests at October 1, 2013, June 30, 2013 and October 1, 2012 were the same and in line with historical U.S. gross domestic product growth rates. The discount rates used in the October 1, 2013 and June 30, 2013 impairment tests were the same, but were 100 bps lower than the discount rate used in the October 1, 2012 impairment test for the TruGreen trade name. The decrease in the discount rate from 2012 is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets and a higher risk tolerance for investors since the last analysis.

Based on the revenue results at TruGreen in the first six months of 2012 and a then lower revenue outlook for the remainder of 2012 and future years, the Company concluded that there was an impairment indicator requiring the performance of an interim indefinite-lived intangible asset impairment test for the TruGreen trade name as of June 30, 2012. That impairment analysis resulted in a $67.7 million impairment charge recorded in the second quarter of 2012. Based on the revenue results of TruGreen in the third quarter of 2012 and the revised outlook for the remainder of the year and future years, the Company performed another impairment analysis on its TruGreen trade name to determine its fair value as of September 30, 2012. Based on the revised projected revenue for TruGreen as compared to the projections used in the second quarter 2012 impairment test, the Company determined the fair value attributable to the TruGreen trade name was less than its carrying value by $51.0 million, which was recorded as a trade name impairment in the third quarter of 2012. Total non-cash trade name impairments recorded in 2012 related to the TruGreen trade name were $118.7 million.

The impairment charge recorded in the second quarter of 2012 was primarily attributable to a decrease in projected future growth in revenue at TruGreen over a defined projection period as of June 30, 2012 compared to the projections used in the previous annual impairment assessment performed on October 1, 2011. The third quarter impairment charge was primarily attributable to a further reduction in projected revenue growth as compared to expectations in the second quarter of 2012. Although the Company projected future growth in revenue at TruGreen over a defined

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

projection period as a part of its September 30, 2012 impairment analysis, such growth was lower than the revenue growth projected at the time the trade name was tested for impairment in the second quarter of 2012. The long-term revenue growth rates used for periods after the defined projection period in the impairment tests at September 30, 2012, June 30, 2012 and October 1, 2011 were the same and in line with historical U.S. gross domestic product growth rates. The discount rates used in the September 30, 2012 and June 30, 2012 impairment tests were the same, but were 50 bps lower than the discount rate used in the October 1, 2011 impairment test for the TruGreen trade name. The decrease in the discount rate from 2011 is primarily attributable to changes in market conditions which indicated an improved outlook for the U.S. financial markets since the last analysis.

The impairment charge in 2011 was primarily attributable to the use of higher discount rates in the DCF valuation analyses as compared to the discount rates used in the 2010 impairment analyses. Although the projected future growth in cash flows in 2011 were slightly higher than in the 2010 valuation, the increase in the discount rates more than offset the improved cash flows. The increase in the discount rates is primarily attributable to changes in market conditions which indicated a lower risk tolerance in 2011 as compared to 2010. This lower risk tolerance is exhibited through the marketplace's desire for higher returns in order to accept market risk. The long-term revenue growth rates used in the analyses for the October 1, 2011 and 2010 impairment tests were the same and in line with historical U.S. gross domestic product growth rates.

Restricted Net Assets: There are third party restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at SMAC. The payment of ordinary and extraordinary dividends by the Company's home warranty and similar subsidiaries (through which ServiceMaster conducts its American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to ServiceMaster. As of December 31, 2013, the total net assets subject to these third party restrictions was $160.2 million. None of the subsidiaries of ServiceMaster are obligated to make funds available to ServiceMaster through the payment of dividends.

Fair Value of Financial Instruments and Credit Risk: See Note 19 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.

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

Income Taxes: The Company is included in the consolidated U.S. federal income tax return of Holdings. State and local returns are filed both on a separate company basis and on a combined unitary basis with Holdings. 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.

Newly Issued Accounting Statements and Positions: In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU 2012-02, "Intangibles Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment," which amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment. This standard allows an entity testing an indefinite-lived intangible asset for impairment the option of performing a qualitative assessment before calculating the fair value of the asset. If entities determine, on the basis of the qualitative assessment, that the fair value of the indefinite-lived intangible asset is more likely than not greater than its carrying amount, the quantitative impairment test would not be required. Otherwise, further testing would be needed. This standard revises the examples of events and circumstances that an entity should consider in interim periods, but it does not revise the requirements to test indefinite-lived intangible assets (1) annually for impairment and (2) between annual tests if there is a change in events or circumstances. The amendments in this standard are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company adopted the required provisions of this standard during the first quarter of 2013. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income" to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this standard do not change the current requirements for reporting net income or other comprehensive income in financial statements and are effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the

Notes to the Consolidated Financial Statements (Continued)

Note 1. Significant Accounting Policies (Continued)

required provisions of this standard during the first quarter of 2013. The disclosures required by this standard are presented in Note 14 of the Company's Consolidated Financial Statements.

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

Note 2. Acquisition of ServiceMaster

On the 2007 Closing Date, ServiceMaster was acquired pursuant to the 2007 Merger, and, immediately following the completion of the 2007 Merger, all of the outstanding common stock of Holdings, the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliated with, certain Equity Sponsors.

Equity contributions totaling $1.431 billion, together with (i) borrowings under a then new $1.150 billion senior unsecured interim loan facility, (the "Interim Loan Facility"), (ii) borrowings under a then new $2.650 billion Term Loan Facility, and (iii) cash on hand at ServiceMaster, were used, among other things, to finance the aggregate 2007 Merger consideration, to make payments in satisfaction of other equity-based interests in ServiceMaster under the 2007 Merger agreement, to settle existing interest rate swaps, to redeem or provide for the repayment of certain of the Company's existing indebtedness and to pay related transaction fees and expenses. In addition, letters of credit issued under a new $150.0 million pre-funded letter of credit facility were used to replace and/or secure letters of credit previously issued under a ServiceMaster credit facility that was terminated as of the 2007 Closing Date. On the 2007 Closing Date, the Company also entered into, but did not then draw under, the Revolving Credit Facility.

In connection with the 2007 Merger and the related transactions, ServiceMaster retired certain of its existing indebtedness, including ServiceMaster's $179.0 million, 7.875 percent notes due August 15, 2009 (the "2009 Notes"). On the 2007 Closing Date, the 2009 Notes were called for redemption, and they were redeemed on August 29, 2007. Additionally, the Company utilized a portion of the proceeds from the Term Facilities to repay at maturity ServiceMaster's $49.2 million, 6.95 percent notes due August 15, 2007. The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one-to-one basis into the 2015 Notes.

Note 3. Business Segment Reporting

As of December 31, 2013, the business of the Company was conducted through five reportable segments: Terminix, TruGreen, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 3. Business Segment Reporting (Continued)

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 TruGreen segment provides residential and commercial lawn, tree and shrub care services. The American Home Shield segment provides home warranties and preventative maintenance contracts for household systems and appliances. The ServiceMaster Clean segment provides residential and commercial disaster restoration, janitorial and cleaning services through franchises primarily under the ServiceMaster, ServiceMaster Restore and ServiceMaster Clean brand names, 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. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of Merry Maids, which provides home cleaning services. The Other Operations and Headquarters segment also includes 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, which provide various technology, marketing, finance, legal and other support services to the business units. 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 1. 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 primarily of direct costs. Identifiable assets are those used in carrying out the operations of the business unit and include intangible assets directly related to its operations.

During the fourth quarter of 2013, the Company determined that Adjusted EBITDA would be its measure of segment profitability. Accordingly, the CODM evaluates performance and allocates resources based primarily on Adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before: 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 asset impairments; 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 Adjusted EBITDA may not be calculated or comparable to similarly titled measures of other companies.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 3. Business Segment Reporting (Continued)

Segment information for continuing operations is presented below:

(In thousands)	Year Ended December 31, 2013	2012	2011
Operating Revenue:			
Terminix	$ 1,309,469	$ 1,265,417	$ 1,193,075
TruGreen	895,943	979,081	1,100,741
American Home Shield	740,062	720,860	686,737
ServiceMaster Clean	150,929	139,441	138,691
Other Operations and Headquarters	92,432	88,482	86,628
Total Operating Revenue	$ 3,188,835	$ 3,193,281	$ 3,205,872
Adjusted EBITDA:(1)			
Terminix	$ 318,903	$ 319,838	$ 299,485
TruGreen	25,999	152,813	209,031
American Home Shield	170,866	141,542	131,977
ServiceMaster Clean	67,942	61,041	64,018
Other Operations and Headquarters	(107,721)	(104,000)	(94,036)
Total Adjusted EBITDA	$ 475,989	$ 571,234	$ 610,475
Identifiable Assets:			
Terminix	$ 2,694,448	$ 2,591,967	$ 2,601,869
TruGreen	598,257	1,200,063	2,087,055
American Home Shield	999,541	976,280	954,599
ServiceMaster Clean	373,650	373,314	370,526
Other Operations and Headquarters	1,245,630	1,269,290	1,132,757
Total Identifiable Assets(2)	$ 5,911,526	$ 6,410,914	$ 7,146,806
Depreciation & Amortization Expense:			
Terminix	$ 73,014	$ 75,713	$ 75,347
TruGreen	49,721	45,729	41,929
American Home Shield	8,037	8,606	27,331
ServiceMaster Clean	4,914	5,071	6,150
Other Operations and Headquarters	13,426	11,123	12,679

Total Depreciation & Amortization Expense(3)	$	149,112	$	146,242	$	163,436

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 3. Business Segment Reporting (Continued)

(In thousands)	Year Ended December 31, 2013	2012	2011
Capital Expenditures:			
Terminix	$ 10,701	$ 13,623	$ 23,457
TruGreen	21,391	29,079	44,714
American Home Shield	13,013	15,087	17,529
ServiceMaster Clean	811	454	935
Other Operations and Headquarters	14,488	14,985	9,905
Total Capital Expenditures	$ 60,404	$ 73,228	$ 96,540

---

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

(In thousands)	Year Ended December 31, 2013	2012	2011
Adjusted EBITDA:			
Terminix	$ 318,903	$ 319,838	$ 299,485
TruGreen	25,999	152,813	209,031
American Home Shield	170,866	141,542	131,977
ServiceMaster Clean	67,942	61,041	64,018
Other Operations and Headquarters	(107,721)	(104,000)	(94,036)
Total Adjusted EBITDA	475,989	571,234	610,475
Depreciation and amortization expense	(149,112)	(146,242)	(163,436)
Non-cash goodwill and trade name impairment	(673,253)	(908,873)	(36,700)
Non-cash asset impairment	(165)	(8,732)	
Non-cash stock-based compensation expense	(4,046)	(7,119)	(8,412)
Restructuring charges	(20,840)	(18,177)	(8,162)
Management and consulting fees	(7,250)	(7,250)	(7,500)
Loss from discontinued operations, net of income taxes	(1,135)	(200)	(27,016)
Benefit (provision) for income taxes	122,906	114,260	(43,912)
Loss on extinguishment of debt		(55,554)	(774)
Interest expense	(249,033)	(246,906)	(273,823)
Non-cash credits attributable to purchase accounting		16	81
Net (Loss) Income	$ (505,939)	$ (713,543)	$ 40,821

(2)
Assets of discontinued operations are not included in the business segment table.

(3)
There are no adjustments necessary to reconcile total depreciation and amortization as presented in the business segment table to the consolidated totals. Amortization of debt issue costs is not included in the business segment table.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 3. Business Segment Reporting (Continued)

The Other Operations and Headquarters segment includes the operations of Merry Maids, as well as the Company's headquarters function. The Merry Maids operations reported operating revenue of $84.6 million, $82.0 million and $81.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, and Adjusted EBITDA of $20.7 million, $21.2 million and $21.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

See Note 4 for information relating to segment goodwill.

Note 4. 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. As described in Note 1, the 2013, 2012 and 2011 results include pre-tax non-cash impairment charges of $673.3 million and $908.9 million and $36.7 million, respectively, to reduce the carrying value of goodwill and trade names as a result of the Company's annual and interim impairment testing of goodwill and indefinite-lived intangible assets.

During the years ended December 31, 2013 and 2012, the increase in goodwill and other intangible assets related primarily to tuck-in acquisitions completed throughout the period by Terminix, TruGreen and Merry Maids.

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

(In thousands)	Terminix	TruGreen	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters	Total
Balance at December 31, 2011	$ 1,424,518	$ 1,201,922	$ 347,573	$ 135,677	$ 52,290	$ 3,161,980
Impairment charge		(790,173)				(790,173)
Acquisitions	34,220	5,586			1,211	41,017
Other(1)	(248)	(266)	(93)	92	(58)	(573)
Balance at December 31, 2012	1,458,490	417,069	347,480	135,769	53,443	2,412,251
Impairment charge		(417,453)				(417,453)
Acquisitions	22,055	683		1,514	730	24,982
Other(1)	(533)	(299)	(12)	(476)	(120)	(1,440)
Balance at December 31, 2013	$ 1,480,012	$	$ 347,468	$ 136,807	$ 54,053	$ 2,018,340

(1) Reflects the impact of the amortization of tax deductible goodwill and foreign exchange rate changes.

Accumulated impairment losses as of December 31, 2013 and 2012 were $1.208 billion and $790.2 million, respectively, and related entirely to the TruGreen reporting unit. There were no accumulated impairment losses as of December 31, 2011.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 4. Goodwill and Intangible Assets (Continued)

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

(In thousands)	Estimated Remaining Useful Lives (Years)	December 31, 2013 Gross	December 31, 2013 Accumulated Amortization	December 31, 2013 Net	December 31, 2012 Gross	December 31, 2012 Accumulated Amortization	December 31, 2012 Net
Trade names(1)	N/A	$ 1,959,000	$	$ 1,959,000	$ 2,214,800	$	$ 2,214,800
Customer relationships	3 - 10	705,307	(636,732)	68,575	697,264	(592,724)	104,540
Franchise agreements	20 - 25	88,000	(54,111)	33,889	88,000	(48,649)	39,351
Other	4 - 30	64,913	(50,671)	14,242	59,117	(44,339)	14,778
Total		$ 2,817,220	$ (741,514)	$ 2,075,706	$ 3,059,181	$ (685,712)	$ 2,373,469

(1) Not subject to amortization. Includes a pre-tax non-cash impairment charge of $255.8 million recorded in the year ended December 31, 2013 to reduce the carrying value of the TruGreen trade name.

Amortization expense of $55.5 million, $65.3 million and $91.4 million was recorded in the years ended December 31, 2013, 2012 and 2011, respectively. For the existing intangible assets, the Company anticipates amortization expense of $50.9 million, $27.5 million, $7.8 million, $5.8 million and $3.8 million in 2014, 2015, 2016, 2017 and 2018, respectively.

Note 5. Income Taxes

As of December 31, 2013, 2012 and 2011, the Company had $7.8 million, $8.3 million and $9.0 million, respectively, of tax benefits primarily reflected in state tax returns that have not been recognized for financial reporting purposes ("unrecognized tax benefits"). At December 31, 2013 and 2012, $7.8 million and $8.3 million, respectively, of unrecognized tax benefits would impact the effective tax rate if recognized. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

(In millions)	Year Ended December 31, 2013	2012	2011
Gross unrecognized tax benefits at beginning of period	$ 8.3	$ 9.0	$ 13.7
Increases in tax positions for prior years	0.4	0.3	1.1
Decreases in tax positions for prior years	(0.2)	(0.4)	(2.1)
Increases in tax positions for current year	1.0	0.9	1.1
Lapse in statute of limitations	(1.7)	(1.5)	(4.8)
Gross unrecognized tax benefits at end of period	$ 7.8	$ 8.3	$ 9.0

Up to $1.4 million of the Company's unrecognized tax benefits could be recognized within the next 12 months. As of December 31, 2012, the Company believed that it was reasonably possible that a decrease of up to $0.9 million in unrecognized tax benefits would have occurred during the year ended December 31, 2013. During the year ended December 31, 2013 unrecognized tax benefits actually decreased by $1.9 million as a result of the closing of certain state audits and the expiration of statutes of limitation.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 5. Income Taxes (Continued)

The Company files consolidated and separate income tax returns in the United States federal jurisdiction and in many state and foreign jurisdictions. The Company has been audited by the IRS through its year ended December 31, 2011, and is no longer subject to state and local or foreign income tax examinations by tax authorities for years before 2006.

In the ordinary course of business, the Company is subject to review by domestic and foreign taxing authorities. For U.S. federal income tax purposes, the Company participates in the IRS's Compliance Assurance Process whereby its U.S. federal income tax returns are reviewed by the IRS both prior to and after their filing. The U.S. federal income tax returns filed by the Company through the year ended December 31, 2011 have been audited by the IRS. In the second quarter of 2013, the IRS completed the audits of the Company's tax returns for the year ended December 31, 2011 with no adjustments or additional payments. The Company's tax returns for the year ended December 31, 2012 are under audit, which is expected to be completed by the second quarter of 2014. The IRS commenced examinations of the Company's U.S. federal income tax returns for 2013 in the first quarter of 2013. The examination is anticipated to be completed by the second quarter of 2015. Seven state tax authorities are in the process of auditing state income tax returns of various subsidiaries.

The Company's policy is to recognize potential interest and penalties related to its tax positions within the tax provision. During the years ended December 31, 2013, 2012 and 2011, the Company reversed interest expense of $0.1 million, $0.2 million and $1.7 million, respectively, through the tax provision. During the years ended December 31, 2012 and 2011, the Company reversed penalties of $0.1 million and $0.3 million, respectively, through the tax provision. There were no similar reversals for the year ended December 31, 2013. As of December 31, 2013 and 2012, the Company had accrued for the payment of interest and penalties of $1.1 million and $1.2 million, respectively.

The components of our (loss) income from continuing operations before income taxes are as follows:

	Year Ended December 31,		
	2013	2012	2011
U.S.	$ (628,934)	$ (821,122)	$ 108,603
Foreign	1,692	(6,255)	3,146
Total	$ (627,242)	$ (827,377)	$ 111,749

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 5. Income Taxes (Continued)

The reconciliation of income tax computed at the U.S. federal statutory tax rate to the Company's effective income tax rate for continuing operations is as follows:

	Year Ended December 31,		
	2013	2012	2011
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of U.S. federal benefit	3.0	3.2	1.8
Tax credits	0.5	0.2	(2.3)
Nondeductible goodwill	(17.3)	(24.8)	
Other permanent items	(0.7)	(0.2)	1.5
Other, including foreign rate differences and reserves	(0.9)	0.4	3.3
Effective rate	19.6%	13.8%	39.3%

The effective tax rate for discontinued operations for the years ended December 31, 2013, 2012 and 2011 was a tax benefit of 40.6 percent, 91.9 percent and 42.3 percent, respectively. The effective tax rate for the year ending December 31, 2012 was impacted by an adjustment to the estimated tax benefit of goodwill in connection with the sale of TruGreen LandCare in 2011.

Income tax expense from continuing operations is as follows:

	2013		
(In thousands)	Current	Deferred	Total
U.S. federal	$ 1,325	$ (112,840)	$ (111,515)
Foreign	2,936	(1,854)	1,082
State and local	4,820	(17,293)	(12,473)
	$ 9,081	$ (131,987)	$ (122,906)

	2012		
	Current	Deferred	Total
U.S. federal	$ (319)	$ (104,008)	$ (104,327)
Foreign	2,544	(2,934)	(390)
State and local	7,274	(16,817)	(9,543)
	$ 9,499	$ (123,759)	$ (114,260)

	2011		
	Current	Deferred	Total
U.S. federal	$ 2,103	$ 39,946	$ 42,049
Foreign	3,284	(3,984)	(700)
State and local	3,477	(914)	2,563
	$ 8,864	$ 35,048	$ 43,912

Deferred income tax expense results from timing differences in the recognition of income and expense for income tax and financial reporting purposes. Deferred income tax balances reflect the

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 5. Income Taxes (Continued)

net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. The deferred tax asset primarily reflects the impact of future tax deductions related to the Company's accruals and certain net operating loss carryforwards. The deferred tax liability is primarily attributable to the basis differences related to intangible assets. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The valuation allowance for deferred tax assets as of December 31, 2013 was $7.3 million. The net change in the total valuation allowance for the year ended December 31, 2013 was an increase of $1.3 million and was primarily attributable to additional net operating loss carryforwards in foreign jurisdictions.

Significant components of the Company's deferred tax balances are as follows:

	December 31,	
(In thousands)	**2013**	**2012**
Deferred tax assets (liabilities):		
Current Asset:		
Prepaid expenses	$ (18,351)	$ (15,812)
Receivables allowances	19,400	13,365
Accrued insurance expenses	9,130	5,758
Current reserves	6,666	5,925
Accrued expenses and other	19,900	23,935
Net operating loss and tax credit carryforwards	74,328	74,328
Total current asset	111,073	107,499
Non-current Asset:		
Intangible assets	3,512	
Other assets	5	
Total non-current assets(1)	3,517	
Long-Term Liability:		
Intangible assets(2)	(799,476)	(937,746)
Accrued insurance expenses	2,895	3,735
Net operating loss and tax credit carryforwards	74,382	73,688
Other long-term obligations	(81,883)	(67,935)
Less valuation allowance	(7,324)	(6,013)
Total long-term liability	(811,406)	(934,271)
Net deferred tax liability	$ (696,816)	$ (826,772)

(1) Included in Other assets on the Consolidated Statement of Financial Position.

(2) The deferred tax liability relates primarily to the difference in the tax versus book basis of intangible assets. The majority of this liability will not actually be paid unless certain business units of the Company are sold.

As of December 31, 2013, the Company had deferred tax assets, net of valuation allowances, of $127.8 million for federal and state net operating loss and capital loss carryforwards which expire at various dates up to 2033. The Company also had deferred tax assets, net of valuation

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 5. Income Taxes (Continued)

allowances, of $13.6 million for federal and state credit carryforwards which expire at various dates up to 2033.

For the year ended December 31, 2011, the Company reorganized certain foreign subsidiaries in conjunction with its international growth initiatives and evaluated its liquidity requirements in the U.S. and the capital requirements of its foreign subsidiaries. Based on these factors, the Company considers undistributed earnings of its foreign subsidiaries as of December 31, 2013 to be indefinitely reinvested. Accordingly, the Company has not recorded deferred taxes for U.S. or foreign withholding taxes on the excess of the amount for financial reporting purposes over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable due to the complexities of the hypothetical calculation. The amount of cash associated with indefinitely reinvested foreign earnings was approximately $19.0 million and $28.7 million as of December 31, 2013 and 2012, respectively. The Company does not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

Note 6. 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 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.

2013

During the year ended December 31, 2013, the Company completed several pest control and termite and lawn care acquisitions, along with several Merry Maids franchise acquisitions and the purchase of a distributor license agreement at ServiceMaster Clean. The total net purchase price for these acquisitions was $40.7 million. The Company recorded goodwill of $25.0 million and other intangibles of $13.8 million related to these acquisitions.

Prior Years

During the year ended December 31, 2012, the Company completed several pest control and termite and lawn care acquisitions, along with several Merry Maids franchise acquisitions and the purchase of a distributor license agreement at ServiceMaster Clean. The total net purchase price for these acquisitions was $57.3 million. Related to these acquisitions, the Company recorded goodwill of $41.0 million and other intangibles of $16.8 million.

During the year ended December 31, 2011, the Company completed several pest control and termite and lawn care acquisitions for a total net purchase price of $57.1 million. Related to these acquisitions, the Company recorded goodwill of $39.5 million and other intangibles of $16.2 million.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 6. Acquisitions (Continued)

Cash Flow Information for Acquisitions

Supplemental cash flow information regarding the Company's acquisitions, excluding the 2007 Merger, is as follows:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Purchase price (including liabilities assumed)	$ 40,767	$ 61,792	$ 58,844
Less liabilities assumed	(96)	(4,499)	(1,700)
Net purchase price	$ 40,671	$ 57,293	$ 57,144
Net cash paid for acquisitions	$ 32,085	$ 46,138	$ 44,365
Seller financed debt	8,586	11,155	12,779
Payment for acquisitions	$ 40,671	$ 57,293	$ 57,144

Note 7. Discontinued Operations

In the first quarter of 2011, ServiceMaster concluded that TruGreen LandCare did not fit within the long-term strategic plans of the Company and committed to a plan to sell the business. On April 21, 2011, the Company entered into a purchase agreement to sell the TruGreen LandCare business, and the disposition was effective as of April 30, 2011. As a result of the decision to sell this business, a $34.2 million impairment charge ($21.0 million, net of tax) was recorded in loss from discontinued operations, net of income taxes, in the first quarter of 2011 to reduce the carrying value of TruGreen LandCare's assets to their estimated fair value less cost to sell in accordance with applicable accounting standards. Upon completion of the sale, a $6.2 million loss on sale ($1.9 million, net of tax) was recorded. During the year ended December 31, 2012, upon finalization of certain post-closing adjustments and disputes, the Company recorded an additional $1.3 million loss on sale ($0.5 million gain, net of tax).

Financial Information for Discontinued Operations

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

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 7. Discontinued Operations (Continued)

The operating results of discontinued operations are as follows:

(In thousands)	Year Ended December 31, 2013	2012	2011
Operating Revenue	$	$	$ 75,765
Loss before income taxes(1)	(1,912)	(1,138)	(40,620)
Benefit for income taxes(1)	(777)	(453)	(15,461)
Loss, net of income taxes(1)	(1,135)	(685)	(25,159)
Gain (loss) on sale, net of income taxes		485	(1,857)
Loss from discontinued operations, net of income taxes(1)	$ (1,135)	$ (200)	$ (27,016)

(1) During 2011, a pre-tax non-cash impairment charge of $34.2 million ($21.0 million, net of tax) was recorded to reduce the carrying value of TruGreen LandCare's assets to their estimated fair value less cost to sell in accordance with applicable accounting standards.

The table below summarizes the activity during the year ended December 31, 2013 for the remaining liabilities of previously sold businesses. The remaining obligations primarily relate to self-insurance claims and related costs. The Company believes that the remaining reserves continue to be adequate and reasonable.

(In thousands)	As of December 31, 2012	Cash Payments or Other	Expense (Income)	As of December 31, 2013
Remaining liabilities of discontinued operations:				
TruGreen LandCare	$ 415	$ (696)	$ 1,337	$ 1,056
InStar	352	(61)	(83)	208
Other	138	37	(119)	56
Total liabilities of discontinued operations	$ 905	$ (720)	$ 1,135	$ 1,320

Note 8. Restructuring Charges

The Company incurred restructuring charges of $20.8 million ($16.4 million, net of tax), $18.2 million ($11.1 million, net of tax) and $8.2 million ($5.0 million, net of tax) for the years ended

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 8. Restructuring Charges (Continued)

December 31, 2013, 2012 and 2011, respectively. Restructuring charges were comprised of the following:

(In thousands)	Year Ended December 31, 2013	2012	2011
TruGreen Separation Transaction(1)	$ 13,398	$	$
Terminix branch optimization(2)	2,099	3,652	3,560
TruGreen reorganization and restructuring(3)	1,362	3,241	1,115
American Home Shield reorganization(4)		647	
ServiceMaster Clean reorganization(4)	360	1,370	
Centers of excellence initiative(5)	3,629	9,267	3,416
Other(6)	(8)		71
Total restructuring charges	$ 20,840	$ 18,177	$ 8,162

(1) Represents expenses incurred by the Company directly related to the TruGreen Separation Transaction. These charges included professional fees of $12.8 million and severance of $0.6 million.

(2) For the years ended December 31, 2013, 2012 and 2011, these charges included severance costs of $0.9 million, $0.4 million and $0.1 million, respectively, and lease termination costs of $1.2 million, $3.3 million and $3.5 million, respectively.

(3) For the year ended December 31, 2013, these charges included severance costs. For the years ended December 31, 2012 and 2011, these charges included severance costs of $2.7 million and $0.8 million, respectively, and lease termination costs of $0.5 million and $0.3 million, respectively.

(4) For the years ended December 31, 2013 and 2012, these charges included severance costs.

(5) 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 years ended December 31, 2013, 2012 and 2011, these charges included severance and other costs of $0.9 million, $4.6 million and $1.9 million, respectively, and professional fees of $2.7 million, $4.7 million and $1.5 million, respectively.

(6) These charges included reserve adjustments associated with previous restructuring initiatives.

The pretax charges discussed above are reported in Restructuring charges in the Consolidated Statements of Operations and Comprehensive (Loss) Income.

Notes to the Consolidated Financial Statements (Continued)

Note 8. Restructuring Charges (Continued)

A reconciliation of the beginning and ending balances of accrued restructuring charges, which are included in Accrued Liabilities Other on the Consolidated Statements of Financial Position, is presented as follows:

(In thousands)	Accrued Restructuring Charges
Balance as of December 31, 2011	$ 3,890
Costs incurred	18,177
Costs paid or otherwise settled	(17,525)
Balance as of December 31, 2012	4,542
Costs incurred	20,840
Costs paid or otherwise settled	(17,847)
Balance as of December 31, 2013	$ 7,535

Note 9. Commitments and Contingencies

The Company leases certain property and equipment under various operating lease arrangements. Most of the property leases provide that the Company pay taxes, insurance and maintenance applicable to the leased premises. As leases for existing locations expire, the Company expects to renew the leases or substitute another location and lease.

Rental expense for the years ended December 31, 2013, 2012 and 2011 was $63.0 million, $68.0 million and $76.7 million, respectively. Based on leases in place as of December 31, 2013, future long-term non-cancelable operating lease payments will be approximately $38.7 million in 2014, $29.5 million in 2015, $22.6 million in 2016, $16.4 million in 2017, $10.7 million in 2018 and $7.4 million in 2019 and thereafter.

A portion of the Company's vehicle fleet and some equipment are leased through operating leases. The lease terms are non-cancelable for the first twelve-month term, and then are month-to-month, cancelable at the Company's option. There are residual value guarantees by the Company (which approximate 84 percent of the estimated terminal value at the inception of the lease) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. The fair value of the assets under all of the fleet and equipment leases is expected to substantially mitigate the Company's guarantee obligations under the agreements. As of December 31, 2013, the Company's residual value guarantees related to the leased assets totaled $11.4 million for which the Company has recorded as a liability the estimated fair value of these guarantees of $0.1 million in the Consolidated Statements of Financial Position.

Certain of the Company's assets, including vehicles, equipment and a call center facility, are leased under capital leases with $78.0 million in remaining lease obligations as of December 31, 2013. Based on leases in place as of December 31, 2013, future lease payments under capital leases will be approximately $18.6 million in 2014, $17.2 million in 2015, $16.2 million in 2016, $13.8 million in 2017, $9.8 million in 2018 and $2.4 million in 2019 and thereafter.

In the normal course of business, the Company periodically enters into agreements that incorporate indemnification provisions. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, the Company does not expect these

Notes to the Consolidated Financial Statements (Continued)

Note 9. Commitments and Contingencies (Continued)

guarantees and indemnifications to have a material effect on the Company's business, financial condition, results of operations or cash flows.

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 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 the 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 Consolidated Statements of Financial Position, net of insurance recoverables, which are included in Prepaid expenses and other assets and Other assets on the Consolidated Statements of Financial Position, is presented as follows:

(In thousands)	Accrued Self-insured Claims, Net
Balance as of December 31, 2011	$ 108,082
Provision for self-insured claims	35,413
Cash payments	(39,670)
Balance as of December 31, 2012	103,825
Provision for self-insured claims	47,452
Cash payments	(48,590)
Balance as of December 31, 2013	$ 102,687

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

Notes to the Consolidated Financial Statements (Continued)

Note 9. Commitments and Contingencies (Continued)

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 10. Related Party Transactions

In connection with the 2007 Merger and the related transactions, the Company entered into a consulting agreement with CD&R under which CD&R provides the Company with on-going consulting and management advisory services. The annual management fee payable under the consulting agreement with CD&R is $6.25 million. Under this agreement, the Company recorded management fees in each of the years ended December 31, 2013, 2012 and 2011 of $6.25 million, which is included in Selling and administrative expenses in the Consolidated Statements of Operations and Comprehensive (Loss) Income. The consulting agreement also provides that CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions. There were no additional fees incurred in each of the years ended December 31, 2013, 2012 and 2011. The consulting agreement will terminate on July 24, 2017, unless terminated earlier at CD&R's election.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan. Under the consulting agreements, Citigroup, BAS and JPMorgan each provide the Company with on-going consulting and management advisory services through June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that owned shares of common stock of Holdings to StepStone and Lexington Partners Advisors LP. Citigroup also assigned its obligations and rights under its consulting agreement to StepStone, and beginning in the fourth quarter of 2010, the consulting fee otherwise payable to Citigroup became payable to StepStone. As of December 22, 2011, Holdings purchased from BAS 7.5 million shares of capital stock of Holdings, and, effective January 1, 2012, the annual consulting fee payable to BAS was reduced to $0.25 million. The Company pays annual consulting fees of $0.5 million, $0.25 million and $0.25 million to StepStone, BAS and JPMorgan, respectively. The Company recorded aggregate consulting fees related to these agreements of $1.0 million in each of the years ended December 31, 2013 and 2012 and $1.25 million for the year ended December 31, 2011, which is included in Selling and administrative expenses in the Consolidated Statements of Operations and Comprehensive (Loss) Income.

In 2008 and 2009, Holdings completed open market purchases totaling $65.0 million in face value of the 2015 Notes for a cost of $21.4 million. On December 21, 2011, the Company purchased from Holdings and retired $65.0 million in face value of the 2015 Notes for an aggregate purchase price of $68.0 million, which included payment of accrued interest of $3.0 million. During the year ended December 31, 2011, the Company recorded interest expense of $6.8 million related to 2015 Notes held by Holdings and paid interest to Holdings in the amount of $10.0 million. As a result of the purchase of the 2015 Notes from Holdings, the Company did not have interest payable to Holdings as of December 31, 2013 and 2012.

On April 19, 2013, the Company entered into a revolving promissory note with Holdings with a maximum borrowing capacity of $25.0 million that is scheduled to mature on April 18, 2018.

Notes to the Consolidated Financial Statements (Continued)

Note 10. Related Party Transactions (Continued)

Amounts outstanding under this agreement shall bear interest at the rate of 5.0 percent per annum. As of December 31, 2013, Holdings had borrowed $14.0 million under this note. The funds borrowed under this note are used by Holdings to repurchase shares of its common stock from associates who have left the Company.

Note 11. Employee Benefit Plans

Discretionary contributions to qualified profit sharing and non-qualified deferred compensation plans were made in the amount of $19.3 million, $17.4 million and $15.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Note 12. Long-Term Debt

Long-term debt as of December 31, 2013 and December 31, 2012 is summarized in the following table:

(In thousands)	As of December 31, 2013	2012
Senior secured term loan facility maturing in 2014 (Tranche A)	$	$ 1,219,145
Senior secured term loan facility maturing in 2017 (Tranche B)	990,683	1,000,741
Senior secured term loan facility maturing in 2017 (Tranche C)(1)	1,198,196	
7.00% senior notes maturing in 2020	750,000	750,000
8.00% senior notes maturing in 2020(2)	602,446	602,750
Revolving credit facility maturing in 2017		
7.10% notes maturing in 2018(3)	71,326	69,400
7.45% notes maturing in 2027(3)	158,564	155,894
7.25% notes maturing in 2038(3)	63,058	62,250
Vehicle capital leases(4)	72,445	37,837
Other	48,811	63,236
Less current portion	(51,399)	(52,214)
Total long-term debt	$ 3,904,130	$ 3,909,039

(1) Presented net of $9.6 million in unamortized original issue discount paid as part of the 2013 Term Loan Facility Amendment.

(2) Includes $2.4 million in unamortized premium received on the sale of $100.0 million aggregate principal amount of such notes.

(3) The increase in the balance from 2012 to 2013 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 the Fleet Agreement. 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.

Notes to the Consolidated Financial Statements (Continued)

Note 12. Long-Term Debt (Continued)

Term Facilities

On the 2007 Closing Date, in connection with the completion of the 2007 Merger, ServiceMaster became obligated under the Term Facilities. The Term Facilities consist of (i) the Term Loan Facility providing for term loans in an aggregate principal amount of $2.65 billion and (ii) a then new pre-funded synthetic letter of credit facility in an aggregate principal amount of $150.0 million. As of December 31, 2013, after giving effect to the 2012 Term Loan Facility Amendment and 2013 Term Loan Facility Amendment discussed below, the Company had outstanding $134.6 million of letters of credit, resulting in unused commitments under the synthetic letter of credit facility of $3.0 million.

The Term Loan Facility and the guarantees thereof are secured by substantially all of the tangible and intangible assets of ServiceMaster and certain of our domestic subsidiaries, excluding certain subsidiaries subject to regulatory requirements in various states, including pledges of all the capital stock of all direct domestic subsidiaries (other than foreign subsidiary holding companies, which are deemed to be foreign subsidiaries) owned by ServiceMaster or any Guarantor and of up to 65% of the capital stock of each direct foreign subsidiary owned by ServiceMaster or any Guarantor. The Term Loan Facility security interests are subject to certain exceptions, including, but not limited to, exceptions for (i) equity interests, (ii) indebtedness or other obligations of subsidiaries, (iii) real estate or (iv) any other assets, if the granting of a security interest therein would require that any notes issued under ServiceMaster's indenture dated as of August 15, 1997 be secured. The Term Loan Facility is secured on a *pari passu* basis with the security interests created in the same collateral securing the Revolving Credit Facility.

Pursuant to the 2012 Term Loan Facility Amendment, the Tranche B loans have a maturity date of January 31, 2017. The interest rates applicable to the Tranche B loans under the Term Loan Facility are based on a fluctuating rate of interest measured by reference to either, at ServiceMaster's option, (i) an adjusted London inter-bank offered rate (adjusted for maximum reserves), plus a borrowing margin or (ii) an alternate base rate, plus a borrowing margin. As of December 31, 2013, the borrowing margin for the outstanding Tranche B loans was 4.25 percent. The 2012 Term Loan Facility Amendment also included mechanics for future extension amendments, permits borrower buy-backs of term loans, increased the size of certain baskets and made certain other changes to the Credit Agreement, including the reduction of the availability under the synthetic letter of credit facility from $150.0 million to $137.6 million.

On February 22, 2013, the Company entered into the 2013 Term Loan Facility Amendment to amend the Credit Agreement primarily to extend the maturity date of a portion of the borrowings under the Term Loan Facility. Pursuant to the 2013 Term Loan Facility Amendment, the maturity of the outstanding Tranche A loans was extended, and such loans were converted into the Tranche C loans. The maturity date for the Tranche C loans is January 31, 2017. The interest rates applicable to the Tranche C loans under the Term Loan Facility are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) an adjusted London inter-bank offered rate (adjusted for maximum reserves) plus 3.25 percent, with a minimum adjusted London inter-bank offered rate of 1.00 percent or (ii) an alternate base rate plus 2.25 percent, with a minimum alternate base rate of 2.00 percent. As part of the 2013 Term Loan Facility Amendment, the Company paid an original issue discount equal to 1.00 percent of the outstanding borrowings, or $12.2 million. Voluntary prepayments of borrowings under the Tranche C Loans are permitted at any time, in minimum principal amounts, without premium or penalty.

Notes to the Consolidated Financial Statements (Continued)

Note 12. Long-Term Debt (Continued)

As a result of the 2012 Term Loan Facility Amendment and the 2013 Term Loan Facility Amendment, the Company has, as of December 31, 2013, approximately $2.2 billion of outstanding borrowings maturing January 31, 2017, after including the unamortized portion of the original issue discount paid. Additionally, following the 2012 Term Loan Facility Amendment and the 2013 Term Loan Facility Amendment the availability under the synthetic letter of credit facility will be reduced from the current availability of $137.6 million to $77.9 million as of July 24, 2014. The remaining $77.9 million of availability under the synthetic letter of credit will mature January 31, 2017.

The Company has historically entered into interest rate swap agreements. Under the terms of these agreements, the Company pays a fixed rate of interest on the stated notional amount and the Company receives a floating rate of interest (based on one month LIBOR) on the stated notional amount. Therefore, during the term of the swap agreements, the effective interest rate on the portion of the term loans equal to the stated notional amount is fixed at the stated rate in the interest rate swap agreements plus the incremental borrowing margin. The changes in interest rate swap agreements in effect for the years ended December 31, 2013, 2012 and 2011, as well as the cumulative interest rate swaps outstanding as of December 31, 2012 and 2011 are as follows:

(In thousands)	Notional Amount	Weighted Average Fixed Rate(1)
Interest rate swap agreements in effect as of December 31, 2011	$ 1,430,000	2.84%
Expired	(450,000)	
Interest rate swap agreements in effect as of December 31, 2012	980,000	1.70%
Expired	(980,000)	
Interest rate swap agreements in effect as of December 31, 2013	$	

(1) Before the application of the applicable borrowing margin.

In accordance with accounting standards for derivative instruments and hedging activities, and as further described in Note 18, these interest rate swap agreements are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the Consolidated Statements of Financial Position as either an asset or liability at fair value, with the effective portion of the changes in fair value attributable to the hedged risks recorded in accumulated other comprehensive income (loss).

Senior Notes

On the 2007 Closing Date, in connection with the completion of the 2007 Merger, ServiceMaster became obligated under the Interim Loan Facility. The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one to one basis into 2015 Notes.

During the fourth quarter of 2011, the Company purchased $65.0 million in face value of the 2015 Notes from Holdings for a cost of $68.0 million, which included payment of accrued interest of $3.0 million. The debt acquired by the Company has been retired, and the Company has discontinued the payment of interest. The Company recorded a loss on extinguishment of debt of $0.8 million in its Consolidated Statements of Operations and Comprehensive (Loss) Income for the

Notes to the Consolidated Financial Statements (Continued)

Note 12. Long-Term Debt (Continued)

year ended December 31, 2011 for write-offs of unamortized debt issuance costs related to the extinguished debt.

The 2020 Notes, sold in February 2012, will mature on February 15, 2020 and bear interest at a rate of 8 percent per annum. The proceeds from the 2020 Notes, sold in February 2012, together with available cash, were used to redeem $600 million in aggregate principal amount of the Company's outstanding 2015 Notes in the first quarter of 2012. The 2020 Notes, sold in August 2012, will mature on August 15, 2020 and bear interest at a rate of 7 percent per annum. The Company used a majority of the proceeds from the sale of the 2020 Notes, sold in August 2012, to redeem the remaining $396 million aggregate principal amount of its 2015 Notes and to repay $276 million of outstanding borrowings under its Term Facilities during the third quarter of 2012. The Company recorded a loss on extinguishment of debt of $55.6 million in its Consolidated Statements of Operations and Comprehensive (Loss) Income for the year ended December 31, 2012 related to these transactions and the redemption of the 2015 Notes in the first quarter of 2012 discussed above. The 2020 Notes are jointly and severally guaranteed on a senior unsecured basis by the Guarantors. The 2020 Notes are not guaranteed by the Non-Guarantors.

The 2020 Notes are senior unsecured obligations of ours and rank equally in right of payment with all of our other existing and future senior unsecured indebtedness. The subsidiary guarantees are general unsecured senior obligations of the Guarantors and rank equally in right of payment with all of the existing and future senior unsecured indebtedness of our Non-Guarantors. The 2020 Notes are effectively junior to all of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

Revolving Credit Facility

On the 2007 Closing Date, in connection with the completion of the 2007 Merger, ServiceMaster became obligated under the Revolving Credit Facility. The Revolving Credit Facility provides for senior secured revolving loans and stand-by and other letters of credit. The Revolving Credit Facility limits outstanding letters of credit to $75.0 million. As of December 31, 2013 and 2012, there were no revolving loans or letters of credit outstanding under the Revolving Credit Facility. As of December 31, 2013, the Company had $324.2 million of remaining capacity available under the Revolving Credit Facility.

On November 27, 2013, the Company entered into the 2013 Revolver Amendment. Pursuant to the 2013 Revolver Amendments, after completion of the TruGreen Separation Transaction, the Company has $241.7 million of available borrowing capacity through July 23, 2014 and $182.7 million from July 24, 2014 through January 31, 2017. The Company will continue to have access to letters of credit up to $75.0 million through January 31, 2017.

The Revolving Credit Facility and the guarantees thereof are secured by the same collateral securing the Term Loan Facility, on a *pari passu* basis with the security interests created in the same collateral securing the Term Loan Facility.

The interest rates applicable to the loans under the Revolving Credit Facility will be based on a fluctuating rate of interest measured by reference to either, at the borrower's option, (1) an adjusted London inter-bank offered rate (adjusted for maximum reserves), plus a borrowing margin (2.50 percent as of December 31, 2013) or (2) an alternate base rate, plus a borrowing margin (2.50 percent as of December 31, 2013). The borrowing margin, in each case, will be adjusted from

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 12. Long-Term Debt (Continued)

time to time based on the Consolidated Secured Leverage Ratio (as defined in the Revolving Credit Agreement) for the previous fiscal quarter.

The agreements governing the Term Facilities, the 2020 Notes and the Revolving Credit Facility contain certain covenants that, among other things, limit or restrict the incurrence of additional indebtedness, liens, sales of assets, certain payments (including dividends) and transactions with affiliates, subject to certain exceptions. The Company was in compliance with the covenants under these agreements at December 31, 2013.

As of December 31, 2013, future scheduled long-term debt payments are $51.3 million, $62.2 million, $44.0 million, $2.149 billion and $90.5 million for the years ended December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

Note 13. 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 Consolidated Statements of Financial Position. As of December 31, 2013 and 2012, the Company's investments consist 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 December 31, 2013 and 2012 is as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, December 31, 2013:				
Debt securities	$ 96,809	$ 2,611	$ (795)	$ 98,625
Equity securities	41,268	8,946	(207)	50,007
Total securities	$ 138,077	$ 11,557	$ (1,002)	$ 148,632

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, December, 31, 2012:				
Debt securities	$ 99,071	$ 5,773	$ (20)	$ 104,824
Equity securities	38,786	3,809	(1,616)	40,979
Total securities	$ 137,857	$ 9,582	$ (1,636)	$ 145,803

The portion of unrealized losses which had been in a loss position for more than one year was $0.1 million and $1.5 million as of December 31, 2013 and 2012, respectively. The aggregate fair value of the investments with unrealized losses was $30.2 million and $13.1 million as of December 31, 2013 and 2012, respectively.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 13. Cash and Marketable Securities (Continued)

Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income in the period they are realized. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes.

The table below summarizes proceeds, gross realized gains, gross realized losses, each resulting from sales of available-for-sale securities, and impairment charges due to other than temporary declines in the value of certain investments.

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Proceeds from sales of securities	$ 23,305	$ 22,612	$ 45,065
Gross realized gains, pre-tax	2,272	1,990	6,065
Gross realized gains, net of tax	1,386	1,218	3,714
Gross realized losses, pre-tax	(640)	(20)	(249)
Gross realized losses, net of tax	(390)	(12)	(153)
Impairment charges, pre-tax			(195)
Impairment charges, net of tax			(119)

Note 14. 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 Consolidated Statements of Operations and Comprehensive Income (Loss) and Consolidated Statements of Shareholder's Equity.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 14. Comprehensive Income (Loss) (Continued)

The following table summarizes the activity in other comprehensive income (loss) and the related tax effects.

(In thousands)	Unrealized Losses on Derivatives	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2011	$ (14,268)	$ 4,330	$ 3,726	$ (6,212)
Other comprehensive loss before reclassifications:				
Pre-tax amount	(387)	(1,473)	(426)	(2,286)
Tax provision (benefit)	184	(781)		(597)
After tax amount	(571)	(692)	(426)	(1,689)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	12,810	1,657		14,467
Net current period other comprehensive income (loss)	12,239	965	(426)	12,778
Balance as of December 31, 2012	$ (2,029)	$ 5,295	$ 3,300	$ 6,566
Other comprehensive income (loss) before reclassifications				
Pre-tax amount	494	4,728	(3,974)	1,248
Tax provision (benefit)	(107)	2,052		1,945
After tax amount	601	2,676	(3,974)	(697)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	2,034	(1,292)		742
Net current period other comprehensive income (loss)	2,635	1,384	(3,974)	45
Balance as of December 31, 2013	$ 606	$ 6,679	$ (674)	6,611

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

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 14. Comprehensive Income (Loss) (Continued)

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

(In thousands)	Amount Reclassified from Accumulated Other Comprehensive Income As of December 31 2013	2012	2011	Consolidated Statements of Operations and Comprehensive (Loss) Income
(Gains) losses on derivatives:				
Fuel swap contracts	$ (1,472)	$ (1,944)	$ (10,010)	Cost of services rendered and products sold
Interest rate swap contracts	4,731	21,898	37,613	Interest expense
Net losses on derivatives	3,259	19,954	27,603	
Impact of income taxes	1,225	7,144	10,870	(Benefit) provision for income taxes
Total reclassifications related to derivatives	$ 2,034	$ 12,810	$ 16,733	
(Gains) losses on available-for-sale securities	$ (2,118)	$ 2,629	$ (6,012)	Interest and net investment income
Impact of income taxes	(826)	972	(2,225)	(Benefit) provision for income taxes
Total reclassifications related to securities	$ (1,292)	$ 1,657	$ (3,787)	
Total reclassifications for the period	$ 742	$ 14,467	$ 12,946	

Note 15. Supplemental Cash Flow Information

Supplemental information relating to the Consolidated Statements of Cash Flows is presented in the following table:

(In thousands)	Year Ended December 31, 2013	2012	2011
Cash paid for or (received from):			
Interest expense	$ 234,930	$ 235,419	$ 252,284
Interest and dividend income	(4,955)	(5,339)	(4,888)
Income taxes, net of refunds	9,922	8,839	11,677

The Company acquired $50.9 million, $47.1 million and $10.1 million of property and equipment through capital leases and other non-cash financing transactions in the years ended December 31, 2013, 2012 and 2011, respectively, which have been excluded from the Consolidated Statements of Cash Flows as non-cash investing and financing activities.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 16. Capital Stock

Effective July 24, 2007 upon completion of the 2007 Merger, the Certificate of Incorporation of Old ServiceMaster was amended to provide for the authorization of 1,000 shares of common stock to replace the previously authorized, issued and outstanding common stock. As a result of the 2007 Merger, CDRSVM Holding, LLC held 1,000 shares of Old ServiceMaster's common stock, which represented all of the authorized and issued common stock as of December 31, 2013. The Company had no other classes of capital stock, authorized or issued as of December 31, 2013.

Note 17. Stock-Based Compensation

The board of directors and stockholders of Holdings have adopted the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan (the "MSIP"). The MSIP provides for the sale of shares and deferred share units ("DSUs") of Holdings stock to ServiceMaster's executives, officers and other employees and to Holdings' directors as well as the grant of restricted stock units ("RSUs"), performance-based RSUs and options to purchase shares of Holdings to those individuals. DSUs represent a right to receive a share of common stock in the future. The board of directors of Holdings, or a committee designated by it, selects the ServiceMaster executives, officers and employees and the Holdings' directors eligible to participate in the MSIP and determines the specific number of shares to be offered or options to be granted to an individual. A maximum of 15,595,000 shares of Holdings stock is authorized for issuance under the MSIP. Holdings currently intends to satisfy any need for shares of common stock of Holdings associated with the settlement of DSUs, vesting of RSUs or exercise of options issued under the MSIP through those new shares available for issuance or any shares repurchased, forfeited or surrendered from participants in the MSIP.

All option grants under the MSIP have been, and will be, non-qualified options with a per-share exercise price no less than the fair market value of one share of Holdings stock on the grant date. Any stock options granted will generally have a term of ten years and vesting will be subject to an employee's continued employment. The board of directors of Holdings, or a committee designated by it, may accelerate the vesting of an option at any time. In addition, vesting of options will be accelerated if Holdings experiences a change in control (as defined in the MSIP) unless options with substantially equivalent terms and economic value are substituted for existing options in place of accelerated vesting. Vesting of options will also be accelerated in the event of an employee's death or disability (as defined in the MSIP). Upon a termination for cause (as defined in the MSIP), all options held by an employee are immediately cancelled. Following a termination without cause, vested options will generally remain exercisable through the earliest of the expiration of their term or three months following termination of employment (one year in the case of death, disability or retirement at normal retirement age). Unless sooner terminated by the board of directors of Holdings, the MSIP will remain in effect until November 20, 2017.

In 2013, 2012 and 2011, Holdings completed various equity offerings to certain executives, officers and employees of ServiceMaster pursuant to the MSIP. The shares sold and options granted in connection with these equity offerings are subject to and governed by the terms of the MSIP. In connection with these offerings, Holdings sold a total of 656,452; 122,853; and 495,538 shares of common stock in 2013, 2012 and 2011, respectively, at a weighted average purchase price of $10.22 per share in 2013, $14.65 per share in 2012 and $11.00 per share in 2011. In addition, Holdings granted ServiceMaster's executives, officers and employees options to purchase 2,414,973; 506,116; and 2,280,391 shares of Holdings common stock in 2013, 2012 and 2011, respectively, at a weighted average exercise price of $10.16 per share for options issued in 2013,

Notes to the Consolidated Financial Statements (Continued)

Note 17. Stock-Based Compensation (Continued)

$14.67 per share for options issued in 2012 and $11.00 per share for options issued in 2011. These options are subject to and governed by the terms of the MSIP. The per share purchase price and exercise price was based on the determination by the Compensation Committee of Holdings of the fair market value of the common stock of Holdings as of the purchase/grant dates.

All options granted to date generally will vest in four equal annual installments, subject to an employee's continued employment. The four-year vesting period is the requisite service period over which compensation cost will be recognized on a straight-line basis for all grants. All options issued are accounted for as equity-classified awards. The non-cash stock-based compensation expense associated with the MSIP is pushed down from Holdings and recorded in the Company's Consolidated Financial Statements.

The value of each option award was estimated on the grant date using the Black-Scholes option valuation model that incorporates the assumptions noted in the following table. For options granted in 2013, 2012 and 2011, the expected volatilities were based on the historical and implied volatilities of the publicly traded stock of a group of companies comparable to ServiceMaster. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using the simplified method as outlined by the SEC in Staff Accounting Bulletins No. 107 and 110. The risk-free interest rates were based on the U.S. Treasury securities with terms similar to the expected lives of the options as of the grant dates.

	Year Ended December 31,		
Assumption	**2013**	**2012**	**2011**
Expected volatility	49.2% - 49.6%	49.2% - 50.3%	31.0% - 50.3%
Expected dividend yield	0.0%	0.0%	0.0%
Expected life (in years)	6.3	6.3	6.3
Risk-free interest rate	1.69% - 2.02%	0.78% - 1.43%	1.07% - 2.65%

The weighted-average grant-date fair value of the options granted during 2013, 2012 and 2011 was $5.03, $7.06 and $4.31 per option, respectively. The Company has applied a forfeiture assumption of 18.80 percent per annum in the recognition of the expense related to these options, with the exception of the options held by the Company's CEO for which the Company has applied a forfeiture rate of zero.

A summary of option activity under the MSIP as of December 31, 2013, and changes during the year then ended is presented below:

	Stock Options	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Term (in years)**
Total outstanding, December 31, 2012	8,968,313	$ 10.49	
Granted to employees	2,414,973	$ 10.16	
Exercised	(80,000)	$ 10.00	
Forfeited	(949,128)	$ 11.21	
Expired	(2,395,584)	$ 10.31	
Total outstanding, December 31, 2013	7,958,574	$ 10.36	5.81
Total exercisable, December 31, 2013	4,930,646	$ 10.15	3.57

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 17. Stock-Based Compensation (Continued)

Holdings granted ServiceMaster's executives, officers and employees 1,037,198; 72,143; and 350,454 RSUs in 2013, 2012 and 2011, respectively, with weighted average grant date fair values of $11.39 per unit for 2013, $14.90 per unit in 2012 and $11.00 per unit in 2011, which was equivalent to the then current fair value of Holdings' common stock at the grant date. All RSUs outstanding as of December 31, 2013 will vest in three equal annual installments, subject to an employee's continued employment. Upon vesting, each RSU will be converted into one share of Holdings' common stock.

A summary of RSU activity under the MSIP as of December 31, 2013, and changes during the year then ended is presented below:

	RSUs	Weighted Avg. Grant Date Fair Value
Total outstanding, December 31, 2012	335,780	$ 11.60
Granted to employees	1,037,198	$ 11.39
Vested	(179,758)	$ 11.19
Forfeited	(474,193)	$ 12.57
Total outstanding, December 31, 2013	719,027	$ 10.69

During the years ended December 31, 2013, 2012 and 2011, the Company recognized stock-based compensation expense of $4.0 million ($2.5 million, net of tax), $7.1 million ($4.4 million, net of tax) and $8.4 million ($5.2 million, net of tax), respectively. As of December 31, 2013, there was $16.6 million of total unrecognized compensation costs related to non-vested stock options and RSUs granted by Holdings under the MSIP. These remaining costs are expected to be recognized over a weighted-average period of 3.08 years.

In 2013 and 2012, Holdings modified options held by certain executive officers of ServiceMaster. These modifications resulted in $0.1 million and $0.9 million in additional stock compensation expense, which was recorded during 2013 and 2012, respectively. There were no stock option modifications in 2011.

Note 18. 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 Consolidated Statements of Financial Position, or, for certain unrealized losses, reported in interest and net investment income in the Consolidated Statements of Operations and Comprehensive (Loss) Income if the decline in value is other than temporary. The carrying amount of total debt was $3.956 billion and $3.961 billion and the estimated fair value was $3.956 billion and $4.018 billion as of December 31, 2013 and 2012, 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 December 31, 2013 and 2012.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 18. Fair Value Measurements (Continued)

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

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

Fuel swap contracts are valued using forward fuel price curves obtained from third-party market data providers. The fair value of each contract is the sum of expected future settlements between 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 the years ended December 31, 2013 or 2012.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 18. Fair Value Measurements (Continued)

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 December 31, 2013		
			Estimated Fair Value Measurements		
(In thousands)	**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	$ 12,476	$ 12,476	$	$
Investments in marketable securities	Marketable securities and Long-term marketable securities	136,156	60,753	75,403	
Fuel swap contracts:					
Current	Prepaid expenses and other assets	963			963
Total financial assets		$ 149,595	$ 73,229	$ 75,403	$ 963

			As of December 31, 2012		
			Estimated Fair Value Measurements		
(In thousands)	**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	$ 11,987	$ 11,987	$	$
Investments in marketable securities	Marketable securities and Long-term marketable securities	133,816	45,152	88,664	
Fuel swap contracts:					
Current	Prepaid expenses and other assets	1,957			1,957
Total financial assets		$ 147,760	$ 57,139	$ 88,664	$ 1,957
Financial Liabilities:					

Fuel swap contracts:									
Current	Other accrued liabilities	$	113	$		$		$	113
Interest rate swap contracts	Other accrued liabilities(1)		7,349				7,349		
Total financial liabilities		$	7,462	$		$	7,349	$	113

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 18. Fair Value Measurements (Continued)

The carrying amount and estimated fair value of the Company's assets that were recorded at fair value on a nonrecurring basis during 2013 are as follows:

			As of December 31, 2013 Estimated Fair Value Measurements		
(In thousands)	**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)**
TruGreen Trade Name(1)	Intangible assets, primarily trade names, service marks and trademarks, net	$ 351,000	$	$	$ 351,000
TruGreen Goodwill(2)	Goodwill				

(1) In 2013, the Company recognized a non-cash impairment charge of $255.8 million to reduce the carrying value of the TruGreen trade name to its fair value of $351.0 million. See Note 1 for further information regarding the factors that led to the completion of the interim impairment analysis along with a description of the methodology, assumptions and significant unobservable inputs used to estimate the fair value of the TruGreen trade name.

(2) In 2013, the Company recognized a non-cash impairment charge of $417.5 million to reduce the carrying value of TruGreen's goodwill to its implied fair value of zero. See Note 1 for further information regarding the factors that led to the completion of the interim impairment analysis along with a description of the methodology, assumptions and significant unobservable inputs used to estimate the fair value of TruGreen's goodwill.

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 thousands)	**Fuel Swap Contract (Liabilities) Assets**
Balance as of December 31, 2011	$ (733)
Total gains (losses) (realized and unrealized):	
Included in earnings	1,944
Included in accumulated other comprehensive income	2,577
Settlements, net	(1,944)
Balance as of December 31, 2012	1,844
Total gains (realized and unrealized):	
Included in earnings	1,472
Included in accumulated other comprehensive income	(881)
Settlements, net	(1,472)

Balance as of December 31, 2013	$	963

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 18. Fair Value Measurements (Continued)

The following table presents information relating to the significant unobservable inputs of our Level 3 financial instruments as of December 31, 2013 and 2012:

Item	Fair Value as of December 31, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Fuel swap contracts	$ 963	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	$3.20 - $3.87	$ 3.60

Item	Fair Value as of December 31, 2012 (in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Fuel swap contracts	$ 1,844	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	$3.36 - $3.73	$ 3.55
			Forward Diesel Price per Gallon(1)	$3.88 - $3.96	$ 3.90

(1) Forward price per gallon for unleaded and diesel 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 historically used approximately 20 million gallons of fuel on an annual basis, with Terminix using approximately 11 million gallons. 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 December 31, 2013. 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 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 (loss). 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 Consolidated Statements of Cash Flows, other than cash flows related to one amended interest rate swap which are classified as financing activities.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 18. Fair Value Measurements (Continued)

The effect of derivative instruments on the Consolidated Statements of Operations and Comprehensive (Loss) Income and accumulated other comprehensive income (loss) on the Consolidated Statements of Financial Position is presented as follows:

(In thousands) Derivatives designated as Cash Flow Hedge Relationships	Effective Portion of Gain Recognized in Accumulated Other Comprehensive Income (Loss)	Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Earnings	Location of Gain (Loss) included in Earnings
	Year ended December 31, 2013		
Fuel swap contracts	(881)	1,472	Cost of services rendered and products sold
Interest rate swap contracts	4,631	(4,731)	Interest expense

Derivatives designated as Cash Flow Hedge Relationships	Effective Portion of Gain Recognized in Accumulated Other Comprehensive Income (Loss)	Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income	Location of (Loss) Gain included in Income
	Year ended December 31, 2012		
Fuel swap contracts	$ 2,577	$ 1,944	Cost of services rendered and products sold
Interest rate swap contracts	$ 17,114	$ (21,898)	Interest expense

Ineffective portions of derivative instruments designated in accordance with accounting standards as cash flow hedge relationships were insignificant during the year ended December 31, 2013. As of December 31, 2013, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $26.0 million, maturing through 2014. 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 December 31, 2013, the Company had posted $2.5 million in letters of credit as collateral under its fuel hedging program, none of which were posted under the Company's 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 (loss). 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 (loss) expected to be recognized in earnings is a gain of $0.6 million, net of tax, as of December 31, 2013. 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 19. Subsequent Events

On January 14, 2014, Holdings completed the TruGreen Separation Transaction resulting in the spin-off of the assets and certain liabilities of the TruGreen Business through a tax-free, pro rata

Notes to the Consolidated Financial Statements (Continued)

Note 19. Subsequent Events (Continued)

dividend to the stockholders of Holdings. As a result of the completion of the TruGreen Separation Transaction, New TruGreen operates the TruGreen Business as a private independent company.

ServiceMaster historically incurred the cost of certain corporate-level activities which it performed on behalf of the TruGreen Business. Such corporate costs include: accounting and finance, legal, human resources, information technology, insurance, operations, real estate, tax services and other costs. These costs will be transitioned to New TruGreen through a combination of (1) immediate transfers of certain activities to New TruGreen and (2) payments to ServiceMaster by New TruGreen under transition services agreements.

In February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. This decision will allow us to more effectively focus our energy and resources on driving growth and serving our customers. Important factors that led to this decision include:

- the ongoing operational costs of the new operating system are high;
- plans to achieve economies of scale by expanding the technology beyond American Home Shield to other business units were adversely impacted by the TruGreen Separation Transaction;
- enhancements to our existing operating system enabled it to support our needs;
- certain planned benefits of the new operating system can be achieved through other means; and
- we will now be able to invest our resources in areas that will allow us to focus on growing our business.

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

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

The payment obligations of the Company under the 2020 Notes are jointly and severally guaranteed on a senior unsecured basis by the Guarantors. Each of the Guarantors is wholly owned, directly or indirectly, by the Company, and all guarantees are full and unconditional. 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 the Company, (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 the Company's obligations under the indenture governing the 2020 Notes, or (vi) the payment in full of the principal amount of the 2020 Notes.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Note 20. Condensed Consolidating Financial Statements of The ServiceMaster Company, LLC and Subsidiaries (Continued)

THE SERVICEMASTER COMPANY, LLC AND SUBSIDIARIES
Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income
For the Year Ended December 31, 2013
(In thousands)

	Parent Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 2,373,574	$ 882,033	$ (66,772)	$ 3,188,835
Cost of services rendered and products sold		1,568,645	403,253	(65,844)	1,906,054
Selling and administrative expenses	11,764	521,996	387,142	(424)	920,478
Amortization expense		52,562	2,970		55,532
Goodwill and trade name impairment		667,990	5,263		673,253
Restructuring charges	13,398	3,844	3,598		20,840
Interest expense	110,995	137,701	337		249,033
Interest and net investment (income) loss	(1,542)	4,744	(11,811)	(504)	(9,113)
(Loss) Income from Continuing Operations before Income Taxes	(134,615)	(583,908)	91,281		(627,242)
(Benefit) provision for income taxes	(35,448)	(170,532)	83,074		(122,906)
Equity in losses of joint venture			(468)		(468)
(Loss) Income from Continuing Operations	(99,167)	(413,376)	7,739		(504,804)
(Loss) income from discontinued operations, net of income taxes		(1,254)	119		(1,135)
Equity in earnings of subsidiaries (net of tax)	(406,772)	7,669		399,103	
Net (Loss) Income	$ (505,939)	$ (406,961)	$ 7,858	$ 399,103	$ (505,939)
Total Comprehensive (Loss) Income	$ (505,894)	$ (406,890)	$ 5,292	$ 401,598	$ (505,894)

Notes to the Consolidated Financial Statements (Continued)

Note 20. Condensed Consolidating Financial Statements of The ServiceMaster Company, LLC and Subsidiaries (Continued)

THE SERVICEMASTER COMPANY, LLC AND SUBSIDIARIES
Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income
For the Year Ended December 31, 2012
(In thousands)

	Parent Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 2,401,526	$ 851,010	$ (59,255)	$ 3,193,281
Cost of services rendered and products sold		1,512,389	407,724	(58,444)	1,861,669
Selling and administrative expenses	8,368	478,820	385,263	(425)	872,026
Amortization expense		61,540	3,758		65,298
Goodwill and trade name impairment		897,732	11,141		908,873
Restructuring charges		7,748	10,429		18,177
Interest expense (income)	178,427	85,881	(17,402)		246,906
Interest and net investment loss (income)	1,100	9,991	(18,550)	(386)	(7,845)
Loss on extinguishment of debt	55,554				55,554
(Loss) Income from Continuing Operations before Income Taxes	(243,449)	(652,575)	68,647		(827,377)
(Benefit) provision for income taxes	(82,895)	(101,629)	70,264		(114,260)
Equity in losses of joint venture			(226)		(226)
Loss from Continuing Operations	(160,554)	(550,946)	(1,843)		(713,343)
(Loss) income from discontinued operations, net of income taxes		(202)	2		(200)
Equity in earnings of subsidiaries (net of tax)	(552,989)	4,034		548,955	
Net Loss	$ (713,543)	$ (547,114)	$ (1,841)	$ 548,955	$ (713,543)
Total Comprehensive Loss	$ (700,765)	$ (546,632)	$ (2,179)	$ 548,811	$ (700,765)