

SERVICEMASTER CO
Form 10-Q
August 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

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

For the transition period from _____ to _____

Commission file number 1-14762

THE SERVICEMASTER COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3858106
(IRS Employer Identification No.)

860 Ridge Lake Boulevard, Memphis, Tennessee 38120
(Address of principal executive offices) (Zip Code)
901-597-1400
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Exchange Act Rule 12b-2.

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock: 1,000 shares of common stock on August 9, 2007.

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PART I. FINANCIAL INFORMATION
THE SERVICEMASTER COMPANY
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Operating Revenue	\$ 1,026,576	\$ 1,024,624	\$ 1,722,471	\$ 1,687,011
Operating Costs and Expenses:				
Cost of services rendered and products sold	603,425	611,862	1,062,416	1,046,532
Selling and administrative expenses	278,422	263,056	480,182	458,876
Amortization expense	2,875	3,325	5,706	5,410
Restructuring charges	8,260	6,286	15,318	9,838
Merger related expenses	2,794		5,334	
Total operating costs and expenses	895,776	884,529	1,568,956	1,520,656
Operating Income	130,800	140,095	153,515	166,355
Non-operating Expense (Income):				
Interest expense	13,896	16,093	28,179	30,523
Interest and investment income, net	(18,118)	(1,213)	(26,184)	(11,549)
Minority interest and other expense, net	1,472	2,074	3,521	4,123
Income from Continuing Operations before Income Taxes	133,550	123,141	147,999	143,258
Provision for income taxes	45,246	48,395	51,067	56,301
Income from Continuing Operations	88,304	74,746	96,932	86,957
Income (loss) from discontinued operations, net of income taxes	327	2,400	248	(24,124)
Net Income	\$ 88,631	\$ 77,146	\$ 97,180	\$ 62,833
Per Share:				
Basic Earnings Per Share:				
Income from continuing operations	\$ 0.30	\$ 0.26	\$ 0.33	\$ 0.30
Income (loss) from discontinued operations		0.01		(0.08)
Basic earnings per share	\$ 0.30	\$ 0.27	\$ 0.33	\$ 0.22
<i>Shares</i>	294,872	290,748	293,001	291,146
Diluted Earnings Per Share:				
Income from continuing operations	\$ 0.29	\$ 0.25	\$ 0.33	\$ 0.29
Income (loss) from discontinued operations		0.01		(0.08)
Diluted earnings per share	\$ 0.29	\$ 0.26	\$ 0.33	\$ 0.21

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<i>Shares</i>	304,226	302,728	302,921	295,459
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See Notes to Condensed Consolidated Financial Statements

THE SERVICEMASTER COMPANY
Condensed Consolidated Statements of Financial Position (Unaudited)
(In thousands, except per share data)

	<u>As of June 30,</u> <u>2007</u>	<u>As of December 31,</u> <u>2006</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 192,698	\$ 123,675
Marketable securities	114,959	109,992
Receivables, less allowance of \$30,489 and \$26,759, respectively	457,402	407,409
Inventories	79,876	69,107
Prepaid expenses and other assets	58,705	25,868
Deferred customer acquisition costs	59,702	37,427
Deferred taxes	32,193	37,400
Assets of discontinued operations	301	2,343
	<u> </u>	<u> </u>
Total Current Assets	995,836	813,221
	<u> </u>	<u> </u>
Property and Equipment:		
At cost	432,531	413,810
Less: accumulated depreciation	(255,143)	(236,602)
	<u> </u>	<u> </u>
Net property and equipment	177,388	177,208
	<u> </u>	<u> </u>
Other Assets:		
Goodwill	1,674,953	1,648,258
Intangible assets, primarily trade names, net	249,335	249,217
Notes receivable	27,982	