SERVICEMASTER CO
Form 10-Q
November 14, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission file number 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 x 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 x No o

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

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

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

The registrant is a privately held corporation and its equity shares are not publicly traded. At November 14, 2013, 1,000 shares of the registrant s common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

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

(In thousands)

	Three months ended September 30, 2013	Three months ended September 30, 2012
Operating Revenue	$ 928,822	$ 900,693
Operating Costs and Expenses:		
Cost of services rendered and products sold	534,805	514,649
Selling and administrative expenses	254,313	245,992
Amortization expense	13,835	15,171
Goodwill and trade name impairment		845,173
Restructuring charges	5,756	3,322
Total operating costs and expenses	808,709	1,624,307
Operating Income (Loss)	120,113	(723,614)
Non-operating Expense (Income):		
Interest expense	63,336	62,257
Interest and net investment income	(2,360)	(3,961)
Loss on extinguishment of debt		16,361
Other expense	148	141
Income (Loss) from Continuing Operations before Income Taxes	58,989	(798,412)
Provision (Benefit) for income taxes	12,572	(94,303)
Equity in losses of joint venture	(50)	(50)
Income (Loss) from Continuing Operations	46,367	(704,159)
Loss from discontinued operations, net of income taxes	(679)	(203)
Net Income (Loss)	$ 45,688	$ (704,362)
Total Comprehensive Income (Loss)	$ 47,688	$ (698,594)

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(In thousands)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Operating Revenue	$ 2,475,591	$ 2,517,547
Operating Costs and Expenses:		
Cost of services rendered and products sold	1,459,288	1,434,191
Selling and administrative expenses	715,639	679,291
Amortization expense	41,663	50,962
Goodwill and trade name impairment	673,253	912,873
Restructuring charges	9,331	12,338
Total operating costs and expenses	2,899,174	3,089,655
Operating Loss	(423,583)	(572,108)
Non-operating Expense (Income):		
Interest expense	187,034	186,771
Interest and net investment income	(6,528)	(7,999)
Loss on extinguishment of debt		55,554
Other expense	435	492
Loss from Continuing Operations before Income Taxes	(604,524)	(806,926)
Benefit for income taxes	(118,110)	(95,956)
Equity in losses of joint venture	(164)	(161)
Loss from Continuing Operations	(486,578)	(711,131)
Loss from discontinued operations, net of income taxes	(1,075)	(289)
Net Loss	$ (487,653)	$ (711,420)
Total Comprehensive Loss	$ (486,619)	$ (698,958)

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position (Unaudited)

(In thousands, except share data)

	As of September 30, 2013	As of December 31, 2012
Assets:		
Current Assets:		
Cash and cash equivalents	$ 358,506	$ 422,745
Marketable securities	39,199	19,347
Receivables, less allowances of $35,991 and $21,347, respectively	499,504	403,705
Inventories	58,263	56,562
Prepaid expenses and other assets	75,698	37,344
Deferred customer acquisition costs	46,154	33,921
Deferred taxes	102,476	107,499
Total Current Assets	1,179,800	1,081,123
Property and Equipment:		
At cost	721,802	633,582
Less: accumulated depreciation	(353,960)	(293,534)
Net Property and Equipment	367,842	340,048
Other Assets:		
Goodwill	2,015,489	2,412,251
Intangible assets, primarily trade names, service marks and trademarks, net	2,082,100	2,373,469
Notes receivable	35,960	22,419
Long-term marketable securities	127,452	126,456
Other assets	46,851	10,197
Debt issuance costs	43,057	44,951
Total Assets	$ 5,898,551	$ 6,410,914
Liabilities and Shareholder s Equity:		
Current Liabilities:		
Accounts payable	$ 126,881	$ 86,710
Accrued liabilities:		
Payroll and related expenses	80,610	78,188
Self-insured claims and related expenses	97,705	83,035
Accrued interest payable	19,224	54,156
Other	61,883	58,994
Deferred revenue	514,305	483,897
Liabilities of discontinued operations	1,220	905
Current portion of long-term debt	60,067	52,214
Total Current Liabilities	961,895	898,099
Long-Term Debt	3,907,930	3,909,039
Other Long-Term Liabilities:		
Deferred taxes	803,370	934,271
Other long-term obligations, primarily self-insured claims	153,973	114,855
Total Other Long-Term Liabilities	957,343	1,049,126
Commitments and Contingencies (See Note 4)		

Shareholder s Equity:				
Common stock $0.01 par value, authorized 1,000 shares; issued 1,000 shares				
Additional paid-in capital		1,475,141		1,471,789
Retained deficit		(1,411,358)		(923,705)
Accumulated other comprehensive income		7,600		6,566
Total Shareholder s Equity		71,383		554,650
Total Liabilities and Shareholder s Equity	$	5,898,551	$	6,410,914

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine months ended September 30, 2013	2012
Cash and Cash Equivalents at Beginning of Period	$ 422,745	$ 328,930
Cash Flows from Operating Activities from Continuing Operations:		
Net Loss	(487,653)	(711,420)
Adjustments to reconcile net loss to net cash provided from operating activities:		
Loss from discontinued operations, net of income taxes	1,075	289
Equity in losses of joint venture	164	161
Depreciation expense	69,568	59,241
Amortization expense	41,663	50,962
Amortization of debt issuance costs	7,469	9,918
Loss on extinguishment of debt		55,554
Call premium paid on retirement of debt		(42,893)
Premium received on issuance of debt		3,000
Deferred income tax benefit	(127,193)	(105,610)
Stock-based compensation expense	3,352	5,131
Goodwill and trade name impairment	673,253	912,873
Restructuring charges	9,331	12,338
Cash payments related to restructuring charges	(8,531)	(11,724)
Change in working capital, net of acquisitions:		
Current income taxes	(2,847)	1,512
Receivables	(94,044)	(104,436)
Inventories and other current assets	(30,840)	(18,637)
Accounts payable	40,906	36,338
Deferred revenue	30,297	(9,820)
Accrued liabilities	(17,810)	(60,941)
Other, net	899	18,273
Net Cash Provided from Operating Activities from Continuing Operations	109,059	100,109
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(57,701)	(61,596)
Sale of equipment and other assets	1,138	1,298
Other business acquisitions, net of cash acquired	(22,577)	(29,946)
Notes receivable, financial investments and securities, net	(22,053)	(7,927)
Notes receivable from affiliate	(11,973)	
Net Cash Used for Investing Activities from Continuing Operations	(113,166)	(98,171)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt	855	1,350,000
Payments of debt	(41,772)	(1,319,855)
Discount paid on issuance of debt	(12,200)	
Debt issuance costs paid	(5,575)	(32,304)
Net Cash Used for Financing Activities from Continuing Operations	(58,692)	(2,159)
Cash Flows from Discontinued Operations:		
Cash used for operating activities	(1,440)	(611)

Cash used for investing activities:				
Proceeds from sale of businesses				(3,549)
Net Cash Used for Discontinued Operations		(1,440)		(4,160)
Cash Decrease During the Period		(64,239)		(4,381)
Cash and Cash Equivalents at End of Period	$	358,506	$	324,549

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The ServiceMaster Company (ServiceMaster, the Company, we, us or our) is a global company serving both residential and commercial customers. ServiceMaster s services include termite and pest control, lawn care, home warranties and preventative maintenance contracts, cleaning and disaster restoration, house cleaning, wood furniture repair and home inspection. ServiceMaster provides these services through a network of company-owned, franchised and licensed locations operating primarily under the following leading brands: Terminix, TruGreen, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec.

The condensed 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. ServiceMaster is organized into five principal reportable segments: Terminix, TruGreen, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters. Intercompany transactions and balances have been eliminated.

The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The Company recommends that the quarterly condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC (the 2012 Form 10-K). The condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not indicative of the results that might be achieved for a full year.

On July 24, 2007 (the Closing Date), ServiceMaster was acquired pursuant to a merger transaction (the Merger), and, immediately following the completion of the Merger, all of the outstanding common stock of ServiceMaster Global Holdings, Inc. (Holdings), the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliated with, Clayton, Dubilier & Rice, LLC (CD&R), 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 LLC (StepStone) and its proprietary interests in such investment funds to Lexington Partners Advisors LP.

The Company has announced that Holdings is planning a transaction (the Transaction) to spin off the TruGreen business through a tax-free, pro rata dividend to the stockholders of Holdings. The Company is working toward a separation of TruGreen from the Company on or about December 31, 2013. Upon completion of the Transaction, TruGreen will be an independent, private company. The Company will not receive any payment or consideration in the Transaction, and the Company has no plans to repay any of its outstanding indebtedness as a result of the Transaction. The proposed separation of TruGreen from the Company is a complex transaction and is subject to approval by the board of directors of Holdings and various other important closing conditions. There can be no assurance that we will undertake, or complete, the Transaction.

Note 2. Significant Accounting Policies

The Company s significant accounting policies are included in the 2012 Form 10-K. The following selected accounting policies should be read in conjunction with the 2012 Form 10-K.

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, AmeriSpec, Furniture Medic and Merry Maids 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 license. These initial franchise or license fees are pre-established, fixed

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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 $20.3 million and $17.2 million for the three months ended September 30, 2013 and 2012, respectively, and $59.0 million and $50.8 million for the nine months ended September 30, 2013 and 2012, respectively. Consolidated operating income from continuing operations was $120.1 million for the three months ended September 30, 2013 compared to consolidated operating loss from continuing operations of $723.6 million for the three months ended September 30, 2012. Consolidated operating loss from continuing operations was $423.6 million and $572.1 million for the nine months ended September 30, 2013 and 2012, 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 condensed consolidated financial statements for all periods.

The Company had $514.3 million and $483.9 million of deferred revenue as of September 30, 2013 and December 31, 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.

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 $46.2 million and $33.9 million as of September 30, 2013 and December 31, 2012, respectively.

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

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

The preparation of the condensed consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. Disclosures in the 2012 Form 10-K presented the significant areas requiring the use of management estimates and discussed how management formed its judgments. The areas discussed included revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers compensation, auto and general liability insurance claims; accruals for home 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.

Newly Issued Accounting Statements and Positions

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 condensed consolidated financial statements.

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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 required provisions of this standard during the first quarter of 2013. The disclosures required by this standard are presented in Note 7 of the Company s notes to its condensed 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 Company is currently evaluating the effects that this guidance will have on its condensed consolidated financial statements.

Note 3. Restructuring Charges

The Company incurred restructuring charges of $5.8 million ($5.2 million, net of tax) and $3.3 million ($2.0 million, net of tax) for the three months ended September 30, 2013 and 2012, respectively, and $9.3 million ($7.4 million, net of tax) and $12.3 million ($7.5 million, net of tax) for the nine months ended September 30, 2013 and 2012, respectively. Restructuring charges were comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2013**	**2012**	**2013**	**2012**
Terminix branch optimization (1)	$ 139	$ 77	$ 1,101	$ 2,894
TruGreen reorganization and restructuring (2)	941	1,123	1,347	1,943
American Home Shield reorganization (3)		536		536
ServiceMaster Clean reorganization (3)	51	154	350	621
TruGreen strategic initiatives(4)	4,267		4,267	
Centers of excellence initiative(5)	358	1,432	2,266	6,344
Total restructuring charges	$ 5,756	$ 3,322	$ 9,331	$ 12,338

(1) For the three months ended September 30, 2013, these charges included lease termination costs. For the nine months ended September 30, 2013, these charges included severance costs of $0.1 million and lease termination costs of $1.0 million. For the three and nine months ended September 30, 2012, these charges included lease termination costs.

(2) For the three and nine months ended September 30, 2013 and the three months ended September 30, 2012, these charges included severance costs. For the nine months ended September 30, 2012, these charges included severance costs of $1.4 million and lease

termination costs of $0.5 million.

(3) For the three and nine months ended September 30, 2013 and 2012, these charges included severance costs.

(4) Represents external incremental expenses incurred by the Company directly related to the potential transaction to separate TruGreen from the Company. For the three and nine months ended September 30, 2013, these charges included professional fees.

(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 three months ended September 30, 2013, these charges included severance and other costs. For the three months ended September 30, 2012, these charges included professional fees of $0.7 million and

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severance and other costs of $0.7 million. For the nine months ended September 30, 2013 and 2012, these charges included professional fees of $1.4 million and $2.1 million, respectively, and severance and other costs of $0.9 million and $4.2 million, respectively.

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

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

(In thousands)		Accrued Restructuring Charges
Balance as of December 31, 2012	$	4,542
Costs incurred		9,331
Costs paid or otherwise settled		(8,531)
Balance as of September 30, 2013	$	5,342

Note 4. Commitments and Contingencies

A portion of the Company s vehicle fleet and some equipment are leased through month-to-month operating leases, cancelable at the Company s option. There are residual value guarantees by the Company (which approximated 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 September 30, 2013, the Company s residual value guarantees related to the leased assets totaled $13.3 million, for which the Company has recorded a liability for the estimated fair value of these guarantees of $0.2 million in the condensed consolidated statement of financial position.

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

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

(In thousands)		**Accrued Self-insured Claims, Net**
Balance as of December 31, 2012	$	103,825
Provision for self-insured claims		37,475
Cash payments		(31,487)
Balance as of September 30, 2013	$	109,813

(In thousands)		**Accrued Self-insured Claims, Net**
Balance as of December 31, 2011	$	108,082
Provision for self-insured claims		30,610
Cash payments		(28,579)
Balance as of September 30, 2012	$	110,113

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

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

Note 5. Goodwill and Intangible Assets

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

Based on the circumstances discussed below, interim impairment assessments for TruGreen s goodwill and indefinite-lived trade name were conducted for the quarter ended June 30, 2013. During the third quarter of 2013, the Company finalized its June 30, 2013 TruGreen impairment assessment and had no adjustments to the impairment charges recorded in the second quarter of 2013. Based on the interim impairment assessment, the results of operations for the nine months ended September 30, 2013 include a non-cash goodwill impairment charge of $417.5 million to reduce the carrying value of TruGreen s goodwill to its estimated fair value of zero as of June 30, 2013. The results of operations for the three and nine months ended September 30, 2012 include a non-cash goodwill impairment charge of $794.2 million to reduce the carrying value of TruGreen s goodwill to its then estimated fair value. The results of operations for the nine months ended September 30, 2013 also include a non-cash trade name impairment charge of $255.8 million to reduce the carrying value of the TruGreen trade name to its estimated fair value of $351.0 million as of June 30, 2013. The results of operations for the three and nine months ended September 30, 2012 include non-cash trade name impairment charges of $51.0 million and $118.7 million, respectively, to reduce the carrying value of the TruGreen trade name to its then estimated fair value.

Goodwill Impairment

Based on the revenue and operating results of TruGreen in the first six months of 2013 and the outlook for the remainder of 2013 and future years, the Company concluded there was an impairment indicator requiring an interim goodwill impairment assessment for TruGreen as of June 30, 2013. The Company estimated that the implied fair value of goodwill as of such date was less than the carrying value for TruGreen by $417.5 million, which was recorded as a non-cash goodwill impairment charge in the second quarter of 2013. As of September 30, 2013, there was no goodwill remaining at TruGreen.

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 typically 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. However, due to the significant decline in TruGreen s performance over the trailing 12 month period and the outlook for the remainder of 2013 and future years, the market-based comparable and market-based transaction approaches were determined to no longer provide a meaningful measure of fair value and were excluded from the interim impairment analysis performed in the second quarter of 2013. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis for TruGreen were based on the Company s most recent forecast for 2013 and the Company s projections for future years, which were

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based on estimated revenue growth rates and profit margins. The discount rate used in the DCF analysis was intended to reflect the risks inherent in the future cash flows of TruGreen. 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 based on the first step analysis, as was the case in TruGreen s second quarter 2013 interim test, 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.