

SERVICEMASTER CO
Form 10-Q
November 16, 2009

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 September 30, 2009

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)

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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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The registrant is a privately held corporation and its equity shares are not publicly traded. At November 12, 2009, 1,000 shares of the registrant's common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Three months ended September 30,	
	2009	2008
Operating Revenue	\$ 920,514	\$ 948,073
Operating Costs and Expenses:		
Cost of services rendered and products sold	527,445	559,555
Selling and administrative expenses	249,302	235,172
Amortization expense	40,429	40,450
Merger related charges	786	412
Restructuring charges	7,712	1,813
Total operating costs and expenses	825,674	837,402
Operating Income	94,840	110,671
Non-operating Expense (Income):		
Interest expense	74,216	83,886
Interest and net investment income	(4,558)	(244)
Other expense	176	141
Income from Continuing Operations before Income Taxes	25,006	26,888
Provision for income taxes	4,102	8,683
Income from Continuing Operations	20,904	18,205
Loss from discontinued operations, net of income taxes	(396)	(1,186)
Net Income	\$ 20,508	\$ 17,019

See accompanying Notes to the Condensed Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY
Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Nine months ended September 30,	
	2009	2008
Operating Revenue	\$ 2,523,733	\$ 2,577,609
Operating Costs and Expenses:		
Cost of services rendered and products sold	1,475,218	1,566,657
Selling and administrative expenses	662,994	653,402
Amortization expense	121,139	133,092
Merger related charges	2,234	767
Restructuring charges	20,625	9,143
Total operating costs and expenses	2,282,210	2,363,061
Operating Income	241,523	214,548
Non-operating Expense (Income):		
Interest expense	225,538	256,897
Interest and net investment (income) loss	(3,192)	1,637
Gain on extinguishment of debt	(46,106)	
Other expense	555	418
Income (Loss) from Continuing Operations before Income Taxes	64,728	(44,404)
Provision (Benefit) for income taxes	20,720	(8,341)
Income (Loss) from Continuing Operations	44,008	(36,063)
Loss from discontinued operations, net of income taxes	(666)	(4,670)
Net Income (Loss)	\$ 43,342	\$ (40,733)

See accompanying Notes to the Condensed Consolidated Financial Statements

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position

(In thousands, except share data)

	As of September 30, 2009 (Unaudited)	As of December 31, 2008 (Audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 207,873	\$ 405,587
Marketable securities	18,544	22,928
Receivables, less allowance of \$22,620 and \$21,138, respectively	394,349	335,927
Inventories	77,936	80,018
Prepaid expenses and other assets	46,066	37,648
Deferred customer acquisition costs	40,666	36,514
Deferred taxes	34,890	42,945
Assets of discontinued operations	56	412
Total Current Assets	820,380	961,979
Property and Equipment:		
At cost	334,977	287,818
Less: accumulated depreciation	(118,833)	(72,189)
Net property and equipment	216,144	215,629
Other Assets:		
Goodwill	3,110,492	3,093,909
Intangible assets, primarily trade names, service marks and trademarks, net	2,852,525	2,967,984
Notes receivable	24,083	25,628
Long-term marketable securities	111,204	110,134
Other assets	33,581	35,350
Debt issuance costs	70,446	83,014
Total Assets	\$ 7,238,855	\$ 7,493,627
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 82,805	\$ 89,242
Accrued liabilities:		
Payroll and related expenses	79,990	83,036
Self-insured claims and related expenses	81,877	91,923
Other	128,298	202,174
Deferred revenue	442,518	443,426
Liabilities of discontinued operations	2,449	4,870
Current portion of long-term debt	104,851	221,269
Total Current Liabilities	922,788	1,135,940
Long-Term Debt	3,917,874	4,044,823
Other Long-Term Liabilities:		
Deferred taxes	987,981	981,746
Liabilities of discontinued operations	4,027	4,077
Other long-term obligations, primarily self-insured claims	201,639	194,682
Total Other Long-Term Liabilities	1,193,647	1,180,505

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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	1,444,424	1,438,432
Retained deficit	(206,577)	(249,919)
Accumulated other comprehensive loss	(33,301)	(56,154)
Total Shareholder's Equity	1,204,546	1,132,359
Total Liabilities and Shareholder's Equity	\$ 7,238,855	\$ 7,493,627

See accompanying Notes to the Condensed Consolidated Financial Statements

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine months ended September 30,	
	2009	2008
Cash and Cash Equivalents at Beginning of Period	\$ 405,587	\$ 207,219
Cash Flows from Operating Activities from Continuing Operations:		
Net Income (Loss)	43,342	(40,733)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Loss from discontinued operations	666	4,670
Depreciation expense	48,781	39,215
Amortization expense	121,139	133,092
Amortization of debt issuance costs	10,989	23,366
Gain on extinguishment of debt	(46,106)	
Deferred income tax provision (benefit)	6,887	(18,806)
Option and restricted stock expense	5,992	5,137
Restructuring charges	20,625	9,143
Cash payments related to restructuring charges	(19,805)	(18,370)
Merger related charges	2,234	767
Change in working capital, net of acquisitions:		
Current income taxes	12,933	66
Receivables	(56,039)	(63,395)
Inventories and other current assets	(16,533)	(45,415)
Accounts payable	(9,214)	412
Deferred revenue	(2,919)	34,773
Accrued liabilities	(63,185)	(13,905)
Other, net	9,417	1,692
Net Cash Provided from Operating Activities from Continuing Operations		