SERVICEMASTER GLOBAL HOLDINGS INC
Form 10-Q
May 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-36507

ServiceMaster Global Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

Commission file number 001-14762

The ServiceMaster Company, LLC

(Exact name of registrant as specified in its charter)

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

860 Ridge Lake Boulevard, Memphis, Tennessee 38120

(Address of principal executive offices) (Zip Code)

901-597-1400

(Registrant's telephone number, including area code)

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

ServiceMaster Global Holdings, Inc.	Yes	No
The ServiceMaster Company, LLC	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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

ServiceMaster Global Holdings, Inc.			
Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
The ServiceMaster Company, LLC			
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 Exchange Act).

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

The number of shares of the registrant's common stock outstanding as of April 30, 2015:

ServiceMaster Global Holdings, Inc. 134,779,720 shares of common stock, par value $0.01 per share

The ServiceMaster Company, LLC is a privately held limited liability company, and its membership interests are not publicly traded. At April 30, 2015, all of the registrant's membership interests were owned by CDRSVM Holding, LLC.

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EXPLANATORY NOTE

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(In millions, except per share data)

	Holdings Three Months Ended March 31,		SvM Three Months Ended March 31,	
	2015	2014	2015	2014
Revenue	$ 571	$ 533	$ 571	$ 533
Cost of services rendered and products sold	303	288	303	288
Selling and administrative expenses	151	151	151	151
Amortization expense	12	13	12	13
Impairment of software and other related costs	—	48	—	48
Restructuring charges	2	5	2	5
Interest expense	46	61	46	61
Interest and net investment income	(1)	(6)	(1)	(6)
Loss on extinguishment of debt	13	—	13	—
Income (Loss) from Continuing Operations before Income Taxes	45	(27)	45	(27)
Provision (Benefit) for income taxes	17	(9)	17	(9)
Income (Loss) from Continuing Operations	28	(18)	28	(18)
Loss from discontinued operations, net of income taxes	—	(95)	—	(95)
Net Income (Loss)	$ 28	$ (113)	$ 28	$ (113)
Total Comprehensive Income (Loss)	$ 22	$ (116)	$ 22	$ (116)
Weighted-average common shares outstanding - Basic	134.4	91.7		
Weighted-average common shares outstanding - Diluted	136.1	91.7		
Basic Earnings (Loss) Per Share:				
Income (Loss) from Continuing Operations	$ 0.21	$ (0.20)		
Loss from discontinued operations, net of income taxes	—	(1.03)		
Net Income (Loss)	0.21	(1.23)		
Diluted Earnings (Loss) Per Share:				

Income (Loss) from Continuing Operations	$ 0.21	$ (0.20)
Loss from discontinued operations, net of income taxes	—	(1.03)
Net Income (Loss)	0.20	(1.23)

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Financial Position (Unaudited)

(In millions, except per share data)

	Holdings As of March 31, 2015	As of December 31, 2014	SvM As of March 31, 2015	As of December 31, 2014
Assets:				
Current Assets:				
Cash and cash equivalents	$ 248	$ 389	$ 239	$ 368
Marketable securities	19	19	19	19
Receivables, less allowances of $23 and $25, respectively	417	441	417	441
Inventories	40	42	40	42
Prepaid expenses and other assets	37	44	40	44
Deferred customer acquisition costs	31	35	31	35
Deferred taxes	81	76	100	97
Total Current Assets	872	1,044	885	1,045
Property and Equipment:				
At cost	375	369	375	369
Less: accumulated depreciation	(243)	(233)	(243)	(233)
Net Property and Equipment	132	136	132	136
Other Assets:				
Goodwill	2,076	2,069	2,076	2,069
Intangible assets, primarily trade names, service marks and trademarks, net	1,687	1,696	1,687	1,696
Notes receivable	28	26	28	26
Long-term marketable securities	85	88	85	88
Other assets	39	41	39	41
Debt issuance costs	30	34	30	34
Total Assets	$ 4,949	$ 5,134	$ 4,962	$ 5,135
Liabilities and Shareholders' Equity:				
Current Liabilities:				
Accounts payable	$ 87	$ 84	$ 87	$ 84
Accrued liabilities:				
Payroll and related expenses	53	82	51	80
Self-insured claims and related expenses	94	92	94	92
Accrued interest payable	9	34	9	34
Other	47	51	47	51
Deferred revenue	531	514	531	514

Liabilities of discontinued operations	4	9	4	9
Current portion of long-term debt	39	39	39	39
Total Current Liabilities	863	905	861	902
Long-Term Debt	2,826	3,017	2,826	3,017
Other Long-Term Liabilities:				
Deferred taxes	715	715	715	715
Other long-term obligations, primarily self-insured claims	146	138	146	138
Total Other Long-Term Liabilities	861	854	861	853
Commitments and Contingencies (See Note 4)				
Shareholders' Equity:				
Common stock $0.01 par value (authorized 2,000,000,000 shares with 142,374,976 shares issued and 134,733,533 outstanding at March 31, 2015 and 141,731,682 shares issued and 134,092,335 outstanding at December 31, 2014)	2	2	—	—
Additional paid-in capital	2,224	2,207	2,159	2,129
Retained deficit	(1,693)	(1,720)	(1,731)	(1,759)
Accumulated other comprehensive loss	(13)	(8)	(13)	(8)
Less common stock held in treasury, at cost (7,641,443 shares at March 31, 2015 and 7,639,347 shares at December 31, 2014)	(122)	(122)	—	—
Total Shareholders' Equity	398	359	414	362
Total Liabilities and Shareholders' Equity	$ 4,949	$ 5,134	$ 4,962	$ 5,135

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Holdings Three Months Ended March 31,		SvM Three Months Ended March 31,	
	2015	2014	2015	2014
Cash and Cash Equivalents at Beginning of Period	$ 389	$ 484	$ 368	$ 476
Cash Flows from Operating Activities from Continuing Operations:				
Net Income (Loss)	28	(113)	28	(113)
Adjustments to reconcile net loss to net cash provided from operating activities:				
Loss from discontinued operations, net of income taxes	—	95	—	95
Depreciation expense	12	12	12	12
Amortization expense	12	13	12	13
Amortization of debt issuance costs	1	2	1	2
Impairment of software and other related costs	—	48	—	48
Loss on extinguishment of debt	13	—	13	—
Call premium paid on retirement of debt	(11)	—	(11)	—
Deferred income tax provision	5	(6)	8	(6)
Stock-based compensation expense	2	1	2	1
Excess tax benefits from stock-based compensation	(8)	—	(8)	—
Gain on sales of marketable securities	—	(4)	—	(4)
Other	—	1	—	1
Change in working capital, net of acquisitions:				
Receivables	21	13	21	13
Inventories and other current assets	6	(4)	6	(4)
Accounts payable	6	6	6	6
Deferred revenue	17	17	17	17
Accrued liabilities	(29)	(22)	(29)	(22)
Accrued interest payable	(25)	(35)	(25)	(35)
Accrued restructuring charges	(1)	1	(1)	1
Current income taxes	10	(5)	7	(5)
Net Cash Provided from Operating Activities from Continuing Operations	60	21	61	22
Cash Flows from Investing Activities from Continuing Operations:				
Property additions	(8)	(14)	(8)	(14)
Sale of equipment and other assets	1	—	1	—
Other business acquisitions, net of cash acquired	(12)	(41)	(12)	(41)
Notes receivable, financial investments and securities, net	5	38	5	38
Net Cash Used for Investing Activities from Continuing Operations	(14)	(17)	(14)	(17)
Cash Flows from Financing Activities from Continuing Operations:				
Borrowings of debt	3	—	3	—

Payments of debt	(200)	(11)	(200)	(11)
Contribution to TruGreen Holding Corporation	—	(35)	—	(35)
Contribution from Holdings	—	—	20	—
Repurchase of common stock and RSU vesting	—	(3)	—	—
Issuance of common stock	8	6	—	—
Excess tax benefits from stock-based compensation	8	—	8	—
Net Cash Used for Financing Activities from Continuing Operations	(182)	(43)	(170)	(46)
Cash Flows from Discontinued Operations:				
Cash used for operating activities	(5)	(8)	(5)	(8)
Cash used for investing activities	—	(2)	—	(2)
Cash used for financing activities	—	(3)	—	(3)
Net Cash Used for Discontinued Operations	(5)	(13)	(5)	(13)
Cash Decrease During the Period	(141)	(52)	(128)	(55)
Cash and Cash Equivalents at End of Period	$ 248	$ 432	$ 239	$ 421

See accompanying Notes to the unaudited Condensed Consolidated Financial Statements

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

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

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

The unaudited condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (“GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The Company recommends that the quarterly unaudited condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC (the “2014 Form 10-K”). The unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for any interim period are not indicative of the results that might be achieved for a full year.

Initial Public Offering

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

Secondary Public Offering

On February 4, 2015, Holdings’ registration statement on Form S-1 was declared effective by the SEC for a secondary offering of its common stock. Holdings registered on behalf of certain stockholders the offering and sale of 25,000,000 shares of common stock and an additional 3,750,000 shares of common stock sold to the underwriters pursuant to an option to purchase additional shares. On February 10, 2015, the selling stockholders completed the offering of 25,000,000 shares of common stock at a price of $29.50 per share. On February 13, 2015, the selling stockholders completed the offering of an additional 3,750,000 shares of common stock at a price of $29.50 per share pursuant to the underwriters' option to purchase additional shares. Holdings did not receive any of the proceeds from the aggregate 28,750,000 shares of common stock sold by the selling stockholders.

Note 2. Significant Accounting Policies

The preparation of the unaudited condensed consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. The more significant areas requiring the use of management estimates relate to revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers' compensation, auto and general liability insurance claims; accruals for home warranties and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; share based compensation; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets. In 2015, 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 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 include 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 the adjustments are identified.

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

Revenue

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

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

The Company has franchise agreements in its Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. Franchise revenue (which in the aggregate represents approximately six percent of annual consolidated revenue from continuing operations) 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 $18 million and $17 million for the three months ended March 31, 2015 and 2014, respectively. 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.

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

The Company had $531 million and $514 million of deferred revenue as of March 31, 2015 and December 31, 2014, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection and pest control services.

Deferred Customer Acquisition Costs

Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to $31 million and $35 million as of March 31, 2015 and December 31, 2014, respectively.

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Advertising

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

Inventory

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

Property and Equipment and Intangible Assets

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

Depreciation of property and equipment, including depreciation of assets held under capital leases, was $12 million for each of the three month periods ended March 31, 2015 and 2014.

The Company recorded an impairment charge of $48 million ($29 million, net of tax) in the three months ended March 31, 2014 relating to its decision in the first quarter of 2014 to abandon its efforts to deploy a new operating system at American Home Shield. Included in this charge were the impairment of the capitalized software of $45 million and the recognition of the remaining liabilities associated with the termination of lease, maintenance and hosting agreements totaling $3 million. This impairment represented an adjustment of the carrying value of the asset to its estimated fair value of zero on a non-recurring basis.

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 the ServiceMaster Acceptance Company Limited Partnership ("SMAC"), our financing subsidiary exclusively dedicated to providing financing to our franchisees and retail customers of our operating units. The payments of ordinary and extraordinary dividends by the Company's home warranty and similar subsidiaries (through which the Company 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 the Company. As of March 31, 2015, the total net assets subject to these third-party restrictions was $166 million. None of the Company's subsidiaries are obligated to make funds available to the Company through the payment of dividends.

Fair Value of Financial Instruments and Credit Risk

See Note 16 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, certificates of deposit 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 the issuer competes. The majority of the Company's receivables have little concentration of credit risk due to the large number of customers with relatively small balances and their dispersion across geographical areas. The Company maintains an allowance for losses based upon the expected collectability of receivables.

Income Taxes

The Company and its subsidiaries file consolidated U.S. federal income tax returns. State and local returns are filed both on a separate company basis and on a combined unitary basis with the Company. Current and deferred income taxes are provided for on a separate company basis. The Company accounts for income taxes using an asset and liability approach for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income taxes are provided to reflect the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized. The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in its tax return. The Company recognizes potential interest and penalties related to its uncertain tax positions in income tax expense.

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Stock-Based Compensation

Our stock-based compensation expense is estimated at the grant date based on an award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense over the requisite service period. The Black-Scholes model requires various highly judgmental assumptions including expected volatility and option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly. See Note 6 to our condensed consolidated financial statements.

Our board of directors and management intended all options granted to be exercisable, at a price per share not less than the per share fair value of our common stock on the date of grant. We grant options to participants with an exercise price equal to the then current fair value of the common stock.

Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. The dilutive effect of stock options and restricted stock units ("RSUs") are reflected in diluted net income (loss) per share by applying the treasury stock method. See Note 17 to our condensed consolidated financial statements.

Newly Issued Accounting Statements and Positions

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This model supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." Entities have the option of using either a full retrospective or modified approach to adopt the guidance. The amendments in ASU 2014-09 must be applied using either the retrospective or cumulative effect transition method and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016; however, the FASB has decided to propose a one-year delay in the effective date. Early adoption is not permitted. The

Company is currently evaluating the impact of adopting ASU 2014-09.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" to change the presentation of debt issuance costs in financial statements as part of the FASB's simplification initiative. Under current guidance, an entity reports debt issuance costs in the balance sheet as deferred charges (i.e., as an asset). The ASU specifies that now "debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note" and that "amortization of debt issuance costs also shall be reported as interest expense." The amendments in ASU 2015-03 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of ASU 2015-03 will result in the retrospective presentation of debt issuance costs as a direct deduction from the face amount of that note instead of the current presentation as an asset for each of the balance sheet periods presented. The Company currently reports the amortization of debt issuance costs as interest expense.

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Note 3. Restructuring Charges

The Company incurred restructuring charges of $2 million ($1 million, net of tax) and $5 million ($3 million, net of tax) for the three months ended March 31, 2015 and 2014, respectively. Restructuring charges were comprised of the following:

(In millions)	Three Months Ended March 31, 2015	2014
Terminix branch optimization(1)	$ 1	$ 1
Corporate(2)	1	4
Total restructuring charges	$ 2	$ 5

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(1) For the three months ended March 31, 2015 and 2014, these charges included severance costs.

(2) Represents restructuring charges related to an initiative to enhance capabilities and reduce costs in the Company's headquarters functions that provide Company-wide administrative services for our operations. For the three months ended March 31, 2015, these charges primarily included severance costs. For the three months ended March 31, 2014, these charges included professional fees of $1 million and severance and other costs of $3 million.

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 millions)	Accrued Restructuring Charges
Balance as of December 31, 2014	$ 4
Costs incurred	2
Costs paid or otherwise settled	(4)
Balance as of March 31, 2015	$ 3

Note 4. Commitments and Contingencies

The Company carries insurance policies on insurable risks at levels that it believes to be appropriate, including workers' compensation, auto and general liability risks. The Company purchases insurance policies from third-party insurance carriers, which typically incorporate significant deductibles or self-insured retentions. The Company is responsible for all claims that fall below the retention limits. In determining the Company's accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual include 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 recoverables, 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 millions)	Accrued Self-insured Claims, Net
Balance as of December 31, 2014	$ 104
Provision for self-insured claims	12
Cash payments	(6)
Balance as of March 31, 2015	$ 109
Balance as of December 31, 2013	$ 101
Provision for self-insured claims	14
Cash payments	(12)
Balance as of March 31, 2014	$ 103

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

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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.

On March 25, 2015, the Company was informed that the United States Department of Justice initiated a criminal investigation into allegations that a local Terminix branch used methyl bromide as a fumigant at a resort in St. John, U.S. Virgin Islands, resulting in serious injuries to four members of a family vacationing there. The U.S. Virgin Islands Department of Planning and Natural Resources is also investigating the matter, as is the United States Environmental Protection Agency (the "EPA"). The EPA has also requested information concerning the possible distribution, sale or use of methyl bromide in Puerto Rico. The extent of potential fines and other sanctions that the federal and local governmental authorities may impose, and the impact of any judicial, administrative or regulatory proceedings or other issues resulting from or related to the incident, including claims by third parties, investigation costs and reputational harm, is not currently known. The Company is in the process of investigating this matter and is fully cooperating with all relevant governmental authorities. In the first quarter of 2015, the Company recorded a charge of $3 million in connection with unasserted civil claims related to the foregoing matter, an amount equal to the Company's insurance deductible under its general liability insurance program. The range of any potential criminal or other penalties or governmental fines or sanctions is not currently known or reasonably estimable.

In addition to the matter discussed above, 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. Subject to the paragraph above, 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 continuing operations in the three months ended March 31, 2015 and 2014. There were no accumulated impairment losses recorded in continuing operations as of March 31, 2015.

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

(In millions)	Terminix	American Home Shield	Franchise Services Group	Total
Balance as of December 31, 2014	$ 1,497	$ 381	$ 191	$ 2,069
Acquisitions	10	—	—	10
Disposals	—	—	(1)	(1)
Other (1)	(2)	—	—	(2)
Balance as of March 31, 2015	$ 1,505	$ 381	$ 190	$ 2,076

(1) Reflects the impact of foreign exchange rates.

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

(In millions)	Estimated Remaining Useful Lives (Years)	As of March 31, 2015 Gross	Accumulated Amortization	Net	As of December 31, 2014 Gross	Accumulated Amortization	Net
Trade names(1)	N/A	$ 1,608	$ —	$ 1,608	$ 1,608	$ —	$ 1,608
Customer relationships	3 - 10	536	(500)	37	533	(489)	44
Franchise agreements	20 - 25	88	(60)	28	88	(59)	29
Other	4 - 30	47	(33)	14	47	(32)	15
Total		$ 2,279	$ (593)	$ 1,687	$ 2,277	$ (581)	$ 1,696

(1) Not subject to amortization.

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For the existing intangible assets, the Company anticipates amortization expense for the remainder of 2015 and each of the next five years of $23 million, $16 million, $11 million, $7 million, $4 million and $3 million, respectively.

In the three months ended March 31, 2014, the Company recorded a pre-tax non-cash impairment charge of $139 million ($84 million, net of tax) associated with the trade name at its former TruGreen business, which is reported in Loss from discontinued operations, net of income taxes.

Note 6. Stock-Based Compensation

For the three months ended March 31, 2015 and 2014, the Company recognized stock-based compensation expense of $2 million ($1 million, net of tax) and $1 million ($1 million, net of tax), respectively. As of March 31, 2015, there was $25 million of total unrecognized compensation costs related to non-vested stock options and RSUs granted under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan ("MSIP") and Omnibus Incentive Plan. These remaining costs are expected to be recognized over a weighted-average period of 2.75 years.

Note 7. 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 condensed consolidated statements of operations and comprehensive income (loss).

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

(In millions)	Unrealized (Losses) Gains on Derivatives	Unrealized Gains on Available -for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2014	$ (6)	$ 6	$ (8)	$ (8)
Other comprehensive (loss) income before reclassifications:				
Pre-tax amount	(6)	—	(4)	(9)
Tax (benefit) provision	(2)	—	—	(2)
After-tax amount	(4)	—	(4)	(7)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	2	—	—	1
Net current period other comprehensive loss	(2)	—	(4)	(6)
Balance as of March 31, 2015	$ (8)	$ 6	$ (11)	$ (13)

Balance as of December 31, 2013	$ 1	$ 7	$ (1)	$ 7
Other comprehensive income (loss) before reclassifications:				
Pre-tax amount	—	1	(1)	—
Tax provision (benefit)	—	—	—	—
After-tax amount	—	1	(1)	—
Amounts reclassified from accumulated other comprehensive income (loss)(1)	—	(3)	—	(3)
Net current period other comprehensive loss	—	(2)	(1)	(3)
Spin-off of the former TruGreen business	—	—	(2)	(2)
Balance as of March 31, 2014	$ —	$ 5	$ (3)	$ 2

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

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

(In millions)	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31, 2015	2014	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) Location
Losses on derivatives:			
Fuel swap contracts	$ 2	$ —	Cost of services rendered and products sold
Interest rate swap contracts	1	—	Interest expense
Net losses on derivatives	2	—	
Impact of income taxes	(1)	—	Provision for income taxes
Total reclassifications related to derivatives	$ 2	$ —	
Gains on available-for-sale securities	$ —	$ (4)	Interest and net investment income
Impact of income taxes	—	1	Provision for income taxes
Total reclassifications related to securities	$ —	$ (3)	
Total reclassifications for the period	$ 1	$ (3)	

Note 8. Supplemental Cash Flow Information

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

(In millions)	Three Months Ended March 31, 2015	2014
Cash paid for or (received from):		
Interest expense	$ 67	$ 92

Interest and dividend income	(1)	(1)
Income taxes, net of refunds	1	2

The Company acquired $2 million of property and equipment through capital leases and other non-cash financing transactions in each of the three month periods ended March 31, 2015 and 2014, which have been excluded from the condensed consolidated statements of cash flows as non-cash investing and financing activities.

Note 9. 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 condensed consolidated statements of financial position. As of March 31, 2015 and December 31, 2014, the Company's investments consisted primarily of domestic publicly traded debt and certificates of deposit ("Debt securities") and common equity securities ("Equity securities"). The amortized cost, fair value and gross unrealized gains and losses of the Company's short- and long-term investments in Debt and Equity securities are as follows:

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale and trading securities, March 31, 2015:				
Debt securities	$ 61	$ 1	$ —	$ 62
Equity securities	33	9	(1)	41
Total securities	$ 94	$ 10	$ (1)	$ 103
Available-for-sale and trading securities, December 31, 2014:				
Debt securities	$ 65	$ 1	$ —	$ 66
Equity securities	33	9	(1)	41
Total securities	$ 98	$ 10	$ (1)	$ 107

There were no unrealized losses which had been in a loss position for more than one year as of March 31, 2015 and December 31, 2014. The aggregate fair value of the investments with unrealized losses was $23 million and $29 million as of March 31, 2015 and December 31, 2014, respectively.

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

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or the market(s) in which the issuer competes. The table below summarizes proceeds, gross realized gains and gross realized losses resulting from sales of available-for-sale securities. There were no impairment charges due to other than temporary declines in the value of certain investments for the three months ended March 31, 2015 and 2014.

(In millions)	Three Months Ended March 31, 2015	2014
Proceeds from sale of securities	$ —	$ 42
Gross realized gains, pre-tax	—	5
Gross realized gains, net of tax	—	3
Gross realized losses, pre-tax	—	—
Gross realized losses, net of tax	—	—

Note 10. Long-Term Debt

Long-term debt is summarized in the following table:

(In millions)	As of March 31, 2015	As of December 31, 2014
Senior secured term loan facility maturing in 2021(1)	1,800	1,803
7.00% senior notes maturing in 2020	488	488
8.00% senior notes maturing in 2020(2)	201	391
Revolving credit facility maturing in 2019	—	—
7.10% notes maturing in 2018(3)	74	73
7.45% notes maturing in 2027(3)	162	161
7.25% notes maturing in 2038(3)	64	64
Vehicle capital leases(4)	38	39
Other	39	37
Less current portion	(39)	(39)
Total long-term debt	$ 2,826	$ 3,017

(1) As of March 31, 2015 and December 31, 2014, presented net of $16 million and $17 million, respectively, in unamortized original issue discount.
(2) As of March 31, 2015 and December 31, 2014, includes $1 million in unamortized premium received on the sale of $100 million aggregate principal amount of such notes.
(3) As of March 31, 2015 and December 31, 2014, collectively presented net of $57 million and $59 million, respectively, of unamortized fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.
(4) SvM has entered into a fleet management services agreement (the "Fleet Agreement") which, among other things, allows SvM to obtain fleet vehicles through a leasing program. All leases under the Fleet Agreement are capital leases for accounting purposes. The lease rental payments include an interest component calculated using a variable rate based on one-month LIBOR plus other contractual adjustments and a borrowing margin totaling 2.45 percent.

Refinancing of Indebtedness

On February 17, 2015, SvM redeemed $190 million in aggregate principal amount of its outstanding 8 percent senior notes due February 15, 2020 (the "8% 2020 Notes") at a redemption price of 106.0% of the principal amount using available cash. In connection with the partial redemption, we recorded a loss on extinguishment of debt of $13 million in the three months ended March 31, 2015, which includes a pre-payment premium of $11 million and the write-off of $2 million of debt issuance costs.

On April 1, 2015, SvM entered into a first amendment (the "First Term Loan Amendment") which amends the Credit Agreement governing SvM's $1,825 million term loan facility maturing July 1, 2021 (the "Term Loan Facility") and $300 million revolving credit facility maturing July 1, 2019 (the "Revolving Credit Facility") (together with the Term Loan Facility, the "Credit Facilities"). The First Term Loan Amendment provides for incremental term loans (the "Incremental Term Loans") under the Term Loan Facility in an aggregate principal amount of $175 million. On April 1, 2015, SvM used the net proceeds from the Incremental Term Loans, together with cash on hand, to redeem the remaining outstanding $200 million in aggregate principal amount of its 8% 2020 Notes at a redemption price of 106.0% of the principal amount. In connection with the redemption, we expect to record a loss on extinguishment of debt of approximately $14 million in the second quarter of 2015, which includes a pre payment premium of $12 million and the write off of approximately $2 million of debt issuance costs. The April 1, 2015 refinancing activities are not reflected in the table above as they occurred after March 31, 2015.

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Interest Rate Swaps

Interest rate swap agreements in effect as of March 31, 2015 are as follows:

Trade Date	Effective Date	Expiration Date	Notional Amount	Fixed Rate(1)		Floating Rate
July 23, 2014	August 1, 2014	July 31, 2018	300,000	1.786	%	One month LIBOR
July 23, 2014	March 1, 2015	July 31, 2018	400,000	1.927	%	One month LIBOR

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

Note 11. 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 condensed consolidated financial statements since their dates of acquisition. The assets and liabilities of these businesses were recorded in the financial statements at their estimated fair values as of the acquisition dates.

During the three months ended March 31, 2015, the Company completed several pest control and termite acquisitions. The total net purchase price for these acquisitions was $14 million. The Company recorded goodwill of $10 million and other intangibles of $4 million related to these acquisitions.

On February 28, 2014, the Company acquired Home Security of America, Inc. ("HSA"), based in Madison, Wisconsin. The total net purchase price for this acquisition was $32 million. During the three months ended March 31, 2014, the Company recorded goodwill of $30 million and other intangibles of $17 million related to this acquisition.

During the three months ended March 31, 2014, the Company completed several pest control and termite acquisitions. The total net purchase price for these acquisitions was $11 million. The Company recorded goodwill of $7 million and other intangibles of $4 million related to these acquisitions.

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

	Three Months Ended March 31,	
(In millions)	2015	2014
Purchase price (including liabilities assumed)	$ 14	$ 71

Less liabilities assumed	—	(28)
Net purchase price	$ 14	$ 43
Net cash paid for acquisitions	$ 12	$ 41
Seller financed debt	2	2
Payment for acquisitions	$ 14	$ 43

Note 12. Discontinued Operations

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

The operating results of discontinued operations are as follows:

	Three Months Ended March 31,	
(In millions)	2015	2014
Revenue	$ —	$ 6
Cost of services rendered and products sold	—	12
Selling and administrative expenses	1	9
Goodwill and trade name impairment(1)	—	139
Restructuring charges	—	2
Loss before income taxes(1)	(1)	(155)
Benefit for income taxes(1)	—	(60)
Loss from discontinued operations, net of income taxes(1)	$ —	$ (95)

(1) In the three months ended March 31, 2014, the Company recorded a pre-tax non-cash impairment charge of $139 million ($84 million, net of tax) associated with the trade name at its former TruGreen business, which is reported in Loss from discontinued operations, net of income taxes.

The table below summarizes the activity during the three months ended March 31, 2015 for the remaining liabilities of previously sold businesses. The remaining obligations primarily relate to legal and other reserves. The Company believes that the remaining reserves continue to be adequate and reasonable.

(In millions)	Liabilities of Discontinued Operations
Balance as of December 31, 2014	$ 9
Costs incurred	1
Costs paid or otherwise settled	(5)
Balance as of March 31, 2015	$ 4

Note 13. Income Taxes

As of March 31, 2015 and December 31, 2014, the Company had $14 million and $13 million, respectively, of tax benefits primarily reflected in state tax returns that have not been recognized for financial reporting purposes ("unrecognized tax benefits"). The Company currently estimates that, as a result of pending tax settlements and expiration of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately $2 million during the next 12 months.

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

The effective tax rate on income (loss) from continuing operations at Holdings was 37.0 percent for the three months ended March 31, 2015 compared to 33.3 percent for the three months ended March 31, 2014. The effective tax rate on income (loss) from continuing operations at SvM was 37.0 percent for the three months ended March 31, 2015 compared to 33.2 percent for the three months ended March 31, 2014. The effective tax rate on income from continuing operations for the three months ended March 31, 2015 was primarily affected by a reduction of the state valuation allowance on net operating losses during the quarter. The effective tax rate on loss from continuing operations for the three months ended March 31, 2014 was affected by various discrete events, including an adjustment to deferred state taxes resulting from a change in the Company's state apportionment factors primarily attributable to the TruGreen spin-off on January 14, 2014.

Note 14. Business Segment Reporting

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

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

Information regarding the accounting policies used by the Company is described in Note 2. 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 and indirect costs allocated from Corporate. Identifiable assets are those used in carrying out the operations of the business unit and include intangible assets directly related to its operations.

The Company uses Reportable Segment Adjusted EBITDA as its measure of segment profitability. Accordingly, the CODM evaluates performance and allocates resources based primarily on Reportable Segment Adjusted EBITDA. Reportable Segment Adjusted EBITDA is defined as net income (loss) before: unallocated corporate expenses; income (loss) from discontinued operations, net of income taxes; provision (benefit) for income taxes; gain (loss) on extinguishment of debt; interest expense; depreciation and amortization expense; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; non-cash stock-based compensation expense; restructuring charges; management and consulting fees; consulting agreement termination fees; and other non-operating expenses. The Company’s definition of Reportable Segment Adjusted EBITDA may not be calculated or comparable to similarly titled measures of other companies. We believe Reportable Segment Adjusted EBITDA is useful for

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investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures, taxation, the age and book depreciation of facilities and equipment, restructuring initiatives, consulting agreements and equity-based, long-term incentive plans.

Information for continuing operations for each reportable segment and Corporate is presented below:

	Three Months Ended March 31,	
(In millions)	2015	2014
Revenue:		
Terminix	$ 336	$ 320
American Home Shield	175	151
Franchise Services Group	59	60
Reportable Segment Revenue	$ 571	$ 531
Corporate	1	2
Total Revenue	$ 571	$ 533

	Three Months Ended March 31,	
(In millions)	2015	2014
Reportable Segment Adjusted EBITDA:(1)		
Terminix	$ 89	$ 78
American Home Shield	29	23
Franchise Services Group	19	18
Reportable Segment Adjusted EBITDA	$ 137	$ 119

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

	Holdings Three Months Ended	SvM Three Months Ended

(In millions)	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Reportable Segment Adjusted EBITDA:				
Terminix	$ 89	$ 78	$ 89	$ 78
American Home Shield	29	23	29	23
Franchise Services Group	19	18	19	18
Reportable Segment Adjusted EBITDA	$ 137	$ 119	$ 137	$ 119
Unallocated corporate expenses	$ (4)	$ (4)	$ (4)	$ (4)
Depreciation and amortization expense	(24)	(25)	(24)	(25)
Non-cash impairment of software and other related costs	—	(48)	—	(48)
Non-cash stock-based compensation expense	(2)	(1)	(2)	(1)
Restructuring charges	(2)	(5)	(2)	(5)
Management and consulting fees	—	(2)	—	(2)
Loss from discontinued operations, net of income taxes	—	(95)	—	(95)
(Provision) benefit for income taxes	(17)	9	(17)	9
Loss on extinguishment of debt	(13)	—	(13)	—
Interest expense	(46)	(61)	(46)	(61)
Net Income (Loss)	$ 28	$ (113)	$ 28	$ (113)

Note 15. Related Party Transactions

On July 24, 2007, we were taken private pursuant to a merger transaction, and, following the completion of the merger and other subsequent transactions and prior to Holdings' initial public offering, the significant majority of Holdings' outstanding common stock was owned by investment funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC ("CD&R" or the "CD&R Funds"), JPMorgan Chase Funding Inc. ("JPMorgan"), StepStone Group LP ("StepStone"), the investment funds managed by StepStone (the "StepStone Funds") and Ridgemont Partners Secondary Fund I, L.P. ("Ridgemont") (collectively, the "Equity Sponsors"). Upon completion of Holdings' initial public offering on July 1, 2014 and the secondary public offering in February 2015, the Equity Sponsors continued to hold approximately 42 percent of Holdings' common stock.

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Consulting Agreements

The Company was a party to a consulting agreement with CD&R under which CD&R provided the Company with ongoing consulting and management advisory services. The annual consulting fee payable under the consulting agreement with CD&R was $6 million. Under this agreement, the Company recorded consulting fees of $2 million in the three months ended March 31, 2014, which is included in Selling and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). The Company was also a party to consulting agreements with StepStone, JPMorgan and Ridgemont. Pursuant to the consulting agreements, the Company was required to pay aggregate annual consulting fees of $1 million to StepStone, JPMorgan and Ridgemont. There were no consulting fees recorded in the three months ended March 31, 2015 due to the termination of the consulting fee agreements in connection with the completion of Holding's initial public offering on July 1, 2014.

TruGreen Spin-off

In connection with the TruGreen spin-off on January 14, 2014, the Company and TruGreen Holding Corporation ("New TruGreen") entered into a transition services agreement pursuant to which the Company and its subsidiaries provide New TruGreen with specified communications, public relations, finance and accounting, tax, treasury, internal audit, human resources operations and benefits, risk management and insurance, supply management, real estate management, marketing, facilities, information technology and other support services. The charges for the transition services are designed to allow the Company to fully recover the direct costs of providing the services, plus specified margins and any out-of-pocket costs and expenses. The services provided under the transition services agreement will terminate at various specified times, and in no event later than January 14, 2016 (except certain information technology services, which the Company expects to provide to New TruGreen beyond the two-year period). New TruGreen may terminate the transition services agreement (or certain services under the transition services agreement) for convenience upon 90 days written notice, in which case New TruGreen will be required to reimburse the Company for early termination costs. Under this transition services agreement, in the three months ended March 31, 2015 and 2014, the Company recorded $8 million and $10 million, respectively, of fees due from New TruGreen, which is included, net of costs incurred, in Selling and administrative expenses in the consolidated statement of operations and comprehensive income (loss). As of March 31, 2015, all amounts owed by New TruGreen under this agreement have been paid.

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

Note 16. 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 (loss) on the condensed consolidated statements of financial position, or, for certain unrealized losses, reported in interest and net investment income in the condensed consolidated statements of operations and comprehensive income (loss) if the decline in value is other than temporary. The carrying amount of total debt was $2,865 million and $3,057 million and the estimated fair value was $2,987 million and $3,102 million as of March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014.

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.

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

The Company has not changed its valuation techniques for measuring the fair value of any financial assets and liabilities during the year. Transfers between levels, if any, are recognized at the end of the reporting period. There were no significant transfers between levels during each of the three month periods ended March 31, 2015 and 2014.

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:

Estimated Fair Value
Measurements
Quoted