

SERVICEMASTER CO
Form 10-Q
August 04, 2006

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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

36-3858106

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

3250 Lacey Road, Ste. 600, Downers Grove, Illinois 60515-1700
(Address of principal executive offices) (Zip Code)

630-663-2000

(Registrant's telephone number, including area code)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock: 290,852,000 shares of common stock on July 28, 2006.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenue	\$ 1,024,624	\$ 970,627	\$ 1,687,011	\$ 1,594,387
Operating Costs and Expenses:				
Cost of services rendered and products sold	611,862	570,324	1,046,532	984,195
Selling and administrative expenses	263,056	262,005	458,876	444,368
Amortization expense	3,325	1,331	5,410	2,483
Restructuring charge	6,286		9,838	
Total operating costs and expenses	884,529	833,660	1,520,656	1,431,046
Operating Income	140,095	136,967	166,355	163,341
Non-operating Expense (Income):				
Interest expense	16,093	14,401	30,523	29,980
Interest and investment income, net	(1,213)	(3,226)	(11,549)	(12,600)
Minority interest and other expense, net	2,074	2,047	4,123	4,093
Income from Continuing Operations before Income Taxes	123,141	123,745	143,258	141,868
Provision for income taxes	48,395	48,354	56,301	55,441
Income from Continuing Operations	74,746	75,391	86,957	86,427
Income (loss) from businesses held pending sale and discontinued operations, net of income taxes	2,400	4,410	(24,124)	3,946
Net Income	\$ 77,146	\$ 79,801	\$ 62,833	\$ 90,373
Per Share:				
Basic Earnings Per Share:				
Income from continuing operations	\$ 0.26	\$ 0.26	\$ 0.30	\$ 0.30
Income (loss) from businesses held pending sale and discontinued operations	0.01	0.02	(0.08)	0.01
Basic earnings per share	\$ 0.27	\$ 0.27	\$ 0.22	\$ 0.31
Shares	290,748	291,634	291,146	291,400
Diluted Earnings Per Share:				
Income from continuing operations	\$ 0.25	\$ 0.25	\$ 0.29	\$ 0.29
Income (loss) from businesses held pending sale and discontinued operations	0.01	0.01	(0.08)	0.01

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Diluted earnings per share	\$ 0.26	\$ 0.27	\$ 0.21	\$ 0.30
Shares	302,728	305,377	295,459	297,254

See Notes to Condensed Consolidated Financial Statements

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

	<u>As of June 30, 2006</u>	<u>As of December 31, 2005</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 119,969	\$ 114,508
Marketable securities	107,816	104,807
Receivables, less allowance of \$21,948 and \$17,702, respectively	444,569	309,567
Inventories	69,015	60,331
Prepaid expenses and other assets	65,480	23,948
Deferred customer acquisition costs	62,679	40,402
Deferred taxes	54,358	35,050
Assets of businesses held pending sale and discontinued operations	101,881	135,100
	<u>1,025,767</u>	<u>823,713</u>
Total Current Assets		
Property and Equipment:		
At cost	403,566	364,503
Less: accumulated depreciation	(228,779)	(202,676)
	<u>174,787</u>	<u>161,827</u>
Net property and equipment		
Other Assets:		
Goodwill	1,601,143	1,548,070
Intangible assets, primarily trade names, net	248,676	230,343
Notes receivable	29,796	30,941
Long-term marketable securities	161,501	147,332
Other assets	10,570	9,304
Assets of businesses held pending sale and discontinued operations	76,875	77,340
	<u>3,329,115</u>	<u>3,028,870</u>
Total Assets		
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	\$ 122,683	\$ 91,625
Accrued liabilities:		
Payroll and related expenses	98,628	103,028