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 June 30, 2011

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	**36-3858106**
(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. Yes o No x

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. (Check one):

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 Act). Yes o No x

The registrant is a privately held corporation and its equity shares are not publicly traded. At August 15, 2011, 1,000 shares of the registrant s common stock were outstanding, all of which were owned by CDRSVM Holding, Inc.

The ServiceMaster Company is not required to file this Quarterly Report on Form 10-Q with the Securities and Exchange Commission and is doing so on a voluntary basis.

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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 June 30, 2011		Three months ended June 30, 2010	
Operating Revenue	$	967,440	$	939,599
Operating Costs and Expenses:				
Cost of services rendered and products sold		520,634		513,276
Selling and administrative expenses		259,148		257,822
Amortization expense		26,387		39,672
Restructuring charges		94		4,080
Total operating costs and expenses		806,263		814,850
Operating Income		161,177		124,749
Non-operating Expense (Income):				
Interest expense		68,378		73,157
Interest and net investment income		(1,398)		(996)
Other expense		173		176
Income from Continuing Operations before Income Taxes		94,024		52,412
Provision for income taxes		33,462		9,024
Income from Continuing Operations		60,562		43,388
Loss from discontinued operations, net of income taxes		(3,842)		(30,944)
Net Income	$	56,720	$	12,444

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands)

	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating Revenue	$ 1,582,111	$ 1,520,207
Operating Costs and Expenses:		
Cost of services rendered and products sold	891,203	867,755
Selling and administrative expenses	450,453	435,942
Amortization expense	52,750	79,335
Restructuring charges	2,683	7,433
Total operating costs and expenses	1,397,089	1,390,465
Operating Income	185,022	129,742
Non-operating Expense (Income):		
Interest expense	136,893	145,827
Interest and net investment income	(3,591)	(3,498)
Other expense	348	347
Income (Loss) from Continuing Operations before Income Taxes	51,372	(12,934)
Provision (Benefit) for income taxes	16,105	(21,867)
Income from Continuing Operations	35,267	8,933
Loss from discontinued operations, net of income taxes	(24,943)	(29,149)
Net Income (Loss)	$ 10,324	$ (20,216)

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position

(In thousands, except share data)

	As of June 30, 2011 (Unaudited)	As of December 31, 2010 (Audited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 324,134	$ 252,698
Marketable securities	30,259	30,406
Receivables, less allowance of $21,795 and $16,709, respectively	431,105	352,094
Inventories	58,676	54,732
Prepaid expenses and other assets	86,705	40,864
Deferred customer acquisition costs	55,180	34,377
Deferred taxes	15,044	11,558
Assets of discontinued operations	177	51,004
Total Current Assets	1,001,280	827,733
Property and Equipment:		
At cost	501,364	440,049
Less: accumulated depreciation	(205,084)	(173,151)
Net property and equipment	296,280	266,898
Other Assets:		
Goodwill	3,136,494	3,125,293
Intangible assets, primarily trade names, service marks and trademarks, net	2,607,127	2,653,511
Notes receivable	21,958	22,550
Long-term marketable securities	117,070	110,177
Other assets	7,194	7,164
Debt issuance costs	45,566	52,366
Assets of discontinued operations		32,398
Total Assets	$ 7,232,969	$ 7,098,090
Liabilities and Shareholder s Equity		
Current Liabilities:		
Accounts payable	$ 114,869	$ 72,645
Accrued liabilities:		
Payroll and related expenses	91,214	85,647
Self-insured claims and related expenses	87,680	81,278
Accrued interest payable	70,916	69,645
Other	79,890	83,114
Deferred revenue	536,465	449,647
Liabilities of discontinued operations	1,652	16,300
Current portion of long-term debt	58,255	49,412
Total Current Liabilities	1,040,941	907,688
Long-Term Debt	3,882,021	3,899,075
Other Long-Term Liabilities:		
Deferred taxes	943,296	934,971
Liabilities of discontinued operations	1,895	4,848
Other long-term obligations	152,806	163,981

Total Other Long-Term Liabilities		1,097,997		1,103,800
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		1,460,052		1,455,881
Retained deficit		(240,659)		(250,983)
Accumulated other comprehensive loss		(7,383)		(17,371)
Total Shareholder s Equity		1,212,010		1,187,527
Total Liabilities and Shareholder s Equity	$	7,232,969	$	7,098,090

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)

	Six months ended June 30, 2011	Six months ended June 30, 2010
Cash and Cash Equivalents at Beginning of Period	$ 252,698	$ 255,356
Cash Flows from Operating Activities from Continuing Operations:		
Net Income (Loss)	10,324	(20,216)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Loss from discontinued operations	24,943	29,149
Depreciation expense	35,574	29,083
Amortization expense	52,750	79,335
Amortization of debt issuance costs	7,080	7,333
Deferred income tax provision (benefit)	391	(2,796)
Stock-based compensation expense	4,171	4,339
Restructuring charges	2,683	7,433
Cash payments related to restructuring charges	(3,145)	(7,608)
Change in working capital, net of acquisitions:		
Current income taxes	11,592	(30,064)
Receivables	(76,105)	(89,066)
Inventories and other current assets	(65,376)	(77,604)
Accounts payable	40,146	48,736
Deferred revenue	86,230	69,407
Accrued liabilities	9,390	42,552
Other, net	2,462	5,499
Net Cash Provided from Operating Activities from Continuing Operations	143,110	95,512
Cash Flows from Investing Activities from Continuing Operations:		
Property additions	(57,834)	(35,311)
Sale of equipment and other assets	951	718
Acquisition of The ServiceMaster Company	(35)	(2,164)
Other business acquisitions, net of cash acquired	(11,886)	(14,753)
Purchase of other intangibles	(1,900)	
Notes receivable, financial investments and securities, net	(4,341)	(898)
Net Cash Used for Investing Activities from Continuing Operations	(75,045)	(52,408)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt		10,000
Payments of debt	(20,437)	(22,062)
Debt issuance costs paid	(280)	(30)
Net Cash Used for Financing Activities from Continuing Operations	(20,717)	(12,092)
Cash Flows from Discontinued Operations:		
Cash (used for) provided from operating activities	(1,818)	9,481
Cash provided from (used for) investing activities:		
Proceeds from sale of business	27,523	
Other investing activities	(1,617)	(4,704)
Net Cash Provided from Discontinued Operations	24,088	4,777

Cash Increase During the Period		71,436		35,789
Cash and Cash Equivalents at End of Period	$	324,134	$	291,145

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 national company serving both residential and commercial customers. ServiceMaster s services include lawn care, termite and pest control, home service contracts, cleaning and disaster restoration, house cleaning, furniture repair and home inspection. ServiceMaster provides these services through a network of company-owned locations and franchise licenses operating primarily under the following leading brands: TruGreen, Terminix, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec.

The condensed consolidated financial statements include the accounts of ServiceMaster and its subsidiary partnerships, limited liability companies and corporations. All ServiceMaster subsidiaries are wholly owned. ServiceMaster is organized into five principal reportable segments: TruGreen, Terminix, 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, 2010, as filed with the SEC (the 2010 Form 10-K). The condensed consolidated financial statements reflect all 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.

In the first quarter of 2011, ServiceMaster concluded that TruGreen LandCare did not fit within the long-term strategic plans of the Company and committed to a plan to sell the business. On April 21, 2011, the Company entered into a purchase agreement to sell the TruGreen LandCare business, and the disposition was effective as of April 30, 2011. The financial results, as well as the assets and liabilities, of the TruGreen LandCare business are reported in discontinued operations for all periods presented.

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, Inc. (now operated as Clayton, Dubilier & Rice, LLC, CD&R), Citigroup Private Equity LP (together with its affiliate, Citigroup Alternative Investments LLC, Citigroup), BAS Capital Funding Corporation (BAS) and J.P. Morgan Ventures Corporation (now known as JPMorgan Chase Funding Inc., JPMorgan). On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that own shares of common stock of Holdings to StepStone Group LLC (StepStone and collectively with CD&R, Citigroup, BAS and JPMorgan, the Equity Sponsors) and its proprietary interests in such investment funds to Lexington Partners Advisors LP.

Equity contributions totaling $1,431.1 million, together with (i) borrowings under a $1,150.0 million senior unsecured interim loan facility (the Interim Loan Facility), (ii) borrowings under a $2,650.0 million senior secured term loan facility and (iii) cash on hand at ServiceMaster, were used, among other things, to finance the aggregate Merger consideration, to make payments in satisfaction of other equity-based interests in ServiceMaster under the Merger agreement, to settle existing interest rate swaps, to redeem or provide for the repayment of certain of the Company s existing indebtedness and to pay related transaction fees and expenses. In addition, letters of credit issued under a $150.0 million pre-funded letter of credit facility (together with the senior secured term loan facility, the Term Facilities) were used to replace and/or secure letters of credit previously issued under a ServiceMaster credit facility that was terminated as of the Closing Date. On the Closing Date, the Company also entered into, but did not then draw under, a senior secured revolving credit facility (the Revolving Credit Facility). The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one-to-one basis into 10.75% senior notes maturing in 2015 (the Permanent Notes).

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Note 2. Significant Accounting Policies

The Company s significant accounting policies are included in the 2010 Form 10-K. The following selected accounting policies should be read in conjunction with the 2010 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 service contracts, 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 service 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 and home service contracts and adjusts the estimates when appropriate. Revenue from trade name licensing arrangements is recognized when earned.

The Company has franchise agreements in its TruGreen, Terminix, ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids businesses. Franchise revenue (which in the aggregate represents approximately four percent of 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 is reported by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise. These fees are fixed 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 $17.7 million and $34.1 million for the three and six months ended June 30, 2011, respectively, and $18.0 million and $34.6 million for the three and six months ended June 30, 2010, respectively. Consolidated operating income from continuing operations was $161.2 million and $185.0 million for the three and six months ended June 30, 2011, respectively, and $124.7 million and $129.7 million for the three and six months ended June 30, 2010, 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 $536.5 million and $449.6 million of deferred revenue as of June 30, 2011 and December 31, 2010, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home service contracts, 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.

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 repairs and maintenance procedures that are performed 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 and TruGreen, 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 2010 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 service contracts 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

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customer acquisition costs; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets.

Note 3. Restructuring Charges

The Company incurred restructuring charges of $0.1 million ($0.1 million, net of tax) and $4.1 million ($2.5 million, net of tax) for the three months ended June 30, 2011 and 2010, respectively. The Company incurred restructuring charges of $2.7 million ($1.6 million, net of tax) and $7.4 million ($4.6 million, net of tax) for the six months ended June 30, 2011 and 2010, respectively. Restructuring charges were comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
TruGreen reorganization and restructuring(1)	$	$ 2,939	$	$ 5,962
Terminix branch optimization(2)	(73)		2,467	
Other(3)	167	1,141	216	1,471
Total restructuring charges	$ 94	$ 4,080	$ 2,683	$ 7,433

(1) Represents restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. For the three months ended June 30, 2010, these charges include consulting fees of $1.9 million and severance and lease termination costs of $1.0 million. For the six months ended June 30, 2010 these charges include consulting fees of $3.8 million and severance, lease termination and other costs of $2.2 million.

(2) Represents restructuring (credits) charges related to a branch optimization project. For the three months ended June 30, 2011, these credits include adjustments to lease termination reserves. For the six months ended June 30, 2011, these charges include lease termination costs of $2.4 million and severance costs of $0.1 million.

(3) For the three and six months ended June 30, 2011, these charges include costs associated with previous restructuring initiatives. For the three and six months ended June 30, 2010, these charges include severance, retention, legal fees and other costs associated with the Merger of $1.0 million and $1.1 million, respectively, and costs associated with previous restructuring initiatives of $0.1 million and $0.4 million, respectively.

The pretax charges discussed above are reported in Restructuring charges in the condensed consolidated statements of operations.

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, 2010	$	3,542
Costs incurred		2,683
Costs paid or otherwise settled		(3,417)
Balance as of June 30, 2011	$	2,808

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 (ranging from 70 percent to 84 percent of the estimated terminal value at the inception of the lease depending on the agreement) 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 June 30, 2011, the Company s residual value guarantees related to the leased assets totaled $39.7 million for which the Company has recorded a liability for the estimated fair value of these guarantees of $0.9 million in the condensed consolidated statements of financial position.

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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. As of June 30, 2011 and December 31, 2010, the Company had accrued self-insured claims of $120.4 million and $121.7 million, respectively, which are included in Accrued liabilities Self-insured claims and related expenses and Other long-term obligations on the condensed consolidated statements of financial position. During the six months ended June 30, 2011 and 2010, the Company recorded provisions for uninsured claims totaling $15.2 million and $18.5 million, respectively, and the Company paid claims totaling $16.5 million and $20.7 million, respectively. 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.

Accruals for home service contract claims in the American Home Shield business are made based on the Company s claims experience and actuarial projections. Termite damage claim accruals 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 has guarantees on certain bonds issued by divested companies associated with TruGreen LandCare, primarily performance type bonds. The maximum payments the Company could be required to make if the buyer of the divested companies is unable to fulfill their obligations is approximately $23.3 million as of June 30, 2011. The TruGreen LandCare purchase agreement requires that the buyer replace the bonds at the earlier of the bond s expiration date or April 30, 2012. Substantially all of the bonds are scheduled to expire prior to 2015, but may be extended depending on the completion of the related projects. The Company believes that if it were to incur a loss on any individual bond guarantee, the likelihood of which the Company believes is remote, such loss would not have a material effect on the Company s reputation, business, financial position, results of operations or cash flows.

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, on an individual, collective and class action basis, regulatory, insured and uninsured employment, general and commercial liability, wage and hour and environmental proceedings. Additionally, the Company has entered into settlement agreements in certain cases, including with respect to putative collective and class actions, which are subject to court approval. 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

In accordance with applicable accounting standards, 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 and six months ended June 30, 2011 and 2010.

See Note 12 for a discussion of the impairment recorded in loss from discontinued operations, net of income taxes, for the three and six months ended June 30, 2011, as a result of the Company s decision to sell its TruGreen LandCare business unit. This impairment included $4.6 million related to the TruGreen LandCare trade name. The loss from discontinued operations, net of income taxes, for the three and six months ended June 30, 2010 includes a non-cash impairment charge of $46.9 million to reduce the carrying value of TruGreen LandCare s goodwill and trade name as a result of the Company s interim impairment testing of goodwill and indefinite-lived intangible assets.

During the six months ended June 30, 2011, the increase in goodwill and other intangible assets related primarily to tuck-in acquisitions completed throughout the period by TruGreen and Terminix.

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

(In thousands)	TruGreen	Terminix	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters	Total
Balance as of December 31, 2010	$ 1,191,071	$ 1,397,414	$ 347,783	$ 135,894	$ 53,131	$ 3,125,293
Acquisitions	2,606	8,733				11,339
Other(1)	132	(277)	(108)	118	(3)	(138)
Balance as of June 30, 2011	$ 1,193,809	$ 1,405,870	$ 347,675	$ 136,012	$ 53,128	$ 3,136,494

(1) Reflects the impact of the amortization of tax deductible goodwill and foreign exchange rate changes.

There were no accumulated impairment losses as of June 30, 2011.

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

	As of June 30, 2011			As of December 31, 2010		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names(1)	$ 2,370,200	$	$ 2,370,200	$ 2,370,200	$	$ 2,370,200
Customer relationships	672,392	(508,973)	163,419	668,649	(464,056)	204,593
Franchise agreements	88,000	(38,839)	49,161	88,000	(35,272)	52,728
Other	57,700	(33,353)	24,347	55,024	(29,034)	25,990
Total	$ 3,188,292	$ (581,165)	$ 2,607,127	$ 3,181,873	$ (528,362)	$ 2,653,511

(1) Not subject to amortization.

Note 6. Stock-Based Compensation

For the three months ended June 30, 2011 and 2010, the Company recognized stock-based compensation expense of $1.8 million ($1.1 million, net of tax) and $2.2 million ($1.3 million, net of tax), respectively. For the six months ended June 30, 2011 and 2010, the Company recognized stock-based compensation expense of $4.2 million ($2.6 million, net of tax) and $4.3 million ($2.6 million, net of tax), respectively. As of June 30, 2011, there was $12.8 million of total unrecognized compensation cost related to non-vested stock options and restricted share units granted by Holdings under the Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan (the MSIP). These remaining costs are expected to be recognized over a weighted-average period of 2.3 years.

In February 2011, the Board of Directors and stockholders of Holdings adopted an amendment to the MSIP. The amendment increased the number of shares of Holdings common stock available for issuance under the MSIP by 750,000 shares, from 13,845,000 to 14,595,000 shares.

Note 7. Supplemental Cash Flow Information

Supplemental information relating to the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010 is presented in the following table:

	Six months ended June 30,	
(In thousands)	**2011**	**2010**
Cash paid for or (received from):		
Interest expense	$ 126,620	$ 136,518
Interest and dividend income	(2,462)	(2,790)
Income taxes, net of refunds	8,366	10,127

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Note 8. Comprehensive Income

Total comprehensive income was $55.5 million and $5.5 million for the three months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, total comprehensive income (loss) was $20.3 million and ($26.4) million, respectively. Total comprehensive income (loss) primarily includes net income (loss), unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translation.

Note 9. Receivable Sales

The Company has an accounts receivable securitization arrangement under which TruGreen and Terminix may sell certain eligible trade accounts receivable to ServiceMaster Funding Company LLC (Funding), the Company s wholly owned, bankruptcy-remote subsidiary, which is consolidated for financial reporting purposes. Funding, in turn, may transfer, on a revolving basis, an undivided percentage ownership interest of up to $50.0 million in the pool of accounts receivable to one or both of the unrelated purchasers who are parties to the accounts receivable securitization arrangement (Purchasers). The amount of the eligible receivables varies during the year based on seasonality of the businesses and could, at times, limit the amount available to the Company from the sale of these interests. As of June 30, 2011, the amount of eligible receivables was approximately $50.0 million.

During the six months ended June 30, 2011, there were no transfers of interests in the pool of trade accounts receivables to Purchasers under this arrangement. As of June 30, 2011 and December 31, 2010, the Company had $10.0 million outstanding under the arrangement and, as of June 30, 2011, had $40.0 million of remaining capacity available under the trade accounts receivable securitization arrangement.

The accounts receivable securitization arrangement is a 364-day facility that is renewable annually at the option of Funding, with a final termination date of July 17, 2012. Only one of the Purchasers is required to purchase interests under the arrangement. As part of the annual renewal of the facility, which occurred on July 26, 2011, this Purchaser agreed to continue its participation in the arrangement through July 17, 2012.

The Company has recorded its obligation to repay the Purchaser for its interest in the pool of receivables as long-term debt in the condensed consolidated statement of financial position. The interest rates applicable to the Company s obligation are based on a fluctuating rate of interest based on the Purchaser s pooled commercial paper rate (0.21% as of June 30, 2011). In addition, the Company pays usage fees on its obligations and commitment fees on undrawn amounts committed by the Purchasers. All obligations under the accounts receivable securitization arrangement must be repaid by July 17, 2012.

Note 10. 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 June 30, 2011 and December 31, 2010, the Company s investments consist primarily of domestic publicly traded debt and certificates of deposit totaling $106.7 million and $100.9 million, respectively, and common equity securities of $40.6 million and $39.7 million, respectively.

The aggregate market value of the Company s short- and long-term investments in debt and equity securities was $147.3 million and $140.6 million, and the aggregate cost basis was $137.7 million and $133.0 million as of June 30, 2011 and December 31, 2010, respectively.

As of June 30, 2011 and December 31, 2010, $274.4 million and $242.2 million, respectively, of the cash and short- and long-term marketable securities balance are associated with regulatory requirements at American Home Shield and for other purposes. American Home Shield s investment portfolio has been invested in a combination of high quality, short duration fixed income securities and equities.

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 or the market(s) in which the issuer competes. The table below summarizes gross realized gains and gross realized losses, each 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 and six months ended June 30, 2011 and 2010.

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(In thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Gross realized gains, pre-tax	$ 104	$ 602	$ 611	$ 1,101
Gross realized gains, net of tax	64	370	374	676
Gross realized losses, pre-tax	(21)	(125)	(36)	(126)
Gross realized losses, net of tax	(13)	(77)	(22)	(77)

The table below summarizes unrealized gains and losses in the investment portfolio:

(In thousands)	As of June 30, 2011	As of December 31, 2010
Unrealized gains	$ 11,184	$ 9,621
Unrealized losses	(1,577)	(1,995)
Portion of unrealized losses which had been in a loss position for more than one year		(109)
Aggregate fair value of the investments with unrealized losses	10,866	18,535

Note 11. Long-Term Debt

Long-term debt as of June 30, 2011 and December 31, 2010 is summarized in the following table:

(In thousands)	As of June 30, 2011	As of December 31, 2010
Senior secured term loan facility maturing in 2014	$ 2,544,000	$ 2,557,250
10.75% senior notes maturing in 2015	1,061,000	1,061,000
Revolving credit facility maturing in 2014		
7.10% notes maturing in 2018(1)	66,512	65,549
7.45% notes maturing in 2027(1)	151,890	150,555
7.25% notes maturing in 2038(1)	61,037	60,633
Other	55,837	53,500
Less current portion	(58,255)	(49,412)
Total long-term debt	$ 3,882,021	$ 3,899,075

(1) The increase in the balance from December 31, 2010 to June 30, 2011 reflects the amortization of fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.

On February 2, 2011, ServiceMaster entered into an amendment to its Revolving Credit Facility, which provides for senior secured revolving loans and stand-by and other letters of credit. Prior to the amendment, the facility was scheduled to mature on July 24, 2013 and provided for maximum borrowing capacity of $500.0 million with outstanding letters of credit limited to $75.0 million. The Company desired to extend the maturity date of the facility by one year and, as an inducement for such extension, offered to allow any lenders in the syndicate group that were willing to extend the maturity date by one year a 20 percent reduction of such lender s loan commitment. As a result of the amendment, the Company will have available borrowing capacity under its amended Revolving Credit Facility of $442.5 million through July 24, 2013 and will have available borrowing capacity of $229.6 million from July 25, 2013 through July 24, 2014. The Company will continue to have access to letters of credit up to $75.0 million through July 24, 2014.

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Note 12. Discontinued Operations

In the first quarter of 2011, ServiceMaster concluded that TruGreen LandCare did not fit within the long-term strategic plans of the Company and committed to a plan to sell the business. On April 21, 2011, the Company entered into a purchase agreement to sell the TruGreen LandCare business, and the disposition was effective as of April 30, 2011. As a result of the decision to sell this business, a $34.2 million impairment charge ($21.0 million, net of tax) was recorded in loss from discontinued operations, net of income taxes, in the first quarter of 2011 to reduce the carrying value of TruGreen LandCare s assets to their estimated fair value less cost to sell in accordance with applicable accounting standards. Additionally, upon completion of the sale, a $1.3 million loss on sale ($0.7 million, net of tax) was recorded in the second quarter of 2011. The loss on the disposition of the TruGreen LandCare business is subject to certain post-closing adjustments, and such adjustments could be significant to the purchase price.

The carrying amounts of the major classes of assets and liabilities for TruGreen LandCare are presented below.

(In thousands)		As of June 30, 2011		As of December 31, 2010
Assets:				
Receivables, net	$		$	27,732
Inventories and other current assets		177		23,245
Total Current Assets		177		50,977
Net property and equipment				22,498
Goodwill and intangible assets, net				9,899
Total Assets	$	177	$	83,374
Liabilities:				
Current liabilities	$	1,322	$	15,495
Long-term liabilities		66		1,951
Total Liabilities	$	1,388	$	17,446

Loss from discontinued operations, net of income taxes, for all periods presented includes the operating results of TruGreen LandCare and the other previously sold businesses noted in the 2010 Form 10-K.

The operating results of discontinued operations are as follows:

	Three months ended June 30,				Six months ended June 30,			
(In thousands)		2011		2010		2011		2010
Operating Results:								
Operating revenue	$	19,464	$	63,463	$	75,765	$	122,263
Operating loss		(5,115)		(3,687)		(5,190)		(662)
Benefit for income taxes		(1,986)		(1,484)		(2,009)		(254)
Operating loss, net of income taxes		(3,129)		(2,203)		(3,181)		(408)
Loss on sale and impairments, net of income taxes(1)		(713)		(28,741)		(21,762)		(28,741)

Loss from discontinued operations, net of income taxes	$ (3,842)	$ (30,944)	$ (24,943)	$ (29,149)

(1) Includes goodwill and trade name impairments of $46.9 million ($28.7 million, net of tax) in the three and six months ended June 30, 2010.

The table below summarizes the activity for the six months ended June 30, 2011 for the remaining liabilities from operations that were discontinued in years prior to 2011. The remaining obligations primarily relate to long-term self-insurance claims. The Company believes that the remaining reserves continue to be adequate and reasonable.

(In thousands)	As of December 31, 2010	Cash Payments or Other	Income	As of June 30, 2011
Remaining liabilities of discontinued operations:				
ARS/AMS	$ 219	$ 109	$ (128)	$ 200
LandCare Construction	656	(612)	(44)	
LandCare utility line clearing business	771	(771)		
Certified Systems, Inc. and other	1,905	(76)		1,829
InStar	149	(19)		130
Total liabilities of discontinued operations	$ 3,700	$ (1,369)	$ (172)	$ 2,159

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Note 13. Income Taxes

As required by Accounting Standard Codification (ASC) 740 Income Taxes, we compute 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. Our estimated tax rate is adjusted each quarter in accordance with ASC 740.

The effective tax rate on income from continuing operations was 35.6 percent for the three months ended June 30, 2011 compared to 17.2 percent for three months ended June 30, 2010. The effective tax rate for the three months ended June 30, 2010 was impacted by a cumulative adjustment arising from a revision in the anticipated annual effective tax rate during the second quarter of 2010.

The effective tax rate on income from continuing operations was 31.3 percent for the six months ended June 30, 2011 compared to 169.1 percent for the six months ended June 30, 2010. The effective tax rate for the six months ended June 30, 2010 was affected by the reclassification of the TruGreen LandCare business to discontinued operations and the resulting impact on the allocation of the full year effective tax rate on income from continuing operations to interim periods.

As of June 30, 2011 and December 31, 2010, the Company had $8.6 million and $13.7 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 $1.9 million during the next 12 months.

Note 14. Business Segment Reporting

The business of the Company is conducted through five reportable segments: TruGreen, Terminix, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters.

In accordance with accounting standards for segments, the Company s reportable segments are strategic business units that offer different services. The TruGreen segment provides residential and commercial lawn care services. The Terminix segment provides termite and pest control services to residential and commercial customers. The American Home Shield segment provides home service contracts to consumers that cover heating, ventilation, air conditioning, plumbing and other home systems and appliances. The ServiceMaster Clean segment provides residential and commercial disaster restoration and cleaning services primarily under the ServiceMaster and ServiceMaster Clean brand names, on-site furniture repair and restoration services primarily under the Furniture Medic brand name and home inspection services primarily under the AmeriSpec brand name. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of Merry Maids, which provides house cleaning services. The Other Operations and Headquarters segment also includes 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, and the Company s headquarters operations, which provide various technology, marketing, finance, legal and other support services to the business units.

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Segment information for continuing operations is presented below:

(In thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating Revenue:				
TruGreen	$ 383,022	$ 378,642	$ 519,283	$ 502,724
Terminix	334,258	323,393	618,414	594,310
American Home Shield	195,326	183,792	336,258	316,997
ServiceMaster Clean	32,870	32,034	65,702	64,296
Other Operations and Headquarters	21,964	21,738	42,454	41,880
Total Operating Revenue	$ 967,440	$ 939,599	$ 1,582,111	$ 1,520,207
Operating Income (Loss):(1),(2)				
TruGreen	$ 68,588	$ 52,606	$ 48,828	$ 13,518
Terminix	72,108	68,755	123,489	121,735
American Home Shield	31,356	21,360	44,513	28,468
ServiceMaster Clean	12,529	12,572	25,262	25,244
Other Operations and Headquarters	(23,404)	(30,544)	(57,070)	(59,223)
Total Operating Income	$ 161,177	$ 124,749	$ 185,022	$ 129,742

(1) Presented below is a reconciliation of segment operating income to income (loss) from continuing operations before income taxes:

(In thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Total Segment Operating Income	$ 161,177	$ 124,749	$ 185,022	$ 129,742
Non-operating Expense (Income):				
Interest expense	68,378	73,157	136,893	145,827
Interest and net investment income	(1,398)	(996)	(3,591)	(3,498)
Other expense	173	176	348	347
Income (Loss) from Continuing Operations before Income Taxes	$ 94,024	$ 52,412	$ 51,372	$ (12,934)

(2) Includes (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen, (ii) a branch optimization project at Terminix and (iii) costs associated with the Merger. Presented below is a summary of restructuring charges (credits) by segment:

(In thousands)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Restructuring charges:				
TruGreen	$ 8	$ 2,939	$ 5	$ 5,962
Terminix	(73)	32	2,467	78
American Home Shield				(127)
ServiceMaster Clean			20	
Other Operations and Headquarters	159	1,109	191	1,520

Total restructuring charges	$ 94	$ 4,080	$ 2,683	$ 7,433

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Note 15. Related Party Transactions

In connection with the Merger and the related transactions, the Company entered into a consulting agreement with CD&R under which CD&R provides the Company with on-going consulting and management advisory services. The annual management fee payable under the consulting agreement with CD&R is $6.25 million. Under this agreement, the Company recorded management fees of $1.6 million and $3.1 million for the three and six months ended June 30, 2011 and 2010, respectively. The consulting agreement also provides that CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions. The consulting agreement will terminate on July 24, 2017, unless terminated earlier at CD&R s election.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan, each of which is an Equity Sponsor or an affiliate of an Equity Sponsor. Under the consulting agreements, Citigroup, BAS and JPMorgan each provide the Company with on-going consulting and management advisory services through June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. On September 30, 2010, Citigroup transferred the management responsibility for certain investment funds that own shares of common stock of Holdings to StepStone and its proprietary interests in such investment funds to Lexington Partners Advisors LP. Citigroup also assigned its obligations and rights under its consulting agreement to StepStone, and beginning in the fourth quarter of 2010, the consulting fee otherwise payable to Citigroup became payable to StepStone. The Company pays annual management fees of $0.5 million, $0.5 million and $0.25 million to StepStone, BAS and JPMorgan, respectively. The Company recorded consulting fees related to these agreements of $0.3 million and $0.6 million for the three and six months ended June 30, 2011 and 2010, respectively.

In 2008 and 2009, Holdings completed open market purchases totaling $65.0 million in face value of the Permanent Notes for a cost of $21.4 million. The debt acquired by Holdings has not been retired, and the Company has continued to pay interest in accordance with the terms of the debt. The Company recorded interest expense of $3.5 million for the six months ended June 30, 2011 and 2010 related to the Permanent Notes held by Holdings. The Company made cash payments to Holdings of $3.5 million during the six months ended June 30, 2011 and 2010. Interest accrued by the Company and payable to Holdings as of June 30, 2011 and December 31, 2010 amounted to $3.2 million.

Note 16. Newly Issued Accounting Statements and Positions

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements, which amends the multiple-element arrangement guidance under ASC 605, Revenue Recognition. This standard amends the criteria for separating consideration received for products or services in multiple-deliverable arrangements. This standard establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation, and requires that total arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this standard significantly expands required disclosures related to a vendor s multiple-deliverable revenue arrangements. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (calendar year 2011). The Company adopted the required provisions of this standard during the first quarter of 2011. The adoption of this standard did not have a material impact on the Company s condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (calendar year 2012) and must be applied retrospectively to all periods upon adoption. The Company anticipates that the adoption of this standard will change the presentation of its condensed consolidated financial statements**.**

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU is the result of joint efforts by the FASB and International Accounting Standards Board (IASB) to develop converged guidance on how to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. GAAP; however, it expands existing disclosure requirements for fair value measurements and makes other amendments, many of which eliminate unnecessary wording differences between U.S. GAAP and IFRS. This ASU is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the effects that this guidance will have on its condensed consolidated financial statements.

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Note 17. Fair Value of Financial Instruments

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 receivables approximate fair value as the effective interest rates for these instruments are comparable to market rates at period end. The period end carrying amounts of current 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 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 if the decline in value is other than temporary. The carrying amount of total debt was $3,940.3 million and $3,948.5 million and the estimated fair value was $3,993.5 million and $3,957.7 million as of June 30, 2011 and December 31, 2010, respectively. The fair values of the Company s financial instruments 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 June 30, 2011 and December 31, 2010.

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.

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.

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The carrying amount and estimated fair value of the Company s financial instruments that are recorded at fair value for the periods presented are as follows:

		As of June 30, 2011				As of December 31, 2010	
			Estimated Fair Value Measurements				
(In thousands)	**Balance Sheet Locations**	**Carrying Value**	**Quoted Prices In Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Carrying Value**	**Estimated Fair Value**
Financial Assets:							
Deferred compensation trust assets	Long-term marketable securities	$ 11,359	$ 11,359	$	$	$ 10,859	$ 10,859
Investments in marketable securities	Marketable securities and Long-term marketable securities	135,970	50,778	85,192		129,724	129,724
Fuel swap contracts:							
Current	Prepaid expenses and other assets	6,839			6,839	5,813	5,813
Noncurrent	Other assets	922			922	836	836
Total financial assets		$ 155,090	$ 62,137	$ 85,192	$ 7,761	$ 147,232	$ 147,232
Financial Liabilities:							
Fuel swap contracts:							
Current	Other	33			33		
Noncurrent	Other long-term obligations	63			63		
Interest rate swap contracts	Other long-term obligations	38,531		38,531		50,085	50,085
Total financial liabilities		$ 38,627	$	$ 38,531	$ 96	$ 50,085	$ 50,085

A reconciliation of the beginning and ending fair values of financial instruments valued using significant unobservable inputs (Level 3) is presented as follows:

(In thousands)	**Fuel Swap Contract Assets (Liabilities)**
Balance as of December 31, 2010	$ 6,649
Total gains (losses) (realized and unrealized)	
Included in earnings(1)	5,493
Included in accumulated other comprehensive loss	1,016
Settlements, net	(5,493)
Balance as of June 30, 2011	$ 7,665

(In thousands)	**Fuel Swap Contract Assets (Liabilities)**
Balance as of December 31, 2009	$ 6,916
Total gains (losses) (realized and unrealized)	
Included in earnings(1)	2,784
Included in accumulated other comprehensive loss	(4,944)
Settlements, net	(2,784)

Balance as of June 30, 2010	$	1,972

(1) Gains (losses) included in earnings are reported in cost of services rendered and products sold.

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The Company uses derivative financial instruments to manage risks associated with changes in fuel prices and interest rates. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. In designating its derivative financial instruments as hedging instruments under accounting standards for derivative instruments, the Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives to forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly thereafter, whether the derivative item is effective in offsetting the projected changes in cash flows of the associated forecasted transactions. All of the Company s designated hedging instruments are classified as cash flow hedges.

The Company has historically hedged a significant portion of its annual fuel consumption of approximately 23 million gallons. The Company has also hedged the interest payments on a portion of its variable rate debt through the use of interest rate swap agreements. All of the Company s fuel swap contracts and interest rate swap contracts are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the condensed consolidated statements of financial position as either an asset or liability at fair value, with the effective portion of changes in the fair value attributable to the hedged risks recorded in accumulated other comprehensive loss. Any change in the fair value of the hedging instrument resulting from ineffectiveness, as defined by accounting standards, is recognized in current period earnings. Cash flows related to fuel and interest rate derivatives are classified as operating activities in the condensed consolidated statements of cash flows.

The effect of derivative instruments on the condensed consolidated statements of operations and accumulated other comprehensive loss on the condensed consolidated statements of financial positions for the six months ended June 30, 2011 and 2010, respectively, is presented as follows:

(In thousands)

Derivatives designated as Cash Flow Hedge Relationships	**Effective Portion of Gain Recognized in Accumulated Other Comprehensive Loss**		**Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income**		**Location of Gain (Loss) included in Income**
	Six months ended June 30, 2011				
Fuel swap contracts	$	1,016	$	5,493	Cost of services rendered and products sold
Interest rate swap contracts	$	11,554	$	(19,483)	Interest expense

Derivatives designated as Cash Flow Hedge Relationships	**Effective Portion of Loss Recognized in Accumulated Other Comprehensive Loss**		**Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income**		**Location of Gain (Loss) included in Income**
	Six months ended June 30, 2010				
Fuel swap contracts	$	(4,944)	$	2,784	Cost of services rendered and products sold
Interest rate swap contracts	$	(4,270)	$	(27,216)	Interest expense

Ineffective portions of derivative instruments designated in accordance with accounting standards as cash flow hedge relationships were insignificant during the six months ended June 30, 2011. As of June 30, 2011, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $52.2 million, maturing through 2012. Under the terms of its fuel swap contracts, the Company is required to post collateral in the event that the fair value of the contracts exceeds a certain agreed upon liability level and in other circumstances required by the counterparty. As of June 30, 2011, the Company had posted $1.5 million in letters of credit as collateral under its fuel hedging program, none of which were posted under the Company s Revolving Credit Facility. As of June 30, 2011, the Company had interest rate swap contracts to pay fixed rates for interest on long-term debt with an aggregate notional amount of $1.430 billion, maturing through 2013.

The effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments is recorded in accumulated other comprehensive loss. These amounts are reclassified into earnings in the same period or periods during which the hedged forecasted debt interest settlement or the fuel settlement affects earnings. The amount expected to be reclassified into earnings during the next 12 months includes unrealized gains and losses related to open fuel hedges and interest rate swaps. Specifically, as the underlying forecasted transactions occur during the next 12 months, the hedging gains and losses in accumulated other comprehensive loss expected to be recognized in earnings is a loss of $15.8 million, net of tax, as of June 30, 2011. The amounts that are ultimately reclassified into earnings will be based on actual interest rates and fuel prices at the time the positions are settled and may differ materially from the amount noted above.

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Note 18. Condensed Consolidating Financial Statements of The ServiceMaster Company and Subsidiaries

The following condensed consolidating financial statements of the Company and its subsidiaries have been prepared pursuant to Rule 3-10 of Regulation S-X. These condensed consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the condensed consolidated financial statements. Goodwill and other intangible assets have been allocated to all of the subsidiaries of the Company based on management s estimates.

The payment obligations of the Company under the Permanent Notes are jointly and severally guaranteed on a senior unsecured basis by certain of the Company s domestic subsidiaries excluding certain subsidiaries subject to regulatory requirements in various states (Guarantors). Each of the Guarantors is wholly owned, directly or indirectly, by the Company, and all guarantees are full and unconditional. All other subsidiaries of the Company, either directly or indirectly owned, do not guarantee the Permanent Notes (Non-Guarantors).

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended June 30, 2011 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 750,739	$ 231,405	$ (14,704)	$ 967,440
Operating Costs and Expenses:					
Cost of services rendered and products sold		433,364	101,799	(14,529)	520,634
Selling and administrative expenses	2,451	160,435	96,369	(107)	259,148
Amortization expense	54	17,370	8,963		26,387
Restructuring charges (credits)	3	(65)	156		94
Total operating costs and expenses	2,508	611,104	207,287	(14,636)	806,263
Operating (Loss) Income	(2,508)	139,635	24,118	(68)	161,177
Non-operating Expense (Income):					
Interest expense (income)	46,663	23,127	(1,412)		68,378
Interest and net investment loss (income)	496	3,182	(5,076)		(1,398)
Other expense			173		173
(Loss) Income from Continuing Operations before Income Taxes	(49,667)	113,326	30,433	(68)	94,024
(Benefit) provision for income taxes	(19,464)	31,279	21,647		33,462
(Loss) Income from Continuing Operations	(30,203)	82,047	8,786	(68)	60,562
Income (loss) from discontinued operations, net of income taxes		2,602	(6,512)	68	(3,842)
Equity in earnings (losses) of subsidiaries (net of tax)	86,923	104		(87,027)	
Net Income	$ 56,720	$ 84,753	$ 2,274	$ (87,027)	$ 56,720

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended June 30, 2010 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 735,341	$ 223,052	$ (18,794)	$ 939,599
Operating Costs and Expenses:					
Cost of services rendered and products sold		426,629	105,124	(18,477)	513,276
Selling and administrative expenses	2,277	158,300	97,245		257,822
Amortization expense	56	30,650	8,966		39,672
Restructuring charges	1,005	2,971	104		4,080
Total operating costs and expenses	3,338	618,550	211,439	(18,477)	814,850
Operating (Loss) Income	(3,338)	116,791	11,613	(317)	124,749
Non-operating Expense (Income):					
Interest expense	50,486	19,048	3,623		73,157
Interest and net investment loss (income)	1,518	1,545	(4,059)		(996)
Other expense			176		176
(Loss) Income from Continuing Operations before Income Taxes	(55,342)	96,198	11,873	(317)	52,412
(Benefit) provision for income taxes	(30,825)	23,436	16,413		9,024
(Loss) Income from Continuing Operations	(24,517)	72,762	(4,540)	(317)	43,388
Income (loss) from discontinued operations, net of income taxes		19,619	(50,880)	317	(30,944)
Equity in earnings (losses) of subsidiaries (net of tax)	36,961	(66,903)		29,942	
Net Income (Loss)	$ 12,444	$ 25,478	$ (55,420)	$ 29,942	$ 12,444

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2011 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 1,215,057	$ 395,297	$ (28,243)	$ 1,582,111
Operating Costs and Expenses:					
Cost of services rendered and products sold		742,926	176,142	(27,865)	891,203
Selling and administrative expenses	4,684	260,195	185,787	(213)	450,453
Amortization expense	109	34,713	17,928		52,750
Restructuring charges	35	2,492	156		2,683
Total operating costs and expenses	4,828	1,040,326	380,013	(28,078)	1,397,089
Operating (Loss) Income	(4,828)	174,731	15,284	(165)	185,022
Non-operating Expense (Income):					
Interest expense	92,598	42,118	2,177		136,893
Interest and net investment loss (income)	869	4,458	(8,918)		(3,591)
Other expense			348		348
(Loss) Income from Continuing Operations before Income Taxes	(98,295)	128,155	21,677	(165)	51,372
(Benefit) provision for income taxes	(40,197)	23,341	32,961		16,105
(Loss) Income from Continuing Operations	(58,098)	104,814	(11,284)	(165)	35,267
Income (loss) from discontinued operations, net of income taxes		15,761	(40,869)	165	(24,943)
Equity in earnings (losses) of subsidiaries (net of tax)	68,422	(53,891)		(14,531)	
Net Income (Loss)	$ 10,324	$ 66,684	$ (52,153)	$ (14,531)	$ 10,324

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2010 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 1,173,486	$ 382,140	$ (35,419)	$ 1,520,207
Operating Costs and Expenses:					
Cost of services rendered and products sold		725,112	177,451	(34,808)	867,755
Selling and administrative expenses	4,540	249,601	181,801		435,942
Amortization expense	111	61,294	17,930		79,335
Restructuring charges	1,136	6,040	257		7,433
Total operating costs and expenses	5,787	1,042,047	377,439	(34,808)	1,390,465
Operating (Loss) Income	(5,787)	131,439	4,701	(611)	129,742
Non-operating Expense (Income):					
Interest expense	100,066	38,400	7,361		145,827
Interest and net investment loss (income)	2,169	2,742	(8,409)		(3,498)
Other expense			347		347
(Loss) Income from Continuing Operations before Income Taxes	(108,022)	90,297	5,402	(611)	(12,934)
(Benefit) provision for income taxes	(52,442)	2,026	28,549		(21,867)
(Loss) Income from Continuing Operations	(55,580)	88,271	(23,147)	(611)	8,933
Income (loss) from discontinued operations, net of income taxes		18,369	(48,129)	611	(29,149)
Equity in earnings (losses) of subsidiaries (net of tax)	35,364	(75,210)		39,846	
Net (Loss) Income	$ (20,216)	$ 31,430	$ (71,276)	$ 39,846	$ (20,216)

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Financial Position (Unaudited)

As of June 30, 2011

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 184,514	$ 30,888	$ 108,732	$	$ 324,134
Marketable securities			30,259		30,259
Receivables	2,573	161,622	478,563	(211,653)	431,105
Inventories		55,640	3,036		58,676
Prepaid expenses and other assets	15,296	50,855	20,554		86,705
Deferred customer acquisition costs		36,710	18,470		55,180
Deferred taxes		17,074	336	(2,366)	15,044
Assets of discontinued operations			177		177
Total Current Assets	202,383	352,789	660,127	(214,019)	1,001,280
Property and Equipment:					
At cost		352,015	149,349		501,364
Less: accumulated depreciation		(141,649)	(63,435)		(205,084)
Net property and equipment		210,366	85,914		296,280
Other Assets:					
Goodwill		2,771,427	365,067		3,136,494
Intangible assets, primarily trade names, service marks and trademarks, net		1,866,538	740,589		2,607,127
Notes receivable	2,011,747	181	29,727	(2,019,697)	21,958
Long-term marketable securities	11,358		105,712		117,070
Investments in and advances to subsidiaries	3,348,916	1,238,255		(4,587,171)	
Other assets	98,428	4,337	626	(96,197)	7,194
Debt issuance costs	45,393		173		45,566
Total Assets	$ 5,718,225	$ 6,443,893	$ 1,987,935	$ (6,917,084)	$ 7,232,969
Liabilities and Shareholder s Equity					
Current Liabilities:					
Accounts payable	$ 243	$ 71,729	$ 42,897	$	$ 114,869
Accrued liabilities:					
Payroll and related expenses	1,633	46,831	42,750		91,214
Self-insured claims and related expenses		22,706	64,974		87,680
Accrued interest payable	70,789	356	(229)		70,916
Other	5,025	33,237	43,994	(2,366)	79,890
Deferred revenue		204,803	331,662		536,465
Liabilities of discontinued operations		130	1,522		1,652
Current portion of long-term debt	116,369	12,167	141,372	(211,653)	58,255
Total Current Liabilities	194,059	391,959	668,942	(214,019)	1,040,941
Long-Term Debt	3,857,942	2,012,027	31,749	(2,019,697)	3,882,021
Other Long-Term Liabilities:					
Deferred taxes		762,328	277,165	(96,197)	943,296

Intercompany payable		395,753				108,989		(504,742)		
Liabilities of discontinued operations						1,895				1,895
Other long-term obligations		58,461		661		93,684				152,806
Total Other Long-Term Liabilities		454,214		762,989		481,733		(600,939)		1,097,997
Shareholder s Equity		1,212,010		3,276,918		805,511		(4,082,429)		1,212,010
Total Liabilities and Shareholder s Equity	$	5,718,225	$	6,443,893	$	1,987,935	$	(6,917,084)	$	7,232,969

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Financial Position (Audited)

As of December 31, 2010

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 132,168	$ 16,900	$ 103,630	$	$ 252,698
Marketable securities			30,406		30,406
Receivables	1,229	109,680	414,370	(173,185)	352,094
Inventories		52,139	2,593		54,732
Prepaid expenses and other assets	10,129	12,583	18,152		40,864
Deferred customer acquisition costs		15,163	19,214		34,377
Deferred taxes		12,808	391	(1,641)	11,558
Assets of discontinued operations			51,004		51,004
Total Current Assets	143,526	219,273	639,760	(174,826)	827,733
Property and Equipment:					
At cost		307,468	132,581		440,049
Less: accumulated depreciation		(118,614)	(54,537)		(173,151)
Net property and equipment		188,854	78,044		266,898
Other Assets:					
Goodwill		2,760,512	364,781		3,125,293
Intangible assets, primarily trade names, service marks and trademarks, net		1,895,059	758,452		2,653,511
Notes receivable	1,990,383	231	30,269	(1,998,333)	22,550
Long-term marketable securities	10,859		99,318		110,177
Investments in and advances to subsidiaries	3,299,019	913,502		(4,212,521)	
Other assets	98,425	4,164	882	(96,307)	7,164
Debt issuance costs	52,366				52,366
Assets of discontinued operations			32,398		32,398
Total Assets	$ 5,594,578	$ 5,981,595	$ 2,003,904	$ (6,481,987)	$ 7,098,090
Liabilities and Shareholder s Equity					
Current Liabilities:					
Accounts payable	$ 272	$ 46,187	$ 26,186	$	$ 72,645
Accrued liabilities:					
Payroll and related expenses	1,608	45,031	39,008		85,647
Self-insured claims and related expenses		20,430	60,848		81,278
Accrued interest payable	69,613	259	(227)		69,645
Other	7,427	37,273	40,055	(1,641)	83,114
Deferred revenue		134,817	314,830		449,647
Liabilities of discontinued operations		150	16,150		16,300
Current portion of long-term debt	103,654	13,093	105,850	(173,185)	49,412
Total Current Liabilities	182,574	297,240	602,700	(174,826)	907,688
Long-Term Debt	3,868,474	1,699,589	329,345	(1,998,333)	3,899,075
Other Long-Term Liabilities:					

Deferred taxes		753,945	277,333	(96,307)	934,971
Intercompany payable	287,220		183,617	(470,837)	
Liabilities of discontinued operations			4,848		4,848
Other long-term obligations	68,783	535	94,663		163,981
Total Other Long-Term Liabilities	356,003	754,480	560,461	(567,144)	1,103,800
Shareholder s Equity	1,187,527	3,230,286	511,398	(3,741,684)	1,187,527
Total Liabilities and Shareholder s Equity	$ 5,594,578	$ 5,981,595	$ 2,003,904	$ (6,481,987)	$ 7,098,090

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows (Unaudited)

For the Six Months Ended June 30, 2011

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 132,168	$ 16,900	$ 103,630	$	$ 252,698
Net Cash (Used for) Provided from Operating Activities from Continuing Operations	(32,996)	172,817	43,419	(40,130)	143,110
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(41,423)	(16,411)		(57,834)
Sale of equipment and other assets		861	90		951
Acquisition of The ServiceMaster Company	(35)				(35)
Other business acquisitions, net of cash acquired		(11,886)			(11,886)
Purchase of other intangibles		(1,900)			(1,900)
Notes receivable, financial investments and securities, net			(4,341)		(4,341)
Net Cash Used for Investing Activities from Continuing Operations	(35)	(54,348)	(20,662)		(75,045)
Cash Flows from Financing Activities from Continuing Operations:					
Borrowings of debt					
Payments of debt	(13,250)	(6,520)	(667)		(20,437)
Debt issuance costs paid	(280)				(280)
Shareholders dividends		(20,065)	(20,065)	40,130	
Net intercompany advances	98,907	(105,399)	6,492		
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	85,377	(131,984)	(14,240)	40,130	(20,717)
Cash Flows from Discontinued Operations:					
Cash used for operating activities		(20)	(1,798)		(1,818)
Cash provided from (used for) investing activities:					
Proceeds from sale of business		27,523			27,523
Other investing activities			(1,617)		(1,617)
Net Cash Provided from (Used for) Discontinued Operations		27,503	(3,415)		24,088
Cash Increase During the Period	52,346	13,988	5,102		71,436

Cash and Cash Equivalents at End of Period	$	184,514	$	30,888	$	108,732	$		$	324,134

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows (Unaudited)

For the Six Months Ended June 30, 2010

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 124,674	$ 17,689	$ 112,993	$	$ 255,356
Net Cash (Used for) Provided from Operating Activities from Continuing Operations	(51,391)	160,164	28,561	(41,822)	95,512
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(31,956)	(3,355)		(35,311)
Sale of equipment and other assets		613	105		718
Acquisition of The ServiceMaster Company	(2,164)				(2,164)
Other business acquisitions, net of cash acquired		(14,644)	(109)		(14,753)
Notes receivable, financial investments and securities, net			(898)		(898)
Net Cash Used for Investing Activities from Continuing Operations	(2,164)	(45,987)	(4,257)		(52,408)
Cash Flows from Financing Activities from Continuing Operations:					
Borrowings of debt			10,000		10,000
Payments of debt	(13,625)	(7,827)	(610)		(22,062)
Debt issuance costs paid			(30)		(30)
Shareholders dividends		(20,911)	(20,911)	41,822	
Net intercompany advances	84,729	(87,283)	2,554		
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	71,104	(116,021)	(8,997)	41,822	(12,092)
Cash Flows from Discontinued Operations:					
Cash provided from operating activities			9,481		9,481
Cash used for investing activities			(4,704)		(4,704)
Net Cash Provided from Discontinued Operations			4,777		4,777
Cash Increase (Decrease) During the Period	17,549	(1,844)	20,084		35,789
Cash and Cash Equivalents at End of Period	$ 142,223	$ 15,845	$ 133,077	$	$ 291,145

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

In the first quarter of 2011, ServiceMaster concluded that TruGreen LandCare did not fit within the long-term strategic plans of the Company and committed to a plan to sell the business. On April 21, 2011, the Company entered into a purchase agreement to sell the TruGreen LandCare business, and the disposition was effective as of April 30, 2011. As a result of the decision to sell this business, a $34.2 million impairment charge ($21.0 million, net of tax) was recorded in loss from discontinued operations, net of income taxes, in the first quarter of 2011 to reduce the carrying value of TruGreen LandCare s assets to their estimated fair value less cost to sell in accordance with applicable accounting standards. Additionally, upon completion of the sale, a $1.3 million loss on sale ($0.7 million, net of tax) was recorded in the second quarter of 2011. The loss on the disposition of the TruGreen LandCare business is subject to certain post-closing adjustments, and such adjustments could be significant to the purchase price. The financial results, as well as the assets and liabilities, of the TruGreen LandCare business are reported in discontinued operations for all periods presented.

Second Quarter 2011 Compared to 2010

The Company reported second quarter 2011 revenue of $967.4 million, a $27.8 million or 3.0 percent increase compared to the second quarter of 2010. The revenue increase was driven by the results of our business units as described in our Segment Reviews for the Second Quarter 2011 Compared to 2010.

Operating income was $161.2 million for the second quarter of 2011, a $36.4 million or 29.2 percent increase compared to the second quarter of 2010. Income from continuing operations before income taxes was $94.0 million for the second quarter of 2011 compared to $52.4 million for the second quarter of 2010. The increase in income from continuing operations before income taxes of $41.6 million primarily reflects the net effect of year over year changes in the following items:

(In thousands)		
Depreciation and amortization expense(1)	$	9,795
Residual value guarantee charge(2)		3,928
Restructuring charges(3)		3,986
Interest expense(4)		4,779
Segment results(5)		18,806
Other		318
	$	41,612

(1) Consists primarily of decreased amortization of intangible assets as a result of certain finite lived intangible assets being fully amortized as of July 24, 2010, offset, in part, by increased depreciation of property and equipment as a result of property additions.

(2) Represents residual value guarantee charges recorded in the three months ended June 30, 2010 related to a synthetic lease for operating properties that did not result in additional cash payments to exit the facility at the end of the lease term in July 2010. There is no similar charge in the three months ended June 30, 2011.

(3) Represents the favorable impact of (i) a decrease in restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen, which took place in the second quarter of 2010, and (ii) a decrease in costs associated with the Merger.

(4) Represents a decrease in interest expense as a result of a decrease in our weighted average interest rate during the second quarter of 2011 as compared to the second quarter of 2010.

(5) Represents an improvement in income from continuing operations before income taxes, as adjusted for the specific items included in the table above. Includes key executive transition charges of $2.5 million recorded in the three months ended June 30, 2011, which include separation charges related to the resignations of our former Chief Financial Officer (CFO) and the former President of TruGreen in the second quarter of 2011.

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Operating and Non-Operating Expenses

The Company reported cost of services rendered and products sold of $520.6 million for the second quarter of 2011 compared to $513.3 million for the second quarter of 2010. As a percentage of revenue, these costs decreased to 53.8 percent for the three months ended June 30, 2011 from 54.6 percent for the three months ended June 30, 2010. This percentage decrease primarily reflects the impact of residual value guarantee charges related to synthetic leases recorded in 2010 at TruGreen for which there is no similar charge in 2011, favorable termite damage claims trends at Terminix and favorable claims trends in our medical plan and our automobile, general liability and workers compensation program, which may or may not continue. These items were offset, in part, by increased fuel costs.

The Company reported selling and administrative expenses of $259.1 million for the second quarter of 2011 compared to $257.8 million for the second quarter of 2010. As a percentage of revenue, these costs decreased to 26.8 percent for the three months ended June 30, 2011 from 27.4 percent for the three months ended June 30, 2010. This percentage decrease primarily reflects the reduced sales and marketing spend at TruGreen and American Home Shield and decreased provisions for certain legal matters at American Home Shield. These items were offset, in part, by increased investments in sales and marketing at Terminix, investments in a new customer relationship management (CRM) platform at American Home Shield, key executive transition charges of $2.5 million and investments in information systems for payment card industry (PCI) standards compliance purposes.

Amortization expense was $26.4 million for the second quarter of 2011 compared to $39.7 million for the second quarter of 2010. The decrease is a result of certain finite lived intangible assets being fully amortized as of July 24, 2010.

Non-operating expense totaled $67.2 million for the second quarter of 2011 compared to $72.3 million for the second quarter of 2010. This change is primarily due to a $4.8 million decrease in interest expense as a result of a decrease in our weighted-average interest rate. Interest and net investment income was comprised of the following for the three months ended June 30, 2011 and 2010:

(In thousands)	**Three months ended June 30, 2011**	**2010**
Realized gains(1)	$ 1,146	$ 1,604
Deferred compensation trust(2)	59	(810)
Other(3)	193	202
Interest and net investment income	$ 1,398	$ 996

(1) Represents the net investment gains and the interest and dividend income realized on the American Home Shield investment portfolio.

(2) Represents investment income (loss) resulting from a change in the market value of investments within an employee deferred compensation trust (for which there is a corresponding and offsetting change in compensation expense within loss from continuing operations before income taxes).

(3) Represents interest income on other cash balances.

The effective tax rate on income from continuing operations was 35.6 percent for the second quarter of 2011 compared to 17.2 percent for second quarter of 2010. The effective tax rate for the three months ended June 30, 2010 was impacted by a cumulative adjustment arising from a revision in the anticipated annual effective tax rate during the second quarter of 2010.

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Restructuring Charges

The Company incurred restructuring charges of $0.1 million and $4.1 million for the three months ended June 30, 2011 and 2010, respectively. Restructuring charges were comprised of the following:

	Three months ended June 30,			
(In thousands)		**2011**		**2010**
TruGreen reorganization and restructuring(1)	$		$	2,939
Terminix branch optimization(2)		(73)		