

SERVICEMASTER CO
Form 10-K
March 06, 2012

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

Commission File Number 1-14762

THE SERVICEMASTER COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3858106
(I.R.S. Employer
Identification No.)

860 Ridge Lake Boulevard, Memphis, Tennessee 38120
(Address of principal executive offices, including zip code)

(901) 597-1400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The registrant is a privately held corporation and its equity shares are not publicly traded. At March 6, 2012, 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 Annual Report on Form 10-K with the Securities and Exchange Commission and is doing so on a voluntary basis.

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**THE SERVICEMASTER COMPANY
ANNUAL REPORT ON FORM 10-K**

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PART I

ITEM 1. BUSINESS

The following discussion of our business contains "forward-looking statements," as discussed in Part II, Item 7 below. Our business, operations and financial condition are subject to various risks as set forth in Part I, Item 1A below. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and related notes and the Risk Factors included elsewhere in this Annual Report on Form 10-K.

COMPANY

The ServiceMaster Company ("ServiceMaster," the "Company," "we," "us" or "our") is a national company serving both residential and commercial customers. Our services include lawn care, termite and pest control, home service contracts, cleaning and disaster restoration, house cleaning, furniture repair and home inspection. As of December 31, 2011, we provided these services through a network of approximately 6,900 company-owned, franchised and licensed locations operating primarily under the following leading brands: TruGreen, Terminix, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec. Approximately 98 percent of our 2011 operating revenue was generated by sales in the United States. Incorporated in Delaware in 1991, ServiceMaster is the successor to various entities dating back to 1947.

ServiceMaster is organized into five principal reportable segments: TruGreen, Terminix, American Home Shield, ServiceMaster Clean, and Other Operations and Headquarters. The financial information for each operating segment for 2011, 2010 and 2009 is contained in Note 3 to the Consolidated Financial Statements in this Annual Report on Form 10-K. During 2011, we employed an average of approximately 21,000 company associates, and our franchise network independently employed over 31,000 additional people.

In the first quarter of 2011, we concluded that TruGreen LandCare, a commercial landscape maintenance business, did not fit within our long-term strategic plans and committed to a plan to sell the business. On April 21, 2011, we entered into a purchase agreement to sell the TruGreen LandCare business, and the disposition was completed 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 in this Annual Report on Form 10-K.

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. As of December 22, 2011, Holdings purchased from BAS 7.5 million shares of capital stock of Holdings. Affiliates of BAS continue to hold 10 million shares of Holdings. For information with respect to the ownership of common stock of Holdings by Equity Sponsors and related funds, see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

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The following table shows the percentage of ServiceMaster's consolidated revenue from continuing operations derived from each of ServiceMaster's reportable segments in the years indicated:

Segment	2011	2010	2009
TruGreen	34%	35%	35%
Terminix	37%	37%	37%
American Home Shield	22%	21%	21%
ServiceMaster Clean	4%	4%	4%
Other Operations and Headquarters	3%	3%	3%

TruGreen Segment

The TruGreen segment provides lawn, tree and shrub care services primarily under the TruGreen brand name. TruGreen is a leading provider of lawn, tree and shrub care services in the United States, serving both residential and commercial customers. Of the TruGreen segment's 2011 operating revenue, 55 percent was generated from residential weed control and fertilization services, while expanded lawn services (such as aeration and grub control) (19 percent), commercial weed control and fertilization services (15 percent), and tree and shrub services (11 percent) accounted for the remainder.

As of December 31, 2011, TruGreen provided these services in 48 states and the District of Columbia through approximately 200 company-owned locations and 35 franchised outlets. As of December 31, 2011, TruGreen also provided lawn care services through a subsidiary in Canada and had licensing arrangements whereby licensees provided these services in Japan and the United Kingdom.

The TruGreen business is seasonal in nature. In the winter and spring, this business sells to customers a series of lawn applications, which are rendered primarily in March through October. Weather conditions such as droughts, severe winter storms and snowfall, whether created by climate change factors or otherwise, can adversely impact the timing of product or service delivery and/or demand for lawn care services and may result in a decrease in revenues or an increase in costs.

Terminix Segment

The Terminix segment provides termite and pest control services and distributes pest control products primarily under the Terminix brand name. Terminix is a leading provider of termite and pest control services in the United States, serving both residential and commercial customers. Of the Terminix segment's 2011 operating revenue, 38 percent and 17 percent were generated from residential and commercial pest control services, respectively, and 37 percent and 3 percent were generated from residential and commercial termite control services, respectively (with the remainder from other services).

As of December 31, 2011, Terminix provided these services in 47 states and the District of Columbia through approximately 300 company-owned locations and 100 franchised outlets. As of December 31, 2011, Terminix also provided termite and pest control services through subsidiaries in Mexico and Honduras and had licensing arrangements whereby licensees provided these services in Japan, China, South Korea, Southeast Asia, Central America, the Caribbean and the Middle East. Terminix has formed a joint venture to enter the Indian pest market.

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The Terminix business is seasonal in nature. The termite swarm season, which typically occurs in early spring, but varies in timing and intensity by region depending on climate and other factors, leads to the highest demand for termite control services and, therefore, the highest level of revenues. Similarly, increased pest activity in the warmer months generally leads to the highest demand for pest control services and, therefore, the highest level of revenues.

American Home Shield Segment

The American Home Shield segment provides home service contracts for household systems and appliances primarily under the American Home Shield brand name. American Home Shield is a leading provider of home service contracts for household systems and appliances in the United States. It provides residential customers with contracts to repair or replace electrical, plumbing, central heating and central air conditioning systems, water heaters and other covered household systems and appliances and services those contracts through independent repair contractors. In 2011, 68 percent of the home service contracts written by American Home Shield were derived from existing contract renewals, while 18 percent and 14 percent were derived from sales made in conjunction with existing home resale transactions and direct-to-consumer sales, respectively. As of December 31, 2011, American Home Shield issued and administered home service contracts in 49 states and the District of Columbia and had no international operations.

Weather conditions such as extreme temperatures can lead to an increase in service requests related to household systems and appliances, resulting in higher claim costs and lower profitability, thereby adversely impacting results of operations and cash flows.

ServiceMaster Clean Segment

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. Of the ServiceMaster Clean segment's 2011 operating revenue, 52 percent was generated from domestic royalty fees, while international (19 percent), product sales (12 percent), janitorial national accounts (9 percent), lead generation fees (3 percent), AmeriSpec (2 percent), Furniture Medic (2 percent) and new license sales (1 percent) accounted for the remainder.

ServiceMaster Clean. ServiceMaster Clean is a leading franchisor in the residential and commercial disaster restoration and cleaning field in the United States. As of December 31, 2011, ServiceMaster Clean provided these services in all 50 states and the District of Columbia through approximately 2,975 franchised outlets. ServiceMaster Clean also has operations in Canada and Honduras. As of December 31, 2011, ServiceMaster Clean, through franchises, provided disaster restoration and cleaning services in Canada, the United Kingdom and Spain and had licensing arrangements whereby licensees provided these services in India, Lebanon, Turkey, Saudi Arabia, Japan and Southeast Asia.

Furniture Medic. Furniture Medic is a leading provider of on-site furniture repair and restoration services in the United States serving residential customers. As of December 31, 2011, Furniture Medic provided these services in 42 states and the District of Columbia through approximately 215 franchised outlets. As of December 31, 2011, Furniture Medic also provided on-site furniture repair and restoration services through franchisees in Canada and the United Kingdom and had licensing arrangements to provide these services in Turkey and Saudi Arabia.

AmeriSpec. AmeriSpec is a leading provider of home inspection services in the United States serving residential customers. As of December 31, 2011, AmeriSpec provided these services in

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44 states and the District of Columbia through approximately 220 franchised outlets. AmeriSpec also provided home inspection services through franchisees in Canada.

Other Operations and Headquarters Segment

The Other Operations and Headquarters segment includes the Merry Maids business unit, The ServiceMaster Acceptance Company Limited Partnership ("SMAC") and ServiceMaster's corporate headquarters functions.

Merry Maids. Merry Maids is a leading provider of home cleaning services in the United States. As of December 31, 2011, these services were provided in 49 states and the District of Columbia through approximately 70 company-owned locations and 400 franchised outlets. As of December 31, 2011, Merry Maids, through franchises, also provided home cleaning services in Canada, Ireland and the United Kingdom and had licensing arrangements whereby licensees provided these services in Hong Kong, Japan, South Korea and Southeast Asia.

SMAC. SMAC provides financing to franchisees of the Company through commercial loans for franchise fees and royalties, equipment and vehicle purchases and working capital needs and to consumer customers of Terminix through retail installment sales contracts. Commercial loans are typically for a term of one to seven years and are generally secured by the assets of the franchisee and other collateral. On December 31, 2011, the outstanding balance of commercial loans was \$35.8 million with a bad debt reserve for commercial loans of \$2.5 million. SMAC wrote off \$0.6 million in commercial loans in 2011. Retail installment sales contracts are typically for a term of 12 months and are unsecured. On December 31, 2011, the outstanding balance of retail installment sales contracts was \$19.1 million. In the event a customer fails to make payments under a retail installment sales contract for 120 days after the due date, Terminix purchases the installment contract from SMAC.

Headquarters functions. The Business Support Center, headquartered in Memphis, Tennessee, administers payroll, benefits, risk management, travel and certain procurement services for our internal operations. Various administrative support departments also provide personnel, communications, marketing, government and public relations, administrative, accounting, financial, tax, human resources and legal services.

STRENGTHS

We believe our company has the following competitive strengths:

Leading market segment positions and iconic brands. We believe that TruGreen, Terminix and American Home Shield, which collectively contributed 93 percent of our operating revenue for the year ended December 31, 2011, each holds a leading position in its respective business segment. Measured by operating revenue, TruGreen is approximately 4.9 times larger than its nearest competitor, and Terminix is approximately 1.2 times larger than its nearest competitor. American Home Shield is approximately 3.8 times larger than its nearest competitor, as measured by the gross premium of home service contracts written. We believe that, based on our understanding of our competitors and their operations, American Home Shield is one of the few nationwide providers of home service contracts in the United States with both national sales and technical services networks. We believe this provides a significant competitive advantage by enabling American Home Shield to educate real estate professionals, financial institutions and insurance agencies about the benefits of home service contracts. We also believe that our size and scale improve our purchasing power, route density, marketing and operating efficiencies compared to smaller local and regional competitors.

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More focused portfolio. We believe that our portfolio realignment actions since 2007 allow us to use our competitive advantages within our core competencies more effectively and better position us for growth. Our 2011 disposition of TruGreen LandCare enhanced TruGreen's ability to grow commercial revenues and resulted in a service portfolio more focused on our core businesses. With the formation of the ServiceMaster Clean & Merry Maids franchise group in 2011, we created a platform that is better equipped to utilize best practices across franchise brands within that group. By divesting InStar, a provider of disaster response, restoration and reconstruction services, in 2008, we shed a non-strategic asset with less predictable revenue performance and eliminated unnecessary market confusion with ServiceMaster Clean's disaster restoration business.

Compelling growth initiatives:

Gain market segment share. We believe that, by providing a superior customer experience across our businesses, we are positioned to increase customer retention rates of our existing business segments. We continue to review opportunities to expand our geographic footprint, evaluate tuck-in acquisitions in existing and adjacent territories and expand our service offerings to better penetrate the North American marketplace.

Move into faster growing, adjacent opportunities. We believe that we have a significant opportunity to expand our presence in the commercial arena within our existing business segments, primarily at TruGreen, Terminix and ServiceMaster Clean. Our key initiatives related to commercial expansion include targeting growth in profitable segments, such as commercial spraywork, pest and termite commercial opportunities, servicing national accounts and adding key sales and management personnel across our network. We believe that we also are well positioned to use our competitive advantages within our existing American Home Shield network to cross-sell preventative maintenance contracts to new and existing customers. In addition, we are seeking to grow our commercial janitorial revenues through additional franchise locations in geographic areas where we do not have a significant presence.

Provide new product offerings and enhance the customer experience. We are offering new products at American Home Shield, such as preventative maintenance contracts, and giving our customers more choice in the type of coverage they can select for their household systems and appliances. Additionally, American Home Shield is implementing a new customer relationship management ("CRM") system, which we expect will enhance customer experience and improve retention. At ServiceMaster Clean, we are seeking to expand our relationships with insurance companies to increase disaster restoration revenues by becoming a partner of choice.

Committed and experienced senior leadership. Our senior management team has a long track record of producing profitable growth in a wide variety of industries and economic conditions. Many of our senior managers own equity in our organization, and their incentive compensation is tied to key performance metrics. Our compensation structure is designed to incentivize our senior management team to drive the long-term success of our business.

Proven and consistent business model:

Solid performance through business cycles. Our consolidated operating revenue and Adjusted EBITDA compound annual growth rates ("CAGRs") from 2008 through 2011 were 2.3 percent and 8.9 percent, respectively, and we improved our Adjusted EBITDA margin from 15.2 percent in 2008 to 18.3 percent in 2011. We attribute this performance through the recent economic downturn principally to our diversified customer base, comprised of an estimated 8.2 million customers who are provided with services and products by the

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ServiceMaster family of brands, including our franchisees. No single customer represents a material portion of our consolidated revenue base, and our segments are not dependent on a single customer or a few customers who are provided with services and products by the ServiceMaster family of brands, including our franchisees. We believe that our historical ability to increase Adjusted EBITDA results from technology investments that have driven efficiency within the Terminix segment, tighter controls that have allowed us to closely manage costs and the efficient use of our support centers, which utilize our combined scale and capabilities across our business segments. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Segment Review for a discussion of how we calculate Adjusted EBITDA.

Strong and stable customer retention rates. The customers in our three largest segments typically enter into one-year service programs, which are renewable annually. Our customer retention rates were approximately 66.7 percent for TruGreen, 80.6 percent for Terminix Pest Control, 86.1 percent for Terminix Termite and 75.1 percent for American Home Shield for the year ended December 31, 2011. We have generally been able either to grow or sustain customer retention rates in our core business units through the recent economic downturn, contributing to the stability of our overall revenue base.

Improved cost structure under private ownership. Since becoming a private company in 2007, we have improved our cost structure across our businesses. For example, the cost structure of Terminix has benefited from a branch optimization initiative, including adherence to branch operating models, sharing best practices and more efficient sourcing of labor and materials. We have also deployed technology and mobility solutions in the Terminix business, including handheld technologies designed to enhance technician efficiency and reduce operating costs, and have improved mobility and technology solutions across other business units to drive increased efficiencies.

Strong cash flow profile. Our company has historically generated significant operating cash flow. Our average Adjusted EBITDA for the last three years was \$536 million, and our average capital expenditures over the same period were \$96 million. We have been able to manage our working capital needs, principally through lower inventory requirements and increased customer prepayment initiatives in several of our businesses.

STRATEGY

Our strategy is focused on the following strategic priorities:

Rapid, profitable growth:

Enhance customer experience and improve customer retention. We seek to grow operating revenue through initiatives designed to enhance customer satisfaction and loyalty. Key objectives include the optimization of customer-employee contact and communication, enhanced use of customer relationship management software for scheduling and work order management, continued improvement of quality of services delivered through better training, faster problem resolution and increased transfer of best practices across our businesses.

Expand commercial services. We believe that our extensive national coverage, brand strength and broad product and service offerings provide us with a significant competitive advantage for serving multi-location commercial accounts, especially compared to local and regional competitors. We believe that we have the opportunity to further utilize our competitive advantages with our broad national service network to increase our delivery of services to commercial accounts. Our specific strategies include accelerating national account growth by adding sales resources and enhancing our value proposition through

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technology, thoroughly reviewing market segment growth opportunities and targeting adjacent sectors through partnerships.

Increase market segment share and household penetration of our services. We believe that our size and geographic scale, strong brand awareness and customer service focus will enable us to increase our market segment share across our portfolio of businesses. At the same time, we believe there are significant opportunities to increase the relatively low household penetration of our services and products and thus expand our addressable market segments.

Pursue expansion opportunities. We intend to take advantage of opportunities for domestic and international expansion in territories where we believe macroeconomic conditions and local demographics can support profitable operations in the segments in which we operate. We believe that increased geographic penetration, both domestically and internationally, will further diversify our business portfolio.

Talent Management. We intend to continue our focus on developing and retaining key associates to best align our business to the needs of our customer base. We are implementing this strategy through four key initiatives:

Alignment of organization structure with business strategy. This focused effort allows us to quickly and effectively identify and address talent gaps in relation to implementing our strategic initiatives.

Rigorous and ongoing talent management. Our comprehensive talent review process aligns associate performance with the goals of our organization. The process is designed to improve performance management and attract and retain high caliber talent.

Accelerate talent development. To drive improved customer retention, we are continuing our efforts to provide focused and ongoing customer service training for our key associates. We have also developed a leadership development program designed to promote upward mobility for our associates within our organization.

Increase associate engagement. We promote the consistent execution of our associate engagement plans across our business units, with the goal of improving the experiences of our customers and increasing customer loyalty to our leading brands.

Best practice transfer and execution excellence. In recent years, we have employed a strategy of accelerating the transfer of best practices across our businesses, investing in technology and mobility solutions, centralizing support functions and reducing layers of management, along with other business unit specific initiatives. We believe there are appreciable opportunities for further improvement across and within each of our businesses, including further utilizing the competitive advantages of our centralized support center to take advantage of combined capabilities and scale.

INDUSTRY AND COMPETITION

We compete in the residential and commercial services industry, focusing on lawn care, termite and pest control, home service contracts, cleaning and disaster restoration, house cleaning, furniture repair and home inspection. We target market segments that meet our criteria for size, growth and profit potential. While we compete with a broad range of competitors in each discrete segment, we do not believe that any of our competitors provides all of the services we provide in all of the market segments we serve. We believe that our widely recognized brands, size, geographic footprint and reputation for service quality provide us with significant competitive advantages in reaching both residential and commercial customers. All of the primary segments in which we

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operate are highly fragmented, and we believe they are characterized by attractive industry conditions.

Lawn care

According to a study by NorthStar Partners, the U.S. professional lawn services segment specializing in lawn treatments was estimated at \$6.7 billion in revenue in 2011. According to the Bureau of Labor Statistics and Consumer Expenditures' 2010 consumer expenditure interview survey, approximately 14 percent of survey respondents outsourced lawn or gardening services. According to Packaged Facts, the lawn care segment has decreased at a 1.8 percent CAGR over the 2007-2011 period but is projected to grow at a 2.2 percent CAGR over the 2011-2016 period.

Based on the study conducted by NorthStar Partners, we estimate that our share of the U.S. lawn care services segment is approximately 16 percent based upon TruGreen's operating revenue (including royalties and franchise fees from franchisees) of \$1.1 billion in 2010. Competition in the segment for outsourced professional lawn care services comes mainly from local and independently owned firms. Scotts LawnService, a segment of The Scotts Miracle-Gro Company, which we believe is our next largest competitor in the outsourced professional lawn care services segment, generated approximately \$224 million of revenues in their fiscal 2010. Based on publicly available information for 2010, we estimate TruGreen is approximately 4.9 times larger than this competitor.

Termite and pest control

A 2010 study on the U.S. pest control industry conducted by Specialty Products Consultants, LLC estimates that the U.S. professional termite and pest control services segment generated \$6.3 billion in revenue. The termite and pest control services segment is generally characterized by high customer retention rates and, according to the National Pest Management Association's 2010 survey, 60 percent of U.S. households currently use or have used a professional exterminator in their homes. We estimate that Terminix's U.S. market segment share for the termite and pest control services we provide is approximately 22 percent, based on total operating revenue for Terminix's services (including revenue generated by our franchisees) of approximately \$1.4 billion in 2010, of which \$1.2 billion in operating revenue was reported by Terminix for services we provided in 2010.

Competition in the segment for professional termite and pest control services comes primarily from regional and local, independently operated firms, Orkin, Inc., a subsidiary of Rollins, Inc., and Ecolab, Inc., both of which compete nationally. We estimate that the top three providers (including Terminix) comprised approximately 45 percent of the professional termite and pest control services segment in 2010. The remaining portion of the professional termite and pest control services segment is highly fragmented with numerous privately-held, local termite and pest control service providers.

Home service contracts

According to Warranty Week, a newsletter for warranty management professionals, the U.S. home warranty segment (including structural home warranties, which is a business in which we do not compete) was approximately \$1.5 billion in 2009, as measured by the annual value of premiums paid by consumers. One of the primary drivers of new home service contracts is the number of existing homes sold in the United States, since a home service product is often recommended by a real estate sales professional or offered by the seller of a home in conjunction with a real estate transaction. According to the National Association of Realtors, existing home re-sales in units increased by 1.7 percent in 2011 and are currently projected to increase by 4.7 percent in 2012 and 5.2 percent in 2013. Approximately 22 percent of the operating revenue of American Home Shield in 2011 was tied directly to existing home resales.

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Competition for home service contracts that cover systems and appliances comes mainly from regional providers. Several competitors are expected to initiate expansion efforts into additional states. According to Warranty Week data, American Home Shield and The First American Corporation are the two largest industry participants, based on gross premiums paid in 2009, with American Home Shield having 41 percent market segment share and The First American Corporation having 11 percent market segment share. Based on this information, American Home Shield is approximately 3.7 times larger than this competitor.

Disaster restoration and reconstruction, emergency response and other services

Most emergency response work results from extreme weather environments and natural disasters such as hurricanes, floods, mudslides, tornadoes and earthquakes. Firms in this segment also respond to non-weather-related emergency situations for residential and commercial customers, such as fires and flooding. Critical factors in the selection of an emergency response firm are the firm's reputation, relationships with insurers, available resources, proper insurance and credentials, timeliness, and responsiveness. The segment is highly fragmented, and key competitors of our ServiceMaster Clean business include ServPro Industries, Inc., Belfor, a subsidiary of Belfor Europe GmbH, and BMS CAT, Inc.

Home cleaning services

Competition in the market segment for home cleaning services comes mainly from local, independently owned firms, from homeowners who clean their own homes and from a few national companies such as The Maids International, Inc., Molly Maid, Inc. and The Cleaning Authority, LLC.

MARKETING AND DISTRIBUTION

ServiceMaster markets its services primarily through the internet, direct mail, television and radio advertising, print advertisements, door-to-door solicitation, telemarketing and yellow pages advertisements. Additionally, American Home Shield and Terminix, in certain jurisdictions, market their services through various participants in the residential real estate market place, such as real estate brokerages, financial institutions and insurance agencies and, for American Home Shield, an internal sales organization that supports these distribution channels.

SERVICE MARKS, TRADEMARKS AND TRADE NAMES

ServiceMaster holds various service marks, trademarks and trade names, such as ServiceMaster, Terminix, TruGreen, Merry Maids, ServiceMaster Clean, American Home Shield, AmeriSpec and Furniture Medic, that it deems particularly important to the advertising activities conducted by each of its reportable segments as well as the franchising activities conducted by certain reportable segments. As of December 31, 2011, ServiceMaster had marks that were protected by registration (either by direct registration or by treaty) in the United States and 81 other countries.

FRANCHISES

Franchises are important to the TruGreen, Terminix, ServiceMaster Clean, Merry Maids, AmeriSpec and Furniture Medic businesses. Total franchise fees (initial and recurring) represented 4.0 percent, 3.9 percent and 4.1 percent of consolidated revenue from continuing operations in 2011, 2010 and 2009, respectively. Related franchise operating expenses were 2.0 percent, 1.8 percent and 2.0 percent of consolidated operating expenses in 2011, 2010 and 2009, respectively. Total franchise-related profits comprised 15.2 percent, 23.1 percent and 27.4 percent of consolidated operating income in 2011, 2010 and 2009, respectively. We evaluate the performance

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of our franchise businesses based primarily on operating profit before corporate general and administrative expenses and amortization of intangible assets. Franchise agreements entered into in the course of these businesses are generally for a term of five to ten years. The majority of these franchise agreements are renewed prior to expiration. The majority of international licenses are for ten-year terms.

MAJOR CUSTOMERS

ServiceMaster has no single customer that accounts for more than ten percent of its consolidated operating revenue. Additionally, no operating segment has a single customer that accounts for more than ten percent of its operating revenue. None of ServiceMaster's operating segments is dependent on a single customer or a few customers, the loss of which would have a material adverse effect on the segment.

REGULATORY COMPLIANCE

Government Regulations

ServiceMaster's operating segments are subject to various international, federal, state, provincial and local laws and regulations, compliance with which increases ServiceMaster's operating costs, limits or restricts the services provided by ServiceMaster's operating segments or the methods by which ServiceMaster's operating segments offer, sell and fulfill those services or conduct their respective businesses, or subjects ServiceMaster and its operating segments to the possibility of regulatory actions or proceedings. Noncompliance with these laws and regulations can subject ServiceMaster to fines or various forms of civil or criminal prosecution, any of which could have a material adverse effect on its reputation, business, financial condition, results of operations and cash flows.

These international, federal, state, provincial and local laws and regulations include laws relating to consumer protection, wage and hour, deceptive trade practices, permitting and licensing, real estate settlements, workers' safety, tax, healthcare reforms, franchise-related issues, collective bargaining and other labor matters, environmental and employee benefits. The TruGreen and Terminix businesses must also meet certain Department of Transportation and Federal Motor Carrier Safety Administration requirements with respect to some types of vehicles in their fleets. American Home Shield is regulated in certain states by the applicable state insurance regulatory authority and by the Real Estate Commission in Texas. TruGreen and Terminix are regulated by federal, state and local laws, ordinances and regulations which are enforced by Departments of Agriculture, Pest Control Boards, Departments of Environmental Conservation and similar government entities. ServiceMaster Clean uses products containing ingredients regulated by the U.S. Environmental Protection Agency ("EPA") and is subject to licensing and certification requirements for applying disinfectants, sanitizers and other EPA registered products in certain states. AmeriSpec is regulated by various state and local home inspection laws and regulations.

Consumer Protection and Solicitation Matters

ServiceMaster is subject to international, federal, state, provincial and local laws and regulations designed to protect consumers, including laws governing consumer privacy and fraud, the collection and use of consumer data, telemarketing and other forms of solicitation.

The telemarketing rules adopted by the Federal Communications Commission pursuant to the Federal Telephone Consumer Protection Act and the Federal Telemarketing Sales Rule issued by the Federal Trade Commission govern ServiceMaster's telephone sales practices. In addition, some states and local governing bodies have adopted laws and regulations targeted at direct telephone sales and "do-not-knock," "do-not-mail" and "do-not-leave" activities. The implementation of these

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marketing regulations requires TruGreen, and, to a lesser extent, ServiceMaster's other operating segments, to rely more extensively on other marketing methods and channels. In addition, if ServiceMaster were to fail to comply with any applicable law or regulation, ServiceMaster could be subject to substantial fines or damages, be involved in litigation, suffer losses to its reputation and its business or suffer the loss of licenses or penalties that may affect how the business is operated, which, in turn, could have a material adverse effect on its financial position, results of operations and cash flows.

Franchise Matters

TruGreen, Terminix, ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids are subject to various international, federal, state, provincial and local laws and regulations governing franchise sales, marketing and licensing and franchise trade practices generally, including applicable rules and regulations of the Federal Trade Commission. These laws and regulations generally require disclosure of business information in connection with the sale and licensing of franchises. Certain state regulations also affect the ability of the franchisor to revoke or refuse to renew a franchise. ServiceMaster seeks to comply with regulatory requirements and deal with franchisees and licensees in good faith. From time to time, ServiceMaster and one or more franchisees may become involved in a dispute regarding the franchise relationship, including payment of royalties or fees, location of branches, advertising, purchase of products by franchisees, non-competition covenants, compliance with ServiceMaster standards and franchise renewal criteria. There can be no assurance that compliance problems will not be encountered from time to time or that material disputes with one or more franchisees will not arise.

Environmental Matters

ServiceMaster's operating segments are subject to various international, federal, state and local laws and regulations regarding environmental, health and safety matters. Compliance with such laws increases ServiceMaster's operating costs, limits or restricts the services provided by ServiceMaster's operating segments or the methods by which they offer, sell and fulfill those services or conduct their respective businesses, or subjects ServiceMaster and its operating segments to the possibility of regulatory or private actions or proceedings. Terminix and TruGreen are regulated under many federal and state environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA" or "Superfund"), the Superfund Amendments and Reauthorization Act of 1986, the Federal Environmental Pesticide Control Act of 1972, the Federal Insecticide, Fungicide and Rodenticide Act of 1947, the Resource Conservation and Recovery Act of 1976, the Clean Air Act, the Emergency Planning and Community Right-to-Know Act of 1986, the Oil Pollution Act of 1990 and the Clean Water Act of 1977, each as amended. ServiceMaster cannot predict the effect of possible future environmental laws on its operations. During 2011, there were no material capital expenditures for environmental control facilities, and there are no material expenditures anticipated for 2012 or 2013 related to such facilities.

INSURANCE

We maintain insurance coverage that we believe is appropriate for our business, including workers' compensation, auto liability, general liability, umbrella and property insurance. In addition, we provide various insurance coverages, including deductible reimbursement policies, to our business units through our wholly owned captive insurance company, which is domiciled in Vermont.

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EMPLOYEES

The average number of persons employed by ServiceMaster during 2011 was approximately 21,000. Due to the seasonal nature of some of the Company's businesses, employee headcount can fluctuate during the course of a year, reaching approximately 25,000 during peak service periods.

AVAILABLE INFORMATION

ServiceMaster maintains a website at <http://www.svm.com> that includes a hyperlink to a website maintained by a third party where ServiceMaster's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge as soon as reasonably practicable following the time that they are filed with or furnished to the Securities and Exchange Commission (the "SEC"). The information found on the Company's website is not a part of this or any other report filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

The following discussion of risk factors contains "forward-looking statements," as discussed in Part II, Item 7 below. These risk factors are important to understanding statements in this Annual Report on Form 10-K and in other reports. Our reputation, business, financial position, results of operations and cash flows are subject to various risks. The risks and uncertainties described below are not the only ones relevant to us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also adversely impact our reputation, business, financial position, results of operations and cash flows. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

Risks Related to Our Business and Our Industry

Adverse credit and financial market events and conditions could, among other things, impede access to or increase the cost of financing or cause our commercial customers to incur liquidity issues that could lead to some of our services being cancelled or result in reduced revenues and lower operating income, which could have an adverse impact on our business, financial position, results of operations and cash flows.

Adverse developments in the credit and financial markets, including due to the recent downgrade of the U.S. long-term sovereign credit rating and the European debt crisis, as well as unstable consumer sentiment and high unemployment, continue to challenge the U.S. and global financial and credit markets and overall economies. These developments have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. Disruptions in credit or financial markets could, among other things, lead to impairment charges, make it more difficult for us to obtain, or increase our cost of obtaining, financing for our operations or investments or to refinance our debt, cause our lenders to depart from prior credit industry practice and not give technical or other waivers under our senior secured term loan facility and pre-funded letter of credit facility (together, the "Term Facilities") and senior secured revolving credit facility (the "Revolving Credit Facility") (the Term Facilities and Revolving Credit Facility are collectively referred to herein as the "Credit Facilities"), to the extent we may seek them in the future, thereby causing us to be in default under one or more of the Credit Facilities. These disruptions also could cause our commercial customers to encounter liquidity issues that could lead to some of our services being cancelled or reduced, or that could result in an increase in the time it takes our customers to pay us, or that could lead to a decrease

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in pricing for our services and products, any of which could adversely affect our accounts receivable, among other things, and, in turn, increase our working capital needs. Volatile swings in the commercial real estate segment could also impact the demand for our services as landlords cut back on services provided to their tenants.

Although we are not currently experiencing any limitation of access to the Credit Facilities and are not aware of any issues currently impacting the ability of the lenders under them to honor their commitments to extend credit, there is no assurance that the U.S. and global credit crisis will not adversely affect our ability to borrow under the Credit Facilities in the future. Liquidity or capital problems at one or more of the lenders on the Revolving Credit Facility could reduce or eliminate the amount available for us to draw under such facility. Our access to additional capital may not be available on terms acceptable to us or at all.

There can be no assurance that adverse developments in the credit and financial markets, along with other economic uncertainties, will not get worse over time. Adverse developments in the credit and financial markets and economic uncertainties make it difficult for us to accurately forecast and plan future business activities. The continuance of the current uncertain economic conditions or further deterioration of such conditions could have a material adverse impact on our business, financial position, results of operations and cash flows.

Further weakening in general economic conditions, especially as they may affect home sales, unemployment or consumer confidence or spending levels, may adversely impact our business, financial position, results of operations and cash flows.

A substantial portion of our results of operations is dependent upon spending by consumers. Deterioration in general economic conditions and consumer confidence could affect the demand for our services. Consumer spending and confidence tend to decline during times of declining economic conditions, and there can be no assurance that consumer spending or confidence will materially improve. A worsening of macroeconomic indicators, including weak home sales, higher home foreclosures, declining consumer confidence or rising unemployment rates, could adversely affect consumer spending levels, reduce the demand for our services and adversely impact our business, financial position, results of operations and cash flows. These factors could also negatively impact the timing or the ultimate collection of accounts receivable, which would adversely impact our business, financial position, results of operations and cash flows.

Weather conditions and seasonality affect the demand for our services and our results of operations and cash flows.

The demand for our services and our results of operations are affected by weather conditions, including, without limitation, potential impacts, if any, from climate change, known and unknown, and by the seasonal nature of our lawn care services, termite and pest control services, home inspection services and disaster restoration services. For example, in geographies that do not have a year-round growing season, the demand for our lawn care services decreases during the winter months. Adverse weather conditions (e.g., droughts, severe storms and significant rain or snow fall), whether created by climate change factors or otherwise, can adversely impact the timing of product or service delivery and/or demand for lawn care services, and cooler temperatures can impede the development of the termite swarm and lead to lower demand for our termite control services. Severe winter storms can also impact our home cleaning business if we cannot travel to service locations due to hazardous road conditions. In addition, extreme temperatures can lead to an increase in service requests related to household systems and appliances in our American Home Shield business, resulting in higher claim frequency and costs and lower profitability thereby adversely impacting our results of operations and cash flows.

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Availability of our raw materials and increases in raw material prices, fuel prices and other operating costs could adversely impact our business, financial position, results of operations and cash flows.

Our financial performance is affected by the level of our operating expenses, such as fuel, fertilizer, chemicals, raw materials, wages and salaries, employee benefits, health care, vehicle, self-insurance costs and other insurance premiums as well as various regulatory compliance costs, all of which may be subject to inflationary pressures. In particular, our financial performance is adversely affected by increases in these operating costs. In recent years, fuel prices have fluctuated widely, and previous increases in fuel prices increased our costs of operating vehicles and equipment. We cannot predict what effect the recent global events could have on fuel prices, but it is possible that such events could lead to reduced fuel supplies, resulting in higher fuel prices. With respect to fuel, our fleet, which consumes approximately 21 million gallons annually, has been negatively impacted by significant increases in fuel prices in the past and could be negatively impacted in the future. Although we hedge a significant portion of our fuel costs, we do not hedge all of those costs. A ten percent change in fuel prices would result in a change of approximately \$6.5 million in the Company's annual fuel cost before considering the impact of fuel swap contracts. Based upon current Department of Energy fuel price forecasts, as well as the hedges the Company has executed to date for 2012, the Company has projected that fuel prices will increase our fuel costs by \$10 million to \$15 million for 2012 compared to 2011. Fuel price increases can also result in increases in the cost of fertilizer, chemicals and other materials used in our business. We cannot predict the extent to which we may experience future increases in costs of fuel, fertilizer, chemicals, raw materials, wages, employee benefits, healthcare, vehicles, insurance and other operating costs. To the extent such costs increase, we may be prevented, in whole or in part, from passing these cost increases through to our existing and prospective customers, and the rates we pay to our subcontractors and suppliers may increase, any of which could have a material adverse impact on our business, financial position, results of operations and cash flows.

We may not successfully implement our business strategies, including achieving our growth objectives.

We may not be able to fully implement our business strategies or realize, in whole or in part within the time frames anticipated, the anticipated benefits of our various growth initiatives. Our various business strategies and initiatives, including our productivity and customer retention initiatives, are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, we may incur certain costs to achieve efficiency improvements in our business. Even if these efficiency improvement initiatives are undertaken, we may not fully achieve our expected cost savings and efficiency improvements or these initiatives could adversely impact our customer retention and/or our operations. In addition, our strategies to enhance talent management and transfer best practices across our businesses may not produce the efficiencies and productivity levels we seek and may present unforeseen challenges. Also, our business strategy may change from time to time. As a result, we may not be able to achieve our expected results of operations and cash flows.

Our market segments are highly competitive. Competition could reduce our share of the market segments served by us and adversely impact our reputation, business, financial position, results of operations and cash flows.

We operate in highly competitive market segments. Changes in the source and intensity of competition in the market segments served by us impact the demand for our services and may also result in additional pricing pressures. The relatively low capital cost of entry to certain of our business categories has led to strong competitive market segments, including competition from

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regional and local owner-operated companies. Regional and local competitors operating in a limited geographic area may have lower labor, benefits and overhead costs. The principal methods of competition in our businesses include name recognition, quality and speed of service, pricing, customer satisfaction and reputation. No assurance can be given that we will be able to compete successfully against current or future competitors and that the competitive pressures that we face will not result in reduced market segment share, reduced pricing or adversely impact our reputation, business, financial position, results of operations and cash flows.

We may not be able to attract and retain qualified key executives or transition smoothly to new leadership, which could hurt the Company and its businesses and inhibit our ability to operate and grow successfully.

The execution of our business strategy and our financial performance will continue to depend in significant part on our executive management team and other key management personnel and the smooth transition of new senior leadership. As a result of a more aggressive strategic plan, we have decided to enhance many of our senior management positions, including the hiring of Thomas J. Coba as President, ServiceMaster Clean, Merry Maids, Furniture Medic & AmeriSpec, Roger A. Cregg as Senior Vice President & Chief Financial Officer and Charles M. Fallon as President, Terminix, as well as moving Thomas G. Brackett to a new position as President, TruGreen. Our future success depends in large part on our success in utilizing current, experienced senior leadership and transitioning responsibilities to, and implementing the goals and objectives of, our new business unit executives. In addition, any inability to attract in a timely manner qualified key executives, retain our leadership team and recruit other important personnel could have a material adverse impact on our business, financial position, results of operations and cash flows.

Public perceptions that our products and services are not environmentally friendly or safe may adversely impact the demand for our services.

In providing our services, we use, among other things, fertilizers, herbicides and pesticides. Public perception that our products and services are not environmentally friendly or safe or are harmful to humans or animals, whether justified or not, or our improper application of these chemicals, could reduce demand for our services, increase regulation or government restrictions or actions, result in fines or penalties, impair our reputation, involve us in litigation, damage our brand names and otherwise have a material adverse impact on our business, financial position, results of operations and cash flows.

Changes in our services or products could impact our reputation, business, financial position, results of operations and cash flows.

Our financial performance is affected by changes in the services and products we offer our customers. For example, when Terminix transitioned from offering primarily bait termite services to providing both liquid and bait termite services, this transition required the purchase of additional equipment and additional training. The bait and termite service lines also have different price points (for both the initial treatment and for renewals), different ongoing service obligations and different revenue recognition policies. An unsuccessful rollout or adjustment of our new services or products could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

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Laws and government regulations applicable to our businesses could increase our legal and regulatory expenses, risks and impact our business, financial position, results of operations and cash flows.

Our businesses are subject to significant international, federal, state, provincial and local laws and regulations. These laws and regulations include laws relating to consumer protection, wage and hour requirements, franchising, the employment of immigrants, labor relations, permitting and licensing, workers' safety, the environment, insurance and home service contracts, employee benefits, marketing (including, without limitation, telemarketing or green marketing) and advertising, the application of fertilizers, herbicides, pesticides and other chemicals, noise and air pollution from power equipment and water management techniques. In particular, we anticipate that various international, federal, state, provincial and local governing bodies may propose additional legislation and regulation that may be detrimental to our business or may substantially increase our operating costs, including legislation relating to the Employee Free Choice Act; environmental regulations related to water quality, water use, chemical use, climate change, equipment efficiency standards, refrigerant use and other environmental matters; other consumer protection laws or regulations; or "do-not-knock," "do-not-mail," "do-not-leave" or other marketing regulations. It is difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our businesses and changes to such requirements may adversely affect our business, financial position, results of operations and cash flows. In addition, if we were to fail to comply with any applicable law or regulation, we could be subject to substantial fines or damages, be involved in litigation, suffer losses to our reputation or suffer the loss of licenses or incur penalties that may affect how our business is operated, which, in turn, could have a material adverse impact on our business, financial position, results of operations and cash flows.

The enactment of new federal or state legislation or the promulgation of new regulations or interpretations at any level of government may also expose the Company to potential new liabilities or costs, or may require the Company to modify its business model or business practices. At this time, the Company does not expect any such changes in law or regulation to have a material effect on its reputation, business, financial position, results of operations or cash flows; however, in March 2010, comprehensive health care reform legislation was enacted in the U.S. which, among other things, includes guaranteed coverage requirements, including for dependents up to age 26; eliminates pre-existing condition exclusions and annual and lifetime maximum limits; restricts the extent to which policies can be rescinded; and requires employers to provide employees with insurance coverage that meets minimum eligibility and coverage requirements. The legislation imposes implementation effective dates that began in 2010. Due to the breadth and complexity of the health reform legislation, the current lack of implementing regulations and interpretive guidance, the phased-in nature of the implementation and pending court challenges, it is difficult to predict the overall impact of the health reform legislation on our business over the coming years. However, new requirements to provide additional health insurance benefits to our employees would likely increase our expenses, and any such increases could be significant enough to materially impact our business, financial position, results of operations and cash flows. Additional or new regulations promulgated by the U.S. Consumer Financial Protection Bureau may also require the Company to modify its business model or business practices.

Compliance with environmental, health and safety laws and regulations, including laws pertaining to the use of pesticides, herbicides and fertilizers, could result in significant costs that adversely impact our reputation, business, financial position, results of operations and cash flows.

International, federal, state, provincial and local laws and regulations relating to environmental, health and safety matters affect us in several ways. In the United States, products containing

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pesticides generally must be registered with the EPA and similar state agencies before they can be sold or applied. The failure to obtain or the cancellation of any such registration, or the withdrawal from the market place of such pesticides, could have an adverse effect on our business, the severity of which would depend on the products involved, whether other products could be substituted and whether our competitors were similarly affected. The pesticides we use are manufactured by independent third parties and are evaluated by the EPA as part of its ongoing exposure risk assessment. The EPA may decide that a pesticide we use will be limited or will not be re-registered for use in the United States. We cannot predict the outcome or the severity of the effect of the EPA's continuing evaluations.

In addition, the use of certain pesticides, herbicides and fertilizer products is regulated by various international, federal, state, provincial and local environmental and public health agencies. These regulations may require that only certified or professional users apply the product or that certain products only be used on certain types of locations. These laws may also require users to post notices on properties at which products have been or will be applied, may require notification to individuals in the vicinity that products will be applied in the future or may restrict or ban the use of certain products. Although we strive to comply with such regulations and have processes in place designed to achieve compliance, given our dispersed locations, distributed operations and numerous employees, we can give no assurance that we can prevent violations of these or other regulations from occurring. Even if we are able to comply with all such regulations and obtain all necessary registrations and licenses, we cannot assure you that the pesticides, herbicides, fertilizers or other products we apply, or the manner in which we apply them, will not be alleged to cause injury to the environment, to people or to animals, or that such products will not be banned in certain circumstances. The costs of compliance, non-compliance, remediation, combating unfavorable public perceptions or defending products liability lawsuits could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.