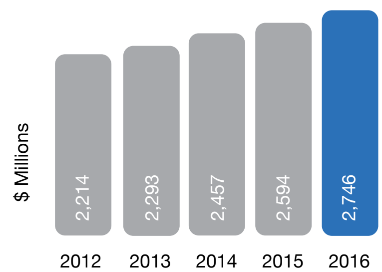
ServiceMaster®

2016 Annual Report

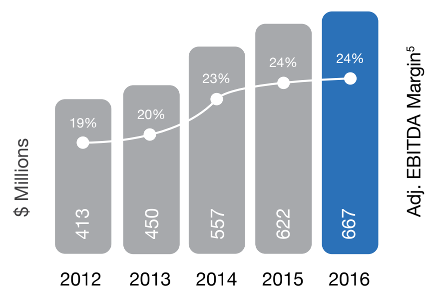
2016 Financial Summary

(in millions, except per share data) As of and for the years ended December 31,	2016	2015	Change
Operating Results			
Revenue	$2,746	$2,594	6%
Net Income	155	160	(3%)
Adjusted Net Income[1]	281	245	15%
Adjusted EBITDA[2]	667	622	7%
Adjusted earnings per share[3]	2.04	1.80	13%
Financial Position			
Total Assets	$5,386	$5,098	
Total Debt	2,831	2,752	
Shareholders' Equity	686	545	
Cash Flows			
Cash provided from operating activities	325	398	
Free Cash Flow[4]	270	358	

Revenue



Adjusted EBITDA[2]



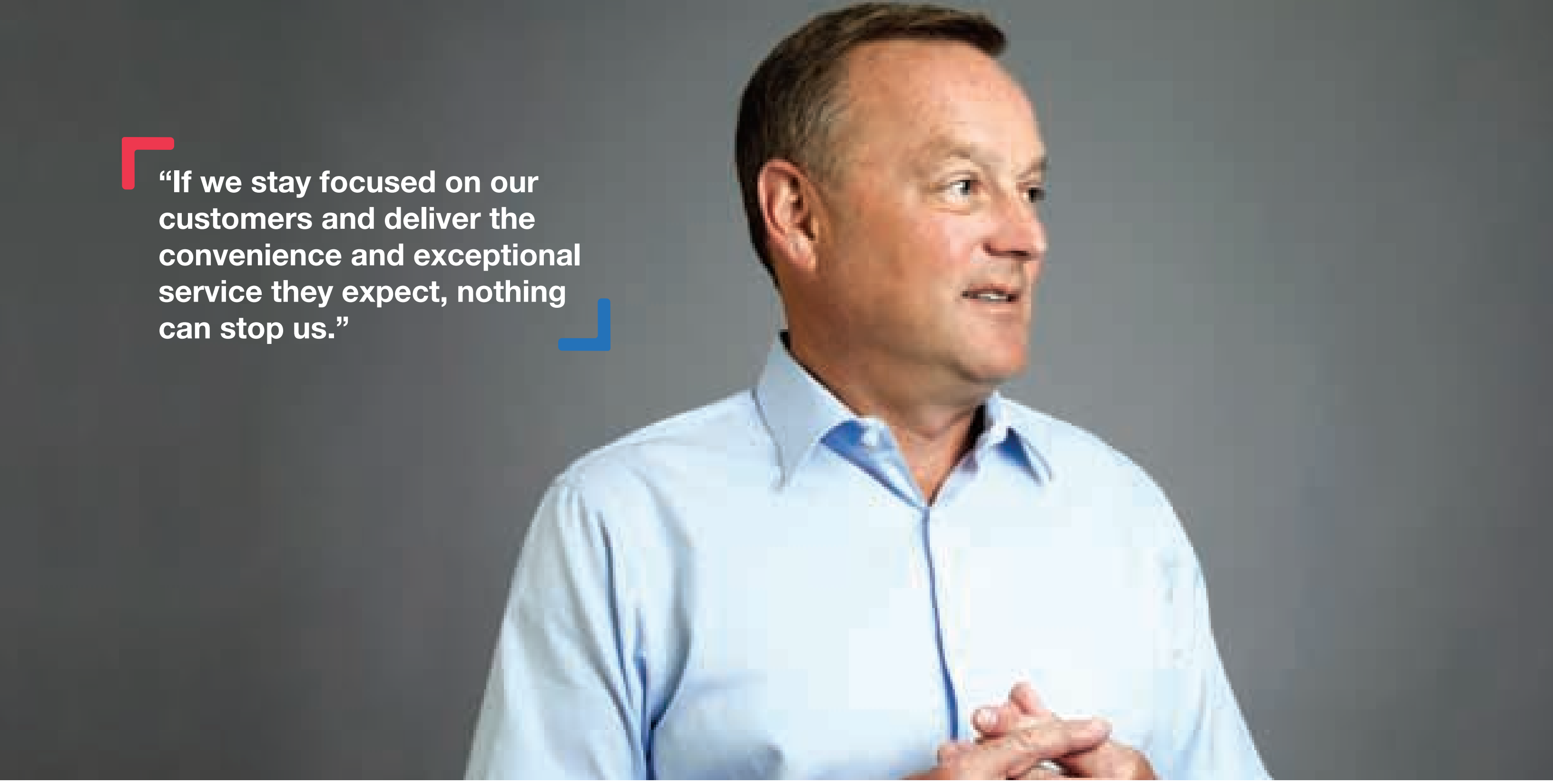
1 Adjusted net income is defined as net income before: amortization expense; 401(k) plan corrective contribution; fumigation related matters; insurance reserve adjustment; restructuring charges; gain on sale of Merry Maids branches; impairment of software and other related costs; loss from discontinued operations, net of income taxes; loss on extinguishment of debt; and the tax impact of the aforementioned adjustments.

2 Adjusted EBITDA means net income (loss) before: loss from discontinued operations, net of income taxes; provision (benefit) for income taxes; loss on extinguishment of debt; interest expense; depreciation and amortization expense; 401(k) plan corrective contribution; fumigation related matters; insurance reserve adjustment; non-cash stock-based compensation expense; restructuring charges; gain on sale of Merry Maids branches; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; management and consulting fees; consulting agreement termination fees; and other non-operating expenses. For a reconciliation of Adjusted EBITDA to net income (loss), see "Item 6. Selected Financial Data" in our Annual Report on Form 10-K included in this annual report to stockholders.

3 Adjusted earnings per share is defined as adjusted net income divided by the weighted-average diluted common shares outstanding of 137.3 million in 2016 and 136.6 million in 2015.

4 Free Cash Flow means (i) net cash provided from operating activities from continuing operations before cash paid for consulting agreement termination fees; (ii) less property additions. For a reconciliation of net cash provided from operating activities from continuing operations to Free Cash Flow, see "Item 6. Selected Financial Data" in our Annual Report on Form 10-K included in this annual report to stockholders.

5 Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of revenue.



Dear Shareholders, Customers, Employees and Franchisees,

On behalf of our 13,000 employees, I'm delighted to share with you our 2016 Annual Report. Inside you'll find stories that spotlight some of the trusted experts who make 75,000 visits to homes and businesses each day. You'll also read about the many ways we're transforming our 88-year-old company, combining the best aspects of our people-powered, performance-driven culture with a digital-first mindset that will bring greater access, more convenience and an improved experience to customers.

While 2016 presented some challenges – including slow organic growth at Terminix and higher-than-expected claims costs in the first quarter at American Home Shield – we're not going to make excuses for results that didn't quite meet our high expectations. Our company culture demands performance, and we know our customers and shareholders expect the same of us, too. While we showed solid year-over-year improvement in many key financial metrics, we know that in order to win the loyalty and advocacy of customers, we must exceed their expectations in every interaction, whether it's in a home or business, online or on the phone.

As you'll read in this annual report, we made some solid strides in 2016 to bring enhancements to our customer service, so customers know they can count on us to deliver what we promise. We also continued to build a work environment – in a culture of performance and accountability – to develop the next generation of ServiceMaster leaders, spur career growth, support diversity and inclusion, and create opportunity for all employees.

In 2016, we:

- **Grew revenue 6 percent** to $2.7 billion, driven by healthy 9 percent organic growth at American Home Shield, stronger pricing in Terminix and the impact of acquisitions in our pest control and home warranty businesses;
- **Increased Adjusted EBITDA to $667 million,** a year-over-year increase of 7 percent, and grew adjusted earnings per share to $2.04, up 13 percent. In addition, we **improved profit margins** while continuing to invest in *ServSmart[sm],* including deployment of new technology to our field technicians and our customer care centers to better engage and communicate with customers and co-workers;
- **Refinanced $2.4 billion** in debt and instituted a $300 million share repurchase program over three years to return capital to shareholders;
- **Completed two key acquisitions** in American Home Shield – OneGuard Home Warranties and Landmark Home Warranty – adding more than 100,000 new customers and expanding our footprint in six states;
- **Surpassed $1 billion in annual revenue at American Home Shield,** becoming the first home warranty company to reach that milestone;
- **Completed the conversion of our Merry Maids branches** to franchises to improve profitability and transition the nation's largest professional home

cleaning services network to the hands of the hundreds of passionate franchisees who care for more than 160,000 homes a month;

- **Launched a new corporate brand** that symbolizes ServiceMaster's vision to combine our unparalleled network of service providers with the convenience of technology and service excellence to solve a common dilemma: how to find and choose the trusted professionals who can help protect and maintain your home or business; and
- **Announced the relocation of our corporate headquarters** to downtown Memphis by early 2018. This move will bring 1,200 jobs into the heart of the city's revitalization and create a contemporary, more collaborative work environment that will serve as a hub for innovation and help accelerate our company's growth.

ServSmart[sm] continued to shape our company's transformation in 2016. And while technology is the engine driving *ServSmart*[sm], it's also the commitment we make to deliver the speed, simplicity, efficiency and convenience that customers expect. The fundamentals of our business haven't changed – more customers are outsourcing their residential and commercial services to providers who will "do it for me." But in an age where speed and convenience are highly valued, customers are willing to pay for services they're not trained in or able to perform – including pest control, HVAC repairs, furniture restoration, appliance repairs, home cleaning and disaster restoration.

In this environment, companies that respond quickly and deliver consistent quality will emerge as winners, and we believe we're uniquely positioned to meet that challenge. As we learn more about customers' needs, and build the processes and technology to support them, *ServSmart*[sm] will make it easier for our customers to buy, schedule and receive essential home and commercial services – when, where and how they want them.

We know doing the right thing for our customers is also the right thing to do for our business. When our customers win, we'll win, too. As a result, we'll grow faster and more profitably, create greater value for consumers and shareholders, enhance opportunities for our employees and make ServiceMaster an exciting place to work for years to come.

As you read this annual report, I hope you'll be as excited as I am about the journey we're on. Thank you for the confidence in our leadership team and our company. We're on the right path and I am confident that together, we'll win.

Rob Gillette
Chief Executive Officer

The ServiceMaster Vision

A consistently exceptional **experience** that we can be known for, built on *ServSmart*^sm^

The ability to **connect** any trusted essential service provider (franchisees, contractors, partners, M&A targets) to *ServSmart*^sm^

The opportunity to build a **marketplace** where we are not just a matchmaker but also add significant value to essential services transactions

The opportunity to advertise the ServiceMaster **brand,** our marketplace of services and the ServiceMaster customer experience

Our *ServSmart*^sm^ Approach

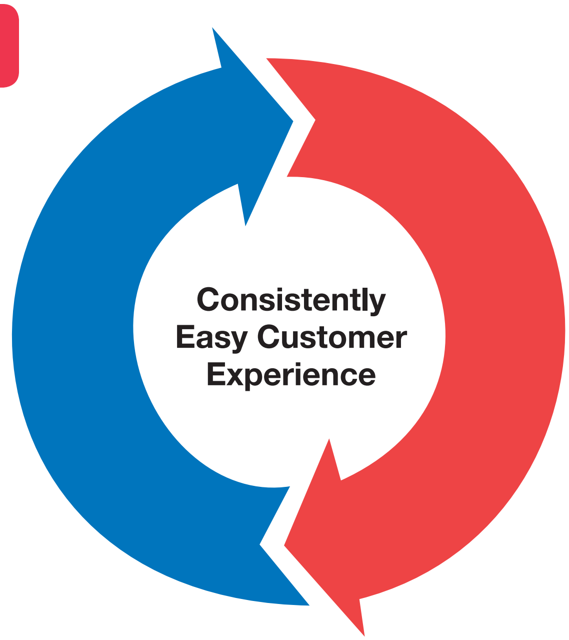
As the world changes, our customers will demand change, too. We must empower our employees and provide our customers, franchisees and contractors with better technology and tools that make it easier to do business with us. We call our new path forward *ServSmart*^sm^, and we believe it will revolutionize the way ServiceMaster protects and maintains homes and businesses.

ServSmart^sm^ combines technology with our unmatched network of trusted professionals – employees, technicians, contractors and franchisees – who perform the essential services that protect and maintain 75,000 homes and businesses each day. It's also opening the door to better collaboration, customer insights and analytics, a more robust database of customer preferences, communication and engagement across all of our businesses and a better overall customer experience.

Our Focus: Building the ServiceMaster Network Advantage

People Powered

- Selection, onboarding training and management
- Consistent delivery – on time and right the first time
- Enabled, empowered and driven to solve problems
- Recognized and rewarded for customer results



Digitally Enabled

- Speed and convenience at every customer touchpoint
- Self service-enabled to meet customer preferences
- Repeatable
- Easy for the customer to work with us
- Personalized service tailored to customer needs
- Built to exceed customer expectations

Convenience, improved customer experience and a path to growth

Coming soon: One ServiceMaster Center in Downtown Memphis.

We're on the Move

In June 2016, ServiceMaster cemented its commitment to the city of Memphis by announcing plans to convert the former Peabody Place Mall located downtown into its new global headquarters.

ServiceMaster is repurposing the 340,000-square-foot vacant building into Class A office space. It will include an innovation and technology center and serve as an incubator, allowing ServiceMaster to attract IT talent and entrepreneurs to Memphis – and to our team. ServiceMaster's new innovation center is scheduled to open in June 2017.

"We wanted to create an environment that would help accelerate our transformation and spark the company's growth for years to come," said CEO Rob Gillette.

The new location allows the company to bring all 1,200 Memphis corporate employees and independent contractors, currently located in several buildings, under one roof. Teams working side-by-side will open doors to further collaboration and best-practice sharing across the business.

"This is the most significant corporate headquarters announcement in Downtown Memphis in a generation," said Memphis Mayor Jim Strickland at a news conference announcing the move. The project is being heralded as a cornerstone of the Memphis downtown revitalization and an integral part of the transformation of ServiceMaster's culture and 88-year-old business.

The new headquarters is being renovated steps away from famous Beale Street and within a few blocks of the Mississippi River. Employees won't be able to walk far from the office without tripping over multiple downtown restaurants and shops – an attractive feature for recruiting new employees.

Highlighting the importance of the project, Tennessee Governor Bill Haslam said, **"Having a healthy Downtown Memphis is important, not just to Memphis or Shelby County but to the entire state of Tennessee."**

All renovations should be completed by the end of 2017 with a full move into the new facility by early 2018.

It's just another way we're showcasing a company that's on the move.

The ServiceMaster Experience

- Made **31** stops across the U.S.
- Traveled more than **28,000** miles
- Welcomed approximately **8,700** visitors to the mobile experience
- Expands to **1,080** square feet
- Fully expands in **90** seconds
- Includes **14** interactive displays
- Uses **100%** energy-efficient interior LED lighting

On the Road to Winning

After nearly 90 years in business, ServiceMaster kicked off 2016 with an exciting new brand purpose—to connect our trusted professionals with customers to **solve the homeowner's dilemma.** Armed with a new corporate brand identity, including a new logo, the new look of ServiceMaster represents a stamp of quality—instilling trust and driving empowerment for our customers.

A 2016 survey of U.S. homeowners showed that while customers recognized our individual brands, they weren't aware that the brands were part of ServiceMaster. In addition to visually rebranding the company, we wanted to change the way we talk about ServiceMaster in relationship to its sub-brands.

To do this, we needed a communication vehicle that would clearly articulate our unique corporate identity and communicate the total value we offer to our customers and our employees. Simply producing a brochure, video or presentation would not be enough to relay these ideas. We needed to create a relatable experience.

So in early 2016, we unveiled The ServiceMaster Experience, a state-of-the-art, double-expandable semi-trailer designed to resemble the interior of a house. The company's services are

showcased in a digital and interactive way for visitors and feature instructive, expert advice and helpful tips for protecting and maintaining homes.

Taking cues from high-level trade shows and museum builds, we chose to mix physical and digital interactions to tell our brand story while accommodating different learning styles. The content —which includes text, photography, interactive digital touch screens, video and physical appliances—is designed to be informative, memorable and unique to every visitor. By placing content in modular printed panels and digital touchscreens, we're able to update the information inside the trailer as often as we'd like.

The ServiceMaster Experience rolled across the United States to employees, customers, franchisees and contractors alike, with more than 30 stops to corporate offices, call centers, trade shows, community events and college campuses.

The mobile exhibit was featured at the September 2016 California Association of REALTORS® EXPO – the premier trade show for California's real estate industry – where American Home Shield was both a sponsor and exhibitor. The ServiceMaster Experience won Best in Show among hundreds of exhibitors.

The ServiceMaster Experience will hit the road again in 2017 to promote the company's extensive portfolio of home and commercial services. It's just another way we're showcasing a company that's on the move.

Easier to Find, Easier to Buy

Nowhere in ServiceMaster is the shift to e-commerce more pronounced than in American Home Shield.

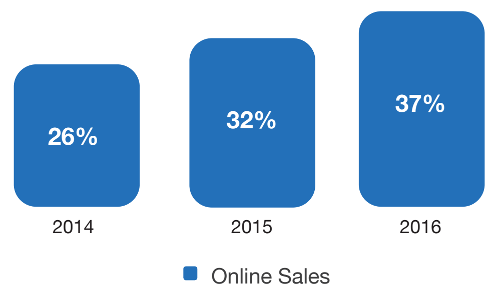
By making it easier for customers to find us online and simplifying the buying process, AHS is giving customers more options to research home warranties and, when they're ready, to make their product selections and purchasing decisions on their terms – when, where and how they want.

Customer convenience is a major benefit of the *ServSmart*sm approach, and it's at the core of our efforts to streamline customer communication, sales and service at AHS. In fact, over the past three years, the number of customers purchasing home warranties in the direct-to-consumer channel has jumped 42 percent.

Simple changes that put more control in the hands of consumers have resulted in significant improvements in sales conversions, for example, adding a real-time chat feature to emails, which in a recent pilot resulted in a 53 percent lift in conversion rates. We're also working smarter in the digital space by creating more intuitive websites and customer-friendly processes, like "remembering" consumers who start the quote process online, get distracted or shut down their device, then later return to complete the process.

And because not everyone is comfortable with working online, our commitment to *ServSmart*sm ensures that consumers who wish to speak to a sales or service representative can do so – it's all part of focusing on what matters most to the consumer. Best of all, we're leveraging our learnings

AHS Direct-to-Consumer Sales



Easier to Service, Easier to Stay

It's about time—keeping up with it and delivering on it.

In 2016, thinking digitally first meant equipping our Terminix sales and service teams with the latest smart devices. The rollout was completed in December, and it's changed the way our people work, the way they interact with customers, and the way they communicate.

Using iPads and iPhones, our field teams can access emails, texts, appointments and notifications on the go.

Since the rollout, sales teams have enjoyed more flexibility for researching prospects and an enhanced presentation mode for potential customers.

On the service side, using the new device's built-in GPS capabilities has made scheduling and servicing customers even more convenient. In current testing pilot areas around the country, customers are notified when technicians are on the way, then prompted to rate the level of service they received after the visit. They even receive a picture of the technician en route, so they know who to expect on their doorstep.

Speaking of pictures, the process of capturing and displaying trouble areas to current and potential customers just got a whole lot easier. Using these devices' built-in cameras, showing potential customers compelling images of conducive pest conditions in residential and commercial settings are just a quick swipe away.

All these features combined will enable Terminix to be more agile than ever in 2017 and beyond. Adopting the *ServSmart*sm approach ensures that customer convenience remains our number one priority.

Bringing Technology to Franchisees is *ServSmart*^{sm}

When it comes to disaster restoration, insurance carriers depend on ServiceMaster Restore to meet specific service levels to serve their customers. And, with 40 percent of the company's disaster restoration work originating with insurance carriers, it's important that everyone, from franchise field technicians to company leaders, have the tools they need to ensure that nothing slips through the cracks.

Building off a platform launched in 2015 to help manage insurance-generated work, the company now has better insight than ever into the work that's being done, as it's being done. This year, franchisees who meet the qualifications to perform work on behalf of national insurance carriers expanded the use of the tool to include all of their locally generated jobs, too, allowing technicians to provide status updates, photos and other data from the job site using their smartphones. As a result, franchise owners and ServiceMaster Restore management are equipped to more effectively monitor progress as milestones are met, be alert to any claims that are potentially at risk, intervene if necessary, and identify trends within the network.

This people-powered, digitally driven tool is helping reshape the company's culture, too.

For instance, the increased transparency is fueling data-driven conversations and stronger competition, as franchisees now know how their performance ranks against state and national averages. Franchise employee training can be targeted to address recurring deficiencies, and accountability for performance has never been greater.

“We are pleased with Tyrone’s professionalism, friendliness, and kindness. He serves us so well and I am proud to be a Terminix customer.”

Tyrone Hollingsworth, Terminix technician for 11 years, with customer Leslie Mooty

Meet Some of Our People

Keeping Customers Happy is the Best Part of Her Job

Brenda Bell, a Terminix service technician, knows what it means to take care of someone.

She's been doing just that over the course of her 10-year career at Terminix, where she services about *200 homes a month*. "Keeping my customers happy is the best part of my job," says Brenda. "If I can't resolve a problem, I always take the next step."

If customer feedback is any indication, Brenda's commitment and attitude don't go unnoticed. Like other ServiceMaster employees, Brenda understands that earning the trust and confidence of her customers is paramount to success.

But that level of commitment doesn't end when Brenda takes off her Terminix cap for the day. She lives with her 80-year-old mother, who is blind and relies on Brenda's care in the evenings. So make that caring for *201* homes a month.

After attending to her mother, Brenda gets back to Terminix—calling customers to confirm the next day's visits.

"It keeps me young," Brenda says with a smile. "I'll keep caring for customers until they take the truck away from me."

"I'll keep caring for customers until they take my truck away from me."

Brenda Bell, a Terminix service technician, is committed to her customers.

When People-Powered Service Meets Technology

Richard and Felicia Flournoy at A-Total Plumbing work together as a top-performing American Home Shield contractor.

After borrowing a truck from his grandfather in 2001, Richard Flournoy started A-Total Plumbing. He knew becoming a contractor for American Home Shield (AHS) would be good for business. So following his initial success, he quickly applied to be a contractor with the company.

"When the approval came from American Home Shield, we were excited to join the team," Richard said.

A-Total started out with approval for four AHS calls a day. But soon that progressed to 1,000 a year. Then 1,500 in 2002. The business has steadily grown, and today, the company is one of AHS' top-performing contractors, with a total of 10,364 dispatches in 2016.

To help make that many service calls, A-Total Plumbing leverages dispatching software, which was made available to AHS contractors in 2016. The software allows contractors to truly think digital first —utilizing smartphone technology to handle customer issues and transactions in real-time.

That digital-first mindset also helps our people balance work and life.

"Thanks to American Home Shield, we're able to care for our customers and our son every day. So the company is like family to us," said Richard.

The Baton Rouge Terminix branch mobilized to help their community combat mosquitos after historic flooding in August 2016.

Serving Customers and Our Communities

Serving customers isn't our only passion. When it comes to service, our employees also have a long history of giving back to the communities where they live and work. And while community service, volunteerism and philanthropy are year-round activities for our employees, there's one special day each year when giving back to others takes center stage for ServiceMaster.

Each August, ServiceMaster deploys hundreds of employees across North America to local nonprofit organizations with one common goal: to build stronger communities.

This signature program – We Serve Day – supports our We Serve community platform for giving and volunteerism. We Serve Day is held the third Friday in August and, in 2016, our employee volunteers exceeded every expectation.

Employee participation almost tripled from the previous year. Our employees and many others employed by our franchisees participated in 65 We Serve Day activities in 2016, volunteering more than 6,800 hours in more than 30 events that supported a wide array of nonprofit organizations.

Partial List of Our Community Partners:

- Advance Memphis
- Alpha Omega Veterans Services
- American Red Cross
- Ave Maria
- Bridges
- Christian Community Action Center (Dallas, TX)
- DeNeuville Learning Center
- Disabled American Veterans (Tampa, FL)
- Elderbridge Agency on Aging (Carroll, IA)
- Family Resource Center (Carroll, IA)
- FedEx Family House
- Girl Scouts of the USA
- Habitat for Humanity
- Helen's Hope Chest (Phoenix, AZ)
- Hope House
- Humane Society
- Junior Achievement
- Latino Memphis
- LeBonheur Children's Hospital
- Madonna Learning Center
- Make-A-Wish Foundation
- Memphis Gay & Lesbian Community Center
- Mid-South Food Bank
- MIFA (Metropolitan Inter-Faith Association)
- National Civil Rights Museum
- New Hope Bargain Shop (Carroll, IA)
- New Memphis Institute
- Ronald McDonald House
- Salvation Army
- Shelby Farms
- St. Jude Children's Research Hospital
- United Way of the Mid-South
- Youth Villages

Joining a Former President to Build a New Future

Joining former President Jimmy Carter and former First Lady Rosalynn Carter, more than 75 ServiceMaster employees helped kick off the 33rd annual Carter Work Project in Memphis in August.

ServiceMaster was a corporate partner of the Habitat for Humanity International week-long build, which took place in the Uptown neighborhood, just north of the company's future headquarters in Downtown Memphis.

The week included new home construction, beautification projects and home modifications to enhance accessibility and mobility for senior citizens. Volunteers also got to work hand-in-hand with country music stars Garth Brooks and Trisha Yearwood, passionate Habitat for Humanity volunteers and spokespeople who were also on site to lend a hand.

Habitat for Humanity's commitment to providing a safe place to call home for families in need complements ServiceMaster's We Serve commitment to enrich the communities where our employees live and work.

Our partnership with the Carter Work Project and Habitat for Humanity is just one of many ways we're making an impact on Memphis and other communities.

We Serve®
Our Community

2016 Volunteer Hours

10k

Valued at over $214,000

Annual We Serve Day

10 Cities

- 30+ organizations
- 1,000+ volunteers
- Over $250,000 in donations

ServiceMaster employees measure up when it comes to supporting community efforts, like Habitat for Humanity.

Exclusive Sponsor of American Red Cross Emergency App

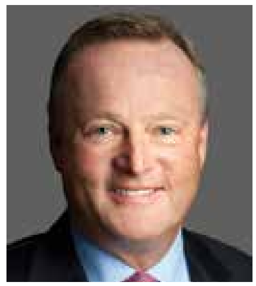
In 2016, ServiceMaster announced its partnership with the American Red Cross and its plans to be the exclusive sponsor of the Red Cross Emergency App, which alerts people to significant weather events and provides expert safety advice on disaster preparedness. ServiceMaster Restore, part of the ServiceMaster network, is well-known for working with communities and businesses devastated by severe weather events.

ServiceMaster also sponsors the American Red Cross Tornado, Earthquake and Hurricane apps.

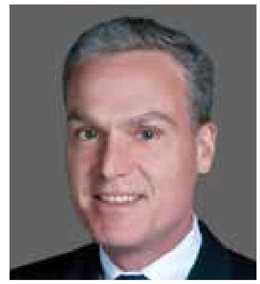
Consumers can download the Emergency app by texting **"GETEMERGENCY"** to 90999, searching "American Red Cross" in their app store or by going to redcross.org/apps.

Board of Directors

Mark E. Tomkins
Chairman of the Board



Robert J. Gillette
Chief Executive Officer

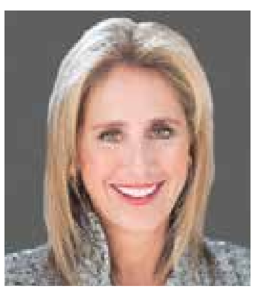


Peter L. Cella

John B. Corness

Jerri L. DeVard

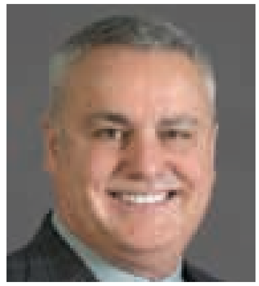
Richard P. Fox



Laurie Ann Goldman

Stephen J. Sedita

Rob Gillette
Chief Executive Officer



Tony DiLucente
Senior Vice President and Chief Financial Officer

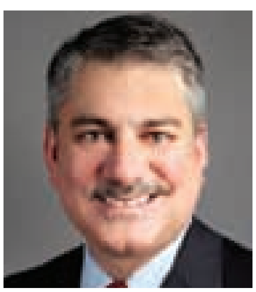
Marvin Davis
Chief Marketing and Strategy Officer

Tim Haynes
President, American Home Shield

Susan Hunsberger
Senior Vice President, Human Resources

Jim Lucke
Senior Vice President and General Counsel

Jamie Smith
Senior Vice President and Chief Information Officer



Peter Tosches
Senior Vice President, Corporate Communications

Mary Kay Wegner
President, Franchise Services Group

Marty Wick
Chief Operating Officer, Terminix

Executive Leadership

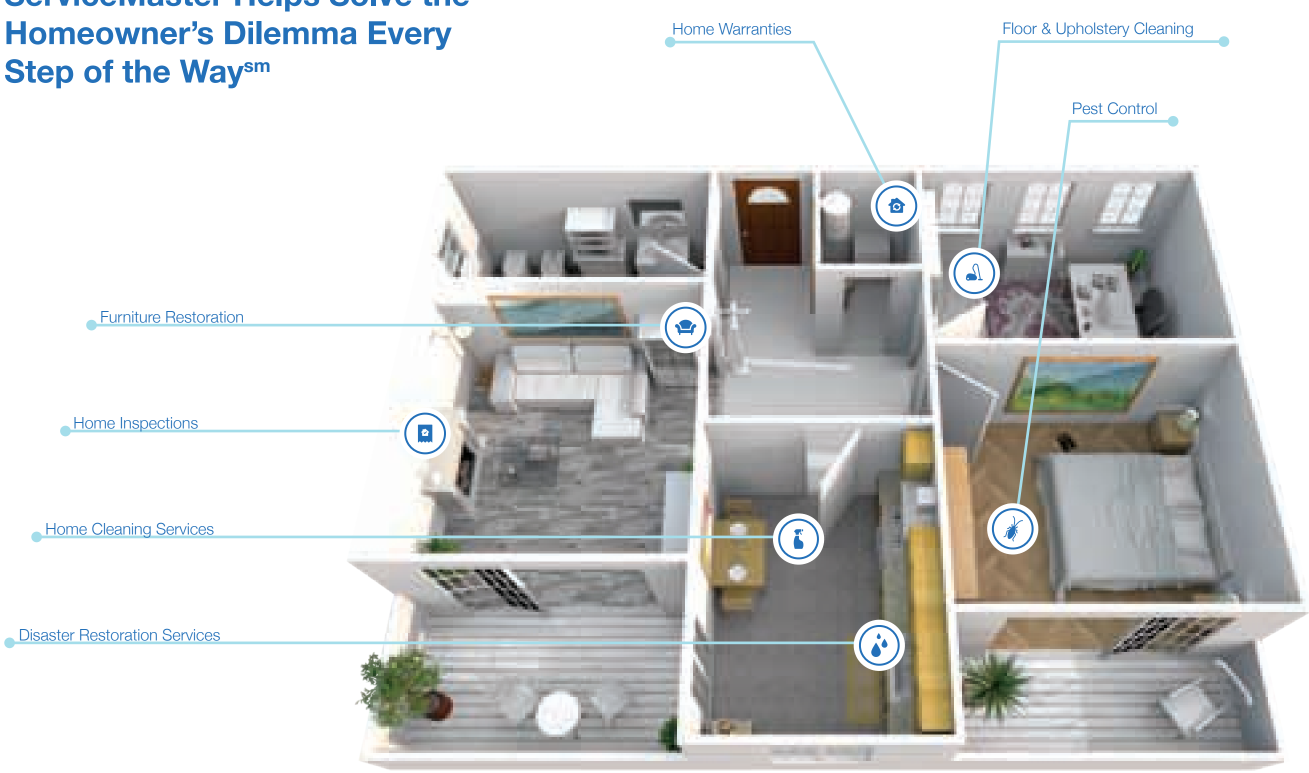
Non-GAAP Reconciliations

The following table reconciles net income to adjusted net income for the periods presented.

(in millions, except per share data) As of and for the years ended December 31,	2016	2015
Net Income	$155	$160
Amortization expense	33	38
401(k) Plan corrective contribution	2	23
Fumigation related matters	93	9
Insurance reserve adjustment	23	-
Restructuring charges	17	5
Gain on sale of Merry Maids branches	(2)	(7)
Loss from discontinued operations, net of income taxes	1	-
Impairment of software and other related costs	1	2
Loss on extinguishment of debt	32	58
Tax impact of adjustments	(73)	(42)
Adjusted Net Income	$281	$245
Weighted-average diluted common shares outstanding	137.3	136.6
Adjusted earnings per share	**$2.04**	**$1.80**

For reconcilliations of Adjusted EBITDA to net income and net cash provided from operating activities from continuing operations to free cash flow, see "Item 6. Selected Financial Data" in our Annual Report on Form 10-K included in this annual report to stockholders on pages 44-47.

ServiceMaster Helps Solve the Homeowner's Dilemma Every Step of the Way℠



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

FORM 10-K

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

For the fiscal year ended December 31, 2016

or

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

Commission file number 001-36507

ServiceMaster Global Holdings, Inc.
(Exact name of registrant as specified in its charter)

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

860 Ridge Lake Boulevard, Memphis, Tennessee 38120
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Common stock, par value $0.01 per share	**New York Stock Exchange**
(Title of Each Class)	(Name of Each Exchange on which Registered)

Securities registered pursuant to Section 12 (g) of the Act:

None
(Title of class)

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

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 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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

Yes ☐ No ☒

As of June 30, 2016, there were 135,442,846 shares of the registrant's common stock outstanding, and the aggregate market value of the voting stock held by non-affiliates (assuming only for purposes of this computation that individuals then serving as our directors and executive officers may be affiliates) was approximately $5,360 million based on the closing price of common stock on the NYSE on June 30, 2016 of $39.80 per share.

The number of shares of the registrant's common stock outstanding as of February 17, 2017: 134,157,101 shares of common stock, par value $0.01 per share.

Documents incorporated by reference:

Portions of the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2017 annual meeting of stockholders (the "Proxy Statement") are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2016.

TABLE OF CONTENTS

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.

Overview

ServiceMaster Global Holdings, Inc. and its majority-owned subsidiary partnerships, limited liability companies and corporations (collectively, "ServiceMaster," the "Company," "we," "us" and "our") is a leading provider of essential residential and commercial services, operating through an extensive service network of more than 8,000 company-owned locations and franchise and license agreements. Our mission is to simplify and improve the quality of our customers' lives by delivering services that help them protect and maintain their homes or businesses, typically their most highly valued assets. We have leading market positions across the majority of the markets we serve, as measured by customer-level revenue. Our portfolio of well-recognized brands includes Terminix (termite and pest control), American Home Shield (home warranties), ServiceMaster Restore (disaster restoration), ServiceMaster Clean (janitorial), Merry Maids (residential cleaning), Furniture Medic (cabinet and wood furniture repair) and AmeriSpec (home inspection). Our strategy is to provide a differentiated service offering by promoting convenient service through the increasing use of our digital and mobile platform. We serve our residential and commercial customers through an employee base of approximately 13,000 company associates, 14,000 contractors and 34,000 employees of licensed franchisors.

For the year ended December 31, 2016, we had revenue, net income and Adjusted EBITDA of $2,746 million, $155 million and $667 million, respectively. In 2016, Terminix, our largest segment, represented approximately 55 percent of our revenue, while American Home Shield represented approximately 37 percent of our revenue and Franchise Services Group represented approximately 7 percent of our revenue. For a reconciliation of Adjusted EBITDA to net income, see "Selected Historical Financial Data."

Approximately 98 percent of our 2016 revenue was generated by sales in the United States. A significant portion of our assets is located in the United States, and the consolidated book value of all assets located outside of the United States is not material. Organized in Delaware in 2007, ServiceMaster is the successor to various entities dating back to 1929. Financial information for each reportable segment and Corporate for 2016, 2015 and 2014 is contained in Note 3 to the consolidated financial statements.

We believe that our customers understand the financial and reputational risks associated with inadequate maintenance of their homes or businesses and that our high-quality, professional services are low-cost expenditures when compared to the alternative of failing to perform essential maintenance. We strive to be the service provider of choice and believe our customers have recognized our value proposition, as evidenced by our long-standing customer relationships and the high rate at which our customers renew their contracts from year to year.

We have significant size and scale, which we believe give us a number of competitive advantages. Terminix is one of the largest termite and pest control business in the United States, as measured by customer-level revenue, and serves approximately 2.8 million customers across 47 states and the District of Columbia through approximately 300 company-owned locations and approximately 25 franchise agreements. Additionally, we estimate American Home Shield to be approximately four times larger than its nearest competitor, as measured by revenue. American Home Shield serves approximately 1.9 million residential customers across all 50 states and the District of Columbia through a network of more than 14,000 licensed, independent home service contractor firms. Our Franchise Services Group serves both residential and commercial customers across all 50 states and the District of Columbia through approximately 4,600 franchise agreements. We believe our significant size and scale provide a competitive advantage in our purchasing power, route density, and marketing and operating efficiencies compared to smaller local and regional competitors. Our scale also facilitates the standardization of processes, shared learning and talent development across our entire organization.

We believe our businesses are strategically positioned to benefit from a number of favorable demographic and secular trends. These trends include growth in population, household formation and new and existing home sales. In addition, we believe there is increasing demand for outsourced services, fueled by a trend toward "do-it-for-me" as a result of an aging population and shifts in household structure and behaviors, such as dual-income families and consumers with "on-the-go" lifestyles.

Ownership

On July 24, 2007, we were taken private pursuant to a merger transaction, and, following the completion of the merger and other subsequent transactions, the significant majority of our outstanding common stock was owned by investment funds managed by, or affiliated with, Clayton, Dubilier & Rice, LLC ("CD&R"), JPMorgan Chase Funding Inc. ("JPMorgan"), StepStone Group LP ("StepStone"), the investment funds managed by StepStone and Ridgemont Partners Secondary Fund I, L.P. ("Ridgemont") (collectively, the "Equity Sponsors").

On June 25, 2014, our registration statement on Form S-1 for our initial public offering was declared effective by the U.S. Securities and Exchange Commission (the "SEC"). On July 1, 2014, we completed the offering of 41,285,000 shares of our common stock at a price of $17.00 per share. During 2015, through secondary public offerings of our common stock, the selling stockholders completed the offering of an additional 80,711,763 shares of common stock. Since completion of the secondary public offerings in 2015, the Equity Sponsors have not held a significant amount of our common stock.

Refinancing of Indebtedness

On November 8, 2016, we entered into a $1,650 million term loan facility maturing November 8, 2023 (the "Term Loan Facility") and a $300 million revolving credit facility maturing November 8, 2021 (the "Revolving Credit Facility") (together with the Term Loan Facility, the "Credit Facilities") and sold $750 million of 5.125% senior notes due November 15, 2024 (the "2024 Notes"). Borrowings under the Term Loan Facility and the 2024 Notes were used to repay the remaining outstanding $2,356 million in aggregate principal amount of the $2,400 million term loan facility maturing July 1, 2021 (the "Old Term Loan Facility") (together with the $300 million revolving credit facility maturing July 1, 2019 (the "Old Revolving Credit Facility"), the "Old Credit Facilities"). In connection with the repayment, we recorded a loss on extinguishment of debt of $32 million in the year ended December 31, 2016, which includes the write-off of $14 million of original issue discount and $18 million of debt issuance costs.

Our Reportable Segments

Our operations are organized into three reportable segments: Terminix, American Home Shield and the Franchise Services Group (which includes ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec).

Terminix

Terminix is a leading provider of termite and pest control services in the United States, with approximately 22 percent market share, as measured by customer-level revenue. In addition, Terminix is the most recognized brand in the industry with approximately 1.5x the unaided brand awareness of our next-largest competitor, based on a study by Decision Analyst, Inc. periodically commissioned by us as part of our ongoing marketing efforts. Terminix specializes in protection against termite damage, rodents, insects and other pests, including cockroaches, spiders, wood-destroying ants, ticks, fleas and bed bugs. Our services include termite remediation, annual termite inspection and prevention treatments with termite damage repair guarantees, periodic pest control services, insulation services, mosquito control, crawlspace encapsulation and wildlife exclusion.

For the year ended December 31, 2016, Terminix recorded revenue of $1,524 million and Adjusted EBITDA of $371 million. In 2016, 57 percent of Terminix revenue was generated from pest control services, which includes mosquito control, and 38 percent was generated from termite and other services, which includes crawlspace encapsulation, wildlife exclusion and insulation services, with the remaining five percent primarily from the distribution of pest control products. In 2016, 71 percent and 29 percent of pest control revenue was related to residential services and commercial services, respectively, and 92 percent and eight percent of revenue from termite and other services was related to residential and commercial services, respectively.

Approximately 80 percent of Terminix revenue comes from customers who enter into contracts with the option to renew annually. Typically, termite services require an initial inspection and the installation of a protective liquid barrier or bait stations surrounding the home. The protection plan contracts provide a guarantee for the repair of new damage resulting from termite infestation. After the first year, a customer has the option to renew the contract at a significantly reduced cost that extends the guarantee. Consequently, revenue generated from a renewal customer is less then revenue generated from a first-year termite customer.

We believe that the strength of the Terminix brand, along with our history of providing a high level of consistent service, allows us to enjoy a competitive advantage in attracting, retaining and growing our customer base. We believe our investments in systems and processes, such as routing and scheduling optimization, robust reporting capabilities and mobile customer management solutions, enable us to deliver a higher level of customer service when compared to smaller regional and local competitors.

Our focus on attracting and retaining customers begins with our associates in the field, who interact with our customers every day. Our associates bring a strong level of passion and commitment to the Terminix brand, as evidenced by the 10-year and 8-year average tenure of our branch managers and technicians, respectively. Our field organization is supported by dedicated customer service and call center personnel. Our culture of continuous improvement drives an intense focus on the quality of the services delivered, which we believe produces high levels of customer satisfaction and, ultimately, customer retention and referrals.

The Terminix national branch structure includes approximately 300 company-owned locations and approximately 25 franchise agreements, which serve approximately 2.8 million customers in 47 states and the District of Columbia. Terminix's over 9,500 employees made a daily average of 50,000 visits to residential and commercial customer locations during 2016. Terminix also provides termite and pest control services through subsidiaries in Canada, Mexico, the Caribbean and Central America, as well as a joint venture in India. In addition, licensees of Terminix provide these services in Japan, South Korea, Southeast Asia, Central America, the Caribbean and the Middle East. In 2016, substantially all Terminix revenue was generated in the United States, with approximately two percent derived from international markets, with a presence in a total of 19 countries outside the United States through subsidiaries, a joint venture and licensing arrangements. Franchise fees from Terminix franchisees represented less than one percent of Terminix revenue in 2016. We estimate that customer-level revenue for this segment was $1,847 million for the year ended December 31, 2016. Customer-level revenue represents the total of our estimate of sales generated by our franchisees, a portion of which is included in our reported revenue from royalty fees, and sales generated by our company-owned operations. More specifically, customer level revenue means: Terminix revenue of $1,524 million, less royalty fees of $10 million, plus estimated sales generated by our franchisees of $333 million.

Terminix Competitive Strengths

- #1 recognized brand in U.S. termite and pest control services
- Track record of high customer retention
- Passionate and committed associates focused on delivering superior customer service
- Expansive scale and deep market presence across a national footprint
- Effective multi-channel customer acquisition strategy
- History of innovation leadership and introducing new products and services

American Home Shield

American Home Shield founded the home warranty industry in 1971 and remains the leading provider of home warranty plans for household systems and appliances in the United States, with approximately 44 percent market share in 2016, as measured by revenue. We estimate American Home Shield to be approximately four times larger than its nearest competitor, as measured by revenue. We believe that, as the market leader, American Home Shield can drive increasing use of home warranties given the low industry household penetration of approximately four percent. American Home Shield provides home warranty plans that cover the repair or replacement of major components of up to 21 household systems and appliances, including electrical, plumbing, central heating and air conditioning (HVAC) systems, water heaters, refrigerators, dishwashers and ovens/cook tops. Our warranty plans are generally structured as one-year contracts with annual renewal options and, as a result, a significant portion of our revenue base in this segment is recurring.

For the year ended December 31, 2016, American Home Shield recorded revenue of $1,020 million and Adjusted EBITDA of $220 million. In 2016, 66 percent of American Home Shield revenue was derived from existing contract renewals, while 20 percent and 14 percent were derived from sales made in conjunction with existing home resale transactions and direct-to-consumer sales, respectively. In total, approximately 56 percent of our revenue base in 2016 represents customers in the direct-to-consumer sales market. We estimate that our share of the new sales market for contracts written in connection with existing home resales and direct-to-consumer sales in 2016 was 30 percent and 55 percent, respectively.

We believe that we have one of the largest contractor networks in the United States, comprised of more than 14,000 independent home service contractor firms. We carefully screen our contractors and closely monitor their performance based on a number of criteria, including feedback from customer satisfaction surveys. On an annual basis, our contractors respond to approximately four million service requests from approximately 1.9 million customers across all 50 states and the District of Columbia. Additionally, American Home Shield operates and takes service calls 24 hours a day, seven days a week. Furthermore, as a result of our large contractor network and sophisticated IT systems, we are able to promptly assign contractors to a job.

American Home Shield Competitive Strengths

- #1 market position in the industry with 44 percent market share, estimated to be four times the size of the next largest competitor
- Track record of high customer retention
- Large, licensed national contractor network
- Strong partnerships with leading national residential real estate firms
- Core competency around direct-to-consumer marketing and lead generation

Franchise Services Group

ServiceMaster's Franchise Services Group consists of the ServiceMaster Restore (disaster restoration), ServiceMaster Clean (janitorial), Merry Maids (residential cleaning), Furniture Medic (cabinet and wood furniture repair) and AmeriSpec (home inspection) businesses. Our businesses in this segment operate principally through franchisees. In 2014, we began converting company-owned Merry Maids locations to franchises. As of October 10, 2016, the branch conversion process was complete.

For the year ended December 31, 2016, Franchise Services Group recorded revenue of $200 million and Adjusted EBITDA of $79 million. In 2016, approximately 60 percent of our revenue in this segment consisted of ongoing monthly royalty fees. Royalty fees are the amounts paid to us by our franchisees and are based upon a percentage of our franchisees' customer-level revenue. We estimate that the customer-level revenue for this segment was $2,519 million for the year ended December 31, 2016. Customer level revenue means: Franchise Services Group revenue of $200 million, less royalty fees of $120 million, plus estimated sales generated by our franchisees of $2,439 million.

We believe that each business holds a leading market position in its respective category and that our scale and national presence create competitive advantages for us in attracting and retaining franchisees. We are able to invest in best-in-class systems, training and process development, provide multiple levels of marketing support and direct new business leads to our franchisees through our relationships with major insurance carriers and national account customers. The depth of our franchisee support is evidenced by the long average tenure of our franchisees, many of whom have partnered with ServiceMaster for over 25 years. Our Franchise Services Group serves both residential and commercial customers across all 50 states and the District of Columbia through approximately 4,600 franchise agreements, with additional locations in nine other countries.

Franchise Services Group Competitive Strengths

- Strong and trusted brands with leading market positions in their respective categories
- Attractive value proposition to franchisees
- Exceptional focus on customer service
- Infrastructure and scale supporting our ability to service national accounts
- National network and 24/7/365 service availability supports mission-critical nature of the ServiceMaster Restore business
- Long-standing and strong relationships with the majority of the top 20 insurance carriers

Our Market Opportunity

Termite and Pest Control Industry

The outsourced market for residential and commercial termite and pest control services in the United States was approximately $7.8 billion in 2015, according to Specialty Consultants, LLC. We estimate that there are approximately 20,000 U.S. termite and pest control companies, nearly all of which have fewer than 100 employees.

Termites are responsible for an estimated $5 billion in home damage in the United States annually, according to the National Pest Management Association. The termite control industry provides treatment and inspection services to residential and commercial property owners for the remediation and prevention of termite infestations. We believe homeowners value quality and reliability over price in choosing professional termite control services, as the cost of most professional treatments is well below the potential cost of inaction or ineffective treatment. As a result, we believe the demand for termite remediation services is relatively insulated from changes in consumer spending. In addition to remediation services, the termite control industry offers periodic termite inspections and preventative treatments to residential and commercial property owners in areas with high termite activity, typically through annual contracts. These annual contracts may carry guarantees that protect the property owner against the cost of structural damage caused by a termite infestation. Termites can cause significant damage to a structure before becoming visible to the untrained eye, highlighting the value proposition of professional preventative termite services. As a result, the termite control industry experiences high renewal rates on annual preventative inspection and treatment contracts, and revenues from such contracts are generally stable and recurring.

Pest infestations may damage a home or business while also carrying the risk of the spread of diseases. Moreover, for many commercial facilities, pest control is essential to regular operations and regulatory compliance (e.g., hotels, restaurants and healthcare facilities). As a result of these dynamics, the pest control industry experiences high rates of renewal for its pest inspection and treatment contracts. Pest control services are often delivered on a contracted basis through regularly scheduled service visits, which include an inspection of premises and application of pest control materials. We estimate that approximately 35 percent of targeted U.S. households currently use a professional pest exterminator.

Both termite and pest activity are affected by weather. Termite activity increases during the spring and summer months, the intensity of which varies based on weather. Similarly, pest activity tends to accelerate in the spring months when warmer temperatures arrive in many U.S. regions. However, the high proportion of termite and pest control services which are contracted and recurring, as well as the high renewal rates for those services, limit the effect of weather anomalies on the termite and pest control industry in any given year.

Home Warranty Industry

We estimate that the U.S. home warranty market was approximately $2.3 billion in 2016. The home warranty market is characterized by low household penetration, which we estimate to be approximately four percent. The home warranty industry offers plans that protect a homeowner against costly repairs or replacement of covered household systems and appliances. Typically having a one-year term, coverage varies based on a menu of plan options. The most commonly covered items include major components of electrical, plumbing, central heating and air conditioning (HVAC) systems, water heaters, refrigerators, dishwashers and ovens/cook tops. The home warranty industry is characterized by a high level of customer interaction and service requirements. This combination of a high-touch/high-service business model and the protection from unexpected repair expenses it provides to the customer has led to high renewal rates in the home warranty industry.

As consumer demand shifts towards more outsourced services, we believe that there is an opportunity for American Home Shield, a reliable, scaled service provider with a national, licensed contractor network, to increase market share and household penetration. Additionally, we believe that increasingly complex household systems and appliances may further highlight the value proposition of professional repair services and, accordingly, the coverage offered by a home warranty.

One of the drivers of sales of new home warranties is the number of existing homes sold in the United States, since a home warranty is often recommended by a real estate sales professional or offered by the seller of a home in conjunction with a real estate resale transaction. According to the National Association of Realtors, existing home resales, as measured in units, increased by approximately three percent in 2016 compared to 2015. Approximately 20 percent of American Home Shield revenue in 2016 was tied directly to existing home resale transactions.

Key Franchise Services Group Industries

Disaster Restoration (ServiceMaster Restore). We estimate that the U.S. disaster restoration market was approximately $15 billion in 2016, approximately two-thirds of which is related to residential customers and the remainder related to commercial customers. Most emergency response work results from emergency situations for residential and commercial customers, such as fires and flooding. Extreme weather events and natural disasters also provide demand for emergency response work. Critical factors in the selection of an emergency response firm are the firm's reputation, relationships with insurers, available resources, proper insurance and credentials, quality of service, timeliness and responsiveness. This market is highly fragmented, with two large players, including ServiceMaster Restore, and we believe there are opportunities for growth for scaled service providers.

Janitorial (ServiceMaster Clean). We estimate that the U.S. janitorial services market was approximately $53 billion in 2016. The market is highly fragmented with more than 900,000 companies competing in the janitorial space, a significant majority of which have five or fewer employees.

Residential Cleaning (Merry Maids). We estimate that the U.S. residential professional cleaning services market was approximately $3 billion in 2016. Competition in this market comes mainly from local, independently-owned firms, and from a few national companies.

Our Competitive Strengths

#1 Market Positions in Large, Fragmented and Growing Markets. We are the leading provider of essential residential and commercial services in the majority of markets in which we operate. Our markets are generally large, growing and highly fragmented, and we believe we have significant advantages over smaller local and regional competitors. We have spent decades developing a reputation built on reliability and superior quality and service. As a result, we enjoy high unaided brand awareness and a reputation for high-quality customer service, which serve as key drivers of our customer acquisition efforts. Our nationwide presence also allows our brands to effectively serve both local residential customers and large national commercial accounts and to capitalize on lead generation sources that include large real estate agencies, financial institutions and insurance carriers. We believe our significant size and scale also provide a competitive advantage in our purchasing power, route density, and marketing and operating efficiencies compared to smaller local and regional competitors. Our scale also facilitates the standardization of processes, shared learning and talent development across our entire organization.

Diverse Revenue Streams across Customers and Geographies. ServiceMaster is diversified in terms of customers and geographies. We operate in all 50 states and the District of Columbia. Our Terminix business, which accounted for 55 percent of our revenue in 2016, served approximately 2.8 million customers. American Home Shield, which accounted for 37 percent of our revenue in 2016, responded to approximately four million service requests from approximately 1.9 million customers. Our diverse customer base and geographies help to mitigate the effect of adverse market conditions and other risks in any particular geography or customer segment we serve. We therefore believe the size and scale of our company provide us with added protection from risk relative to our smaller local and regional competitors.

High-Value Service Offerings Resulting in High Retention and Recurring Revenues. We believe our high annual customer retention demonstrates the highly valued nature of the services we offer and the high level of execution and customer service that we provide. Many of our technicians have built long-standing, personal relationships with their customers. We believe these personal bonds, often forged over decades, help to drive customer loyalty and retention. As a result of our high retention and long-standing customer relationships, we enjoy significant visibility and stability in our business, and these factors limit the effect of adverse economic cycles on our revenue base. We experienced these advantages during the most recent economic downturn, when we were able to grow revenue in each year from 2008 to 2016.

Capital-Light Business Model. Our business model is characterized by strong Adjusted EBITDA margins, negative working capital and limited capital expenditure requirements. For the year ended December 31, 2016, 2015 and 2014, our net cash provided from operating activities from continuing operations was $325 million, $398 million and $289 million, respectively, and our property additions were $56 million, $40 million and $35 million, respectively. Free Cash Flow was $270 million, $358 million and $274 million for the year ended December 31, 2016, 2015 and 2014, respectively. For a reconciliation of Free Cash Flow to net cash provided from operating activities from continuing operations, which we consider to be the most directly comparable financial measure presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), see "Selected Historical Financial Data."

Resilient Financial Model with Track Record of Consistent Performance.

Solid revenue and Adjusted EBITDA growth through business cycles. Our consolidated revenue and Adjusted EBITDA compound annual growth rates from 2011 through 2016 were five percent and 11 percent, respectively. We believe that our strong performance through the recent economic and housing downturns is attributable to the essential nature of our services, our strong value proposition and our management's focus on driving results.

Solid margins with attractive operating leverage and productivity improvement initiatives. Our business model enjoys inherent operating leverage stemming from route density and fixed investments in infrastructure and technology, among other factors. We have demonstrated our ability to expand our margins through a variety of initiatives, including metric-driven continuous improvement in our customer call centers, application of consistent process guidelines at the branch level, leveraging size and scale to improve the sourcing of labor and materials, and driving productivity in centralized services. We have also deployed mobility solutions and routing and scheduling systems across many of our businesses in order to enhance overall efficiency and reduce operating costs.

Multi-Channel Marketing Approach Supported by Sophisticated Customer Analytic Modeling Capabilities. Our multi-channel marketing approach focuses on building the value of our brands and generating revenue by understanding the decisions customers make at each stage in the purchase of residential and commercial services. The effectiveness of our marketing efforts is demonstrated by an increase in lead generation and online sales, as well as an improvement in close rates over the last few years. For example, in our direct-to-consumer channel at American Home Shield, new home warranty lead generation, marketing yield and close rates have benefited from increased spending on marketing as well as improved digital marketing. We have also been deploying increasingly sophisticated customer analytics models that allow us to more effectively segment our prospective customers and tailor campaigns towards them. In addition, we are seeing success with newer ways of reaching and marketing to consumers via content marketing, promotions and social media channels.

Operational and Customer Service Excellence Driven by Superior People Development. We are constantly focused on improving customer service. The customer experience is at the foundation of our business model, and we believe that each employee is an extension of ServiceMaster's reputation. We employ rigorous hiring and training practices and continuously analyze our operating metrics to identify potential improvements in service and productivity. Technicians in our Terminix branches have an average tenure of eight years, creating continuity in customer relationships and ensuring the development of best practices based on on-the-ground experience. We also provide our field personnel with access to sophisticated data management and mobility tools which enable them to drive efficiencies, improve customer service and ultimately grow our customer base and profitability.

Experienced Management Team. We have assembled a management team of highly experienced leaders with significant industry expertise. Our senior leaders have track records of producing profitable growth in a wide variety of industries and economic conditions. We also believe that we have a deep bench of talent across each of our business units, including long-tenured individuals with significant expertise and knowledge of the businesses they operate. Our management team is highly focused on execution and driving growth and profitability across our company. Our compensation structure, including incentive compensation, is tied to key performance metrics and is designed to incentivize senior management to seek the long-term success of our business.

Our Strategy

Grow Our Customer Base. We are focused on the growth of our businesses through the introduction and delivery of high-value services to new and existing customers. We deliver our services through three primary channels:

- Direct-to-consumer through our company-owned branches;
- Indirectly through partnerships with high-quality contractors in our home warranty business; and
- Through trusted service providers who are franchisees.

To accelerate new customer growth, we make strategic investments in sales, marketing and advertising to drive new business leads, brand awareness and market penetration. In addition, we are executing multiple initiatives to improve customer satisfaction and service delivery, which we believe will lead to improved retention and growth in our customer base across our business segments.

Develop and Expand New Service Offerings. We intend to continue to leverage our existing sales channels and local coverage to deliver additional value-added services to our customers. Our product development teams draw upon the experience of our technicians in the field, combined with in-house scientific expertise, to create innovative customer solutions for both our existing customer base and identified service/category adjacencies. We have a strong history of new product introductions, such as Terminix's crawlspace encapsulation, mosquito control and wildlife exclusion services, that we believe will appeal to new potential customers as well as our existing customer base. Mosquito, wildlife exclusion and crawl space encapsulation are being offered in substantially all U.S. geographic markets where we believe substantial market opportunity exists. We are now focusing our efforts on increasing our market share in these product lines.

Expand Our Geographic Markets. Through detailed assessments of local economic conditions and demographics, we have identified target markets for expansion, both in existing markets, where we have capacity to increase our local market position, and in new markets, where we see opportunities. In addition to geographic expansion opportunities within the United States, we may also grow our international presence through strategic franchise expansions and additional licensing agreements.

Grow Our Commercial Business. Our revenue from commercial customers comprised approximately 13 percent of our 2016 revenue. We believe we are well positioned to leverage our national coverage, brand strength and broad service offerings to target large multi-regional accounts. We believe these capabilities provide us with a meaningful competitive advantage, especially compared to smaller local and regional competitors. We recognize that many of these large accounts seek to outsource or reduce the number of vendors used for certain services, and, accordingly, we have reenergized our marketing approach in this channel. At Terminix, for example, we have hired a dedicated sales team to focus on the development of commercial sales. Our commercial expansion strategy targets industries with a demonstrated need for our services, including healthcare, manufacturing, warehouses, hotels and commercial real estate.

Enhance Our Profitability. We have and will continue to invest in initiatives designed to improve our margins and drive profitable growth. We have been able to increase productivity across our segments through actions such as continuous process improvement, targeted systems investments, sales force initiatives and technician mobility tools. We also focus on strategically capitalizing on our purchasing power to achieve more favorable pricing and terms. In addition, we have rolled out tools and processes to centralize and systematize pricing decisions. These tools and processes enable us to optimize pricing at the geographic market and product level while creating a flexible and scalable pricing architecture that can grow with the business. We intend to leverage these investments as well as identify further opportunities to enhance profitability across our businesses.

Pursue Selective Acquisitions. From 2012 through 2016, we have completed over 120 acquisitions. On June 27, 2016, we acquired OneGuard Home Warranties ("OneGuard") for a total purchase price of $61 million, and on November 30, 2016, we acquired Landmark Home Warranty, LLC ("Landmark") for a total purchase price of $39 million. In 2016, we completed several pest control and termite acquisitions for a total purchase price of $43 million. We anticipate that the highly fragmented nature of our markets will continue to create opportunities for further consolidation. As we have in the past, we will continue to take advantage of tuck-in as well as strategic acquisition opportunities, particularly in underserved markets where we can enhance and expand our service capabilities. We seek to use acquisitions to cost-effectively grow our customer count and enter high-growth geographies. We may also pursue acquisitions as vehicles for strategic international expansion.

Sales and Marketing

We market our services to both homeowners and businesses on a national and local level through various means, including the internet, direct mail, television and radio advertising, print advertisements, marketing partnerships, telemarketing, various social media channels and through national sales teams. Additionally, in our American Home Shield segment, we partner with various participants in the residential real estate marketplace, such as real estate brokerages and some financial institutions and insurance carriers.

Service Marks, Trademarks and Trade Names

We hold various service marks, trademarks and trade names, such as ServiceMaster, Terminix, American Home Shield, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec, that we deem particularly important to the advertising activities conducted by each of our reportable segments as well as the franchising activities conducted by certain reportable segments. As of December 31, 2016, we had marks that were protected by registration (either by direct registration or by treaty) in the United States and approximately 90 other countries.

Franchises

Franchises are important to the Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. In 2016, 2015 and 2014, total franchise fees (monthly royalty fees as well as initial fees from sales of franchises and licenses) were $135 million, $132 million and $132 million, respectively, related franchise operating expenses were $52 million, $57 million and $61 million, respectively, and total profits from our franchised operations were $83 million, $75 million and $71 million, respectively. Nearly all of the franchise fees received by our Franchise Services Group segment are derived from the ServiceMaster Restore, ServiceMaster Clean and Merry Maids businesses. Franchise fees from our Terminix franchisees represented less than one percent of Terminix revenue for each of those years. We evaluate the performance of our franchise businesses based primarily on operating profit before corporate general and administrative expenses, interest expense and amortization of intangible assets. Franchise agreements entered into in the course of these businesses are generally for a term of five years. The majority of these franchise agreements are renewed prior to expiration. Internationally, we have license agreements, whereby licensees provide services under our brand names that would ordinarily be provided by franchisees in the United States. The majority of international licenses are for 10-year terms.

Customers and Geographies

We have no single customer that accounts for more than two percent of our consolidated revenue. Additionally, no reportable segment has a single customer that accounts for more than five percent of its revenue. None of our reportable segments is dependent on a single customer or a few customers, the loss of which would have a material adverse effect on the segment.

A significant percentage of our revenue is concentrated in the southern and western regions of the United States. In our Terminix and American Home Shield segments, California, Texas and Florida collectively accounted for approximately one-third of the revenue in 2016.

Competition

We compete in residential and commercial services industries, focusing on termite and pest control, home warranties, disaster restoration, janitorial, residential cleaning, cabinet and wood furniture repair and home inspection. We compete with many other companies in the sale of our services, franchises and products. The principal methods of competition in our businesses include quality and speed of service, name recognition and reputation, customer satisfaction, brand awareness, pricing and promotions, professional sales forces and referrals. 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. All of the primary segments in which we operate are highly fragmented.

Termite and Pest Control

Competition in the segment for professional termite and pest control services in the United States comes primarily from smaller regional and local, independently-owned firms, as well as from Orkin, Inc. (a subsidiary of Rollins, Inc.), Ecolab, Inc. and Rentokil Initial, plc., all of which compete nationally.

Home Warranties

Competition for home warranties that cover household systems and appliances comes mainly from regional providers. Our two largest competitors are First American Financial Corporation and Old Republic International Corporation.

Disaster Restoration, Emergency Response and Related Services

Competition in the markets for disaster restoration, emergency response and related services comes mainly from local, independently-owned firms and a few national professional cleaning companies, such as Servpro Industries, Inc., Belfor, a subsidiary of Belfor Europe GmbH, BMS CAT, Inc. and Stanley Steemer International, Inc.

Janitorial

Competition in the market for janitorial services comes mainly from local, independently-owned firms and a few national professional janitorial firms such as ABM Industries Incorporated, Jani-King International, Inc., Aramark and Jan-Pro Franchise International, Inc.

Residential Cleaning

Competition in the market segment for residential cleaning services comes mainly from local, independently-owned firms, and from a few national companies such as The Maids International, Inc., Molly Maid, Inc. and The Cleaning Authority, LLC.

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 was domiciled in Vermont through 2015 and since 2016 has been domiciled in Tennessee.

Information Technology

We have invested in information systems and software packages designed to allow us to grow efficiently, deliver and implement nationally, while retaining local and regional flexibility. We believe this provides us with a competitive advantage in our operations. Our sophisticated IT systems enable us to provide a high level of convenience and service to our customers. In 2016, Terminix launched a new sales mobility platform to enhance the customer sales experience and allow sales professionals to more easily bundle diverse product offerings. Similarly, American Home Shield's call centers, which operate and take service calls 24 hours a day, seven days a week, are able to promptly assign contractors to a job.

Employees

The average number of persons employed by us during 2016 was approximately 13,000. None of our employees in the United States are represented by collective bargaining agreements.

Regulatory Compliance

Our businesses are subject to various international, federal, state, provincial and local laws and regulations, compliance with which increases our operating costs, limits or restricts the services provided by our reportable segments or the methods by which our businesses offer, sell and fulfill those services or conduct their respective businesses, or subjects us and our reportable segments to the possibility of regulatory actions or proceedings. Noncompliance with these laws and regulations can subject us to fines or various forms of civil or criminal prosecution, any of which could have a material adverse effect on our reputation, business, financial position, 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, state contractor laws, real estate settlements, workers' safety, tax, healthcare reforms, franchise-related issues, collective bargaining and other labor matters, environmental and employee benefits. The Terminix business must also meet certain Department of Transportation and Federal Motor Carrier Safety Administration requirements with respect to certain vehicles in its fleet. Terminix is regulated by federal, state and local laws, ordinances and regulations which are enforced by pest control boards, environmental protection agencies and similar government entities. American Home Shield is regulated in certain states by the applicable state insurance regulatory authority and by the Real Estate Commission in

Texas. Terminix, ServiceMaster Clean and Merry Maids use products containing ingredients regulated by the U.S. Environmental Protection Agency (the "EPA"), and ServiceMaster Clean 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.

Environmental, Health and Safety Matters

Our businesses are subject to various international, federal, state and local laws and regulations regarding environmental, health and safety matters. Among other things, these laws regulate the emission or discharge of materials into the environment, govern the use, storage, treatment, disposal, transportation and management of hazardous substances and wastes and protect the health and safety of our employees. These laws also impose liability for the costs of investigating and remediating, and damages resulting from, present and past releases of hazardous substances, including releases by prior owners or operators of sites we currently own or operate.

Compliance with environmental, health and safety laws increases our operating costs, limits or restricts the services provided by our reportable segments or the methods by which they offer, sell and fulfill those services or conduct their respective businesses, or subjects us and our reportable segments to the possibility of regulatory or private actions or proceedings.

Terminix is regulated under many federal and state environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (the "CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 (the "Superfund"), 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.

We cannot predict the effect of possible future environmental laws on our operations. Changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, may lead to additional compliance or other costs. During 2016, there were no material capital expenditures for environmental control facilities, and there are no material expenditures anticipated for 2017 or 2018 related to such facilities.

Consumer Protection and Solicitation Matters

We are 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 our 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 marketing regulations requires us to rely more extensively on other marketing methods and channels. 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 lawsuits, enforcement actions and other claims by third parties or governmental authorities, suffer losses to our reputation and our 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 our financial position, results of operations and cash flows.

Franchise Matters

Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec 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. We seek to comply with regulatory requirements and deal with franchisees and licensees in good faith. From time to time, we 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 our standards and franchise renewal criteria. There can be no assurance that compliance problems will not be encountered from time to time or that significant disputes with one or more franchisees will not arise.

From time to time, we receive communications from our franchisees regarding complaints, disputes or questions about our practices and standards in relation to our franchised operations and certain economic terms of our franchise arrangements. If franchisees or groups representing franchisees were to bring legal proceedings against us, we would vigorously defend against the claims in any such proceeding, but our reputation, business, financial position, results of operations and cash flows could be materially adversely impacted and the price of our common stock could decline.

Available Information

ServiceMaster maintains a website at http://www.servicemaster.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 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

You should carefully consider the factors described below, in addition to the other information set forth in this Annual Report on Form 10-K. These risk factors are important to understanding the contents of this Annual Report on Form 10-K and of 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 presently known to us or that we currently believe to be immaterial may also materially and adversely affect our reputation, business, financial position, results of operations and cash flows.

The materialization of any risks and uncertainties set forth below or identified in Forward-Looking Statements contained in this report and our other filings with the SEC or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Information Regarding Forward-Looking Statements" below.

Risks Related to Our Business and Our Industry

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, particularly in California, Texas and Florida, which collectively represented approximately one-third of our revenue in 2016 in our Terminix and American Home Shield segments, could affect the demand for our services. Consumer spending and confidence tend to decline during times of declining economic conditions. 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.

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 expected time frames, the anticipated benefits of our various growth or other initiatives. Our various business strategies and initiatives, including growth of our customer base, introduction of new service offerings, geographic expansion, growth of our commercial business and enhancement of profitability, 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 and growth in our business and we may not meet anticipated implementation timetables or stay within budgeted costs. As these efficiency improvement and growth initiatives are undertaken, we may not fully achieve our expected cost savings and efficiency improvements or growth rates, or these initiatives could adversely impact our customer retention or our operations. Also, our business strategies may change from time to time in light of our ability to implement our new business initiatives, competitive pressures, economic uncertainties or developments, or other factors.

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 and governmental customers to incur liquidity issues that could lead to some of our services not being purchased or being cancelled, any of which could have an adverse impact on our business, financial position, results of operations and cash flows.

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 indebtedness, cause our lenders to depart from prior credit industry practice and not give technical or other waivers under the $1,650 million Term Loan Facility and the $300 million Revolving Credit Facility to the extent we may seek them in the future, thereby causing us to be in default under 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 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. In addition, adverse developments at federal, state and local levels associated with budget deficits resulting from economic conditions could result in federal, state and local governments decreasing their purchasing of our products or services and/or increasing taxes or other fees on businesses, including us, to generate more tax revenues, which could negatively impact spending by commercial customers and municipalities on our services.

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 into certain of our business categories has led to strong competitive market segments, including competition from smaller regional and local owner-operated companies. Regional and local competitors operating in a limited geographic area may have lower labor, employee benefits and overhead costs. The principal methods of competition in our businesses include name recognition, quality and speed of service, customer satisfaction, reputation and pricing. We may be unable to compete successfully against current or future competitors, and the competitive pressures that we face may result in reduced market segment share, reduced pricing or adversely impact our reputation, 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 termite and pest control services, home inspection services and disaster restoration services. Adverse weather conditions (e.g., cooler temperatures or droughts), whether created by climate change factors or otherwise, can impede the development of termite swarms and lead to lower demand for our termite control services. Extreme temperatures can lead to an increase in service requests related to household systems in our American Home Shield business, resulting in higher claim frequency and costs and lower profitability. For example, in the third quarter of 2016, we experienced an increase in contract claims cost at American Home Shield driven by a higher number of HVAC work orders driven by high temperatures. These or other weather conditions could adversely impact our business, financial position, results of operations and cash flows.

Compliance with United States Internal Revenue Service ("IRS") rules for our 401(k) Plan could result in significant costs that adversely impact our financial position, results of operations and cash flows.

In 2008, we amended our Profit Sharing and Retirement Plan, a tax qualified 401(k) defined contribution plan available to substantially all of our employees (the "401(k) Plan"), to implement a qualified automatic contribution arrangement ("QACA") under the safe harbor provisions of the Internal Revenue Code of 1986, as amended (the "Code"). QACA plans, in general, require automatic enrollment of employees into the retirement plan absent an affirmative election that such employees do not wish to participate.

Although we implemented processes to auto-enroll new hires after adopting the QACA plan in 2008, we have discovered that we did not auto-enroll then existing employees who were not participating in the 401(k) Plan. In response, we implemented an auto-enrollment process for affected active employees, and we submitted to the IRS a voluntary correction proposal to remedy the issue for prior years. Our current estimate of the cost of the correction ranges from $25 million to approximately $92 million. We have recorded within Selling and administrative expenses in the consolidated statement of operations and comprehensive income total charges of $25 million. However, there can be no assurances as to the ultimate costs of the correction.

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 may be adversely affected by increases in the level of our operating expenses, such as fuel, chemicals, refrigerants, appliances and equipment, parts, raw materials, wages and salaries, employee benefits, health care, vehicle maintenance, contractor costs, self-insurance costs and other insurance premiums, as well as various regulatory compliance costs, all of which may be subject to inflationary pressures.

Fuel prices are subject to market volatility. Previous increases in fuel prices increased our costs of operating vehicles and equipment. Although fuel prices remained relatively low during 2016, there can be no assurances that rates will not return to historical levels. We cannot predict what effect global events or any future Middle East, Russia or other crisis could have on fuel prices, but it is possible that such events could lead to higher fuel prices. With respect to fuel, our fleet 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. We expect to use approximately 14 million gallons of fuel in 2017. As of December 31, 2016, a ten percent change in fuel prices would result in a change of approximately $3 million in our annual fuel cost before considering the impact of fuel swap contracts. Fuel price increases can also result in increases in the cost of chemicals and other materials used in our business. We cannot predict the extent to which we may experience future increases in costs of fuel, chemicals, refrigerants, appliances and equipment, parts, raw materials, wages and salaries, employee benefits, health care, vehicle maintenance, contractor costs, self-insurance costs and other insurance premiums, as well as various regulatory compliance costs 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, which could have a material adverse impact on our 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 adversely impact us and our 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. Any inability to attract in a timely manner other 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.

Compliance with, or violation of, environmental, health and safety laws and regulations, including laws pertaining to the use of pesticides, 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 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 marketplace 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 pesticide products is regulated by various international, federal, state, provincial and local environmental and public health agencies. Although we strive to comply with such laws and regulations and have processes in place designed to achieve compliance, given our dispersed locations, distributed operations and numerous associates, we may be unable to prevent violations of these or other laws and regulations from occurring. Even if we are able to comply with all such laws and regulations and obtain all necessary registrations and licenses, the pesticides or other products we apply or use, or the manner in which we apply or use them, could be alleged to cause injury to the environment, to people or to animals, or such products could be banned in certain circumstances. The laws and regulations may also apply to third-party vendors who are hired to repair or remediate property and who may fail to comply with environmental laws, health and safety laws and regulations and subject us to risk of legal exposure. The costs of compliance, non-compliance, investigation, remediation, combating reputational harm or defending civil or criminal proceedings, products liability, personal injury or other lawsuits could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

International, federal, state, provincial and local agencies regulate the disposal, handling and storage of waste, discharges from our facilities and the investigation and clean-up of contaminated sites. We could incur significant costs, including investigation and clean-up costs, fines, penalties and civil or criminal sanctions and claims by third parties for property damage and personal injury, as a result of violations of, or liabilities under, these laws and regulations. In addition, potentially significant expenditures could be required to comply with environmental, health and safety laws and regulations, including requirements that may be adopted or imposed in the future.

On July 21, 2016, Terminix International USVI, LLC ("TMX USVI") and The Terminix International Company Limited Partnership ("TMX LP"), each an indirect, wholly-owned subsidiary of the Company, entered into a superseding Plea Agreement (the "Superseding Plea Agreement") in connection with the investigation initiated by the United States Department of Justice Environmental Crimes Section (the "DOJ") into allegations that a local Terminix branch used methyl bromide as a fumigant at a resort in St. John, U.S. Virgin Islands. The Superseding Plea Agreement was intended to resolve four misdemeanor charges of violations of the Federal Insecticide, Fungicide, and Rodenticide Act related to improper applications of methyl bromide. Those charges were set forth in an Information, dated March 29, 2016, in the matter styled *United States of America v. The Terminix International Company Limited Partnership and Terminix International USVI, LLC.* At a hearing held on August 25, 2016, the United States District Court of the U.S. Virgin Islands (the "District Court") rejected the Superseding Plea Agreement. On August 31, 2016, the DOJ requested that the charges be dismissed, reserving its right to re-file the charges, in light of ongoing discussions to resolve the matter. The District Court granted that request, and the March 29, 2016 Information was dismissed.

On January 20, 2017, TMX USVI and TMX LP entered into a new Plea Agreement (the "New Plea Agreement") with the DOJ, which has been filed with the District Court, and replaces the Superseding Plea Agreement. Under the New Plea Agreement, TMX USVI and TMX LP have agreed to plead guilty to four misdemeanor charges of violations of the Federal Insecticide, Fungicide, and Rodenticide Act related to improper applications of methyl bromide, as set forth in a new Information filed on January 20, 2017 with the District Court that is substantially similar to the March 29, 2016 Information. Under the terms of the New Plea Agreement, the parties agree and jointly recommend to the District Court that (i) TMX USVI and TMX LP each pay a fine of $4 million (total of $8 million); (ii) TMX USVI pay $1 million to the EPA for costs incurred by the EPA for the response and clean-up of the affected units at the resort in St. John; (iii) TMX USVI make a community service payment of $1 million to the National Fish and Wildlife Foundation for the purpose of engaging a third party to provide training to pesticide applicators in the U.S. Virgin Islands; and (iv) both TMX USVI and TMX LP serve a three-year probation period, subject to the special conditions of probation under the New Plea Agreement. The total financial terms of the recommended sentence under the New Plea Agreement are equivalent in total amount to the financial terms under the Superseding Plea Agreement. Unlike the Superseding Plea Agreement, however, the New Plea Agreement is non-binding on the District Court. It is possible that the District Court could use its discretion to impose fines or other terms different than those in the New Plea Agreement. If approved by the District Court, and upon compliance with the terms and conditions of the New Plea Agreement, the New Plea Agreement will resolve the federal criminal consequences associated with the DOJ investigation. The New Plea Agreement does not bind any other federal, state or local authority; however, the EPA has indicated that it does not intend to initiate any administrative enforcement action or refer the matter to the DOJ for any civil enforcement action if the New Plea Agreement is approved by the District Court.

We have recorded within Fumigation related matters in the consolidated statement of operations and comprehensive income charges of $2 million and $8 million in the years ended December 31, 2016 and 2015, respectively, in connection with the aforementioned criminal matter. The amount and extent of any further potential penalties, fines, sanctions, costs and damages that the federal or other governmental authorities may yet impose, investigation or other costs and reputational harm, as well as the impact of any additional civil, criminal or other claims or judicial, administrative or regulatory proceedings resulting from or related to the U.S. Virgin Islands matter, which could be material, is not currently known or reasonably estimable, and any such further penalties, fines, sanctions, costs or damages would not be covered under our general liability insurance policies. On December 16, 2016, the U.S. Virgin Islands Department of Justice filed a civil complaint in the Superior Court of the Virgin Islands related to the aforementioned fumigation incident in a matter styled Government of the United States Virgin Islands v. The ServiceMaster Company, LLC, The Terminix International Company Limited Partnership, and Terminix International USVI, LLC. We have not recorded any charge for this new civil lawsuit.

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

In providing our services, we use, among other things, pesticides and other chemicals. Public perception that the products we use and the services we deliver 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.

Laws and government regulations applicable to our businesses and lawsuits, enforcement actions and other claims by third parties or governmental authorities could increase our legal and regulatory expenses, 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, building code requirements, workers' safety, the environment, insurance and home warranties, employee benefits, marketing (including, without limitation, telemarketing) and advertising, the application and use of pesticides and other chemicals. 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 increases in the minimum wage; environmental regulations related to chemical use, climate change, equipment efficiency standards, refrigerant production and use and other environmental matters; other consumer protection laws or regulations; health care coverage; 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 lawsuits, enforcement actions and other claims by third parties or governmental authorities, suffer losses to our reputation, 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.

Our franchisees, subcontractors, third-party distributors and vendors could take actions that could harm our business.

For the years ended December 31, 2016 and 2015, $135 million and $132 million, respectively, of our consolidated revenue was received in the form of franchise revenues. Accordingly, our financial results are dependent in part upon the operational and financial success of our franchisees. Our franchisees, subcontractors, third-party distributors and vendors are contractually obligated to operate their businesses in accordance with the standards set forth in our agreements with them. Each franchising brand also provides training and support to franchisees. However, franchisees, subcontractors, third-party distributors and vendors are independent third parties that we do not control, and who own, operate and oversee the daily operations of their businesses. As a result, the ultimate success of any franchise operation rests with the franchisee. If franchisees do not successfully operate their businesses in a manner consistent with required standards, royalty payments to us will be adversely affected and our brands' image and reputation could be harmed, which in turn could adversely impact our business, financial position, results of operations and cash flows. Similarly, if third-party distributors, subcontractors, vendors and franchisees do not successfully operate their businesses in a manner consistent with required laws, standards and regulations, we could be subject to claims from regulators or legal claims for the actions or omissions of such third-party distributors, subcontractors, vendors and franchisees. In addition, our relationship with our franchisees, third-party distributors, subcontractors and vendors could become strained (including resulting in litigation) as we impose new standards or assert more rigorous enforcement practices of the existing required standards. These strains in our relationships or claims could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

From time to time, we receive communications from our franchisees regarding complaints, disputes or questions about our practices and standards in relation to our franchised operations and certain economic terms of our franchise arrangements. If franchisees or groups representing franchisees were to bring legal proceedings against us, we would vigorously defend against the claims in any such proceeding, but our reputation, business, financial position, results of operations and cash flows could be materially adversely impacted and the price of our common stock could decline.

Disruptions or failures in our information technology systems could create liability for us or limit our ability to effectively monitor, operate and control our operations and adversely impact our reputation, business, financial position, results of operations and cash flows.

Our information technology systems facilitate our ability to monitor, operate and control our operations. Changes or modifications to our information technology systems could cause disruption to our operations or cause challenges with respect to our compliance with laws, regulations or other applicable standards. As the development and implementation of our information technology systems (including our operating systems) evolve, we may elect to modify, replace or abandon certain technology initiatives, which could result in write-downs.

Any disruption in our information technology systems, including capacity limitations, instabilities, or failure to operate as expected, could, depending on the magnitude of the problem, adversely impact our business, financial position, results of operations and cash flows, including by limiting our capacity to monitor, operate and control our operations effectively. Failures of our information technology systems could also lead to violations of privacy laws, regulations, trade guidelines or practices related to our customers and associates. If our disaster recovery plans do not work as anticipated, or if the third-party vendors to which we have outsourced certain information technology, contact center or other services fail to fulfill their obligations to us, our operations may be adversely impacted, and any of these circumstances could adversely impact our reputation, business, financial position, results of operations and cash flows.

Changes in the services we deliver or the products we use could impact our reputation, business, financial position, results of operations and cash flows and our future plans.

Our financial performance is affected by changes in the services and products we offer our customers. There can be no assurance that our new strategies or product offerings will succeed in increasing revenue and growing profitability. An unsuccessful execution of new strategies, including the rollout or adjustment of our new services or products or sales and marketing plans, could cause us to re-evaluate or change our business strategies and could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows and our future plans.

If we fail to protect the security of personal information about our customers, associates and third parties, we could be subject to interruption of our business operations, private litigation, reputational damage and costly penalties.

We rely on, among other things, commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential information of customers, associates and third parties, such as payment card and personal information. The systems currently used for transmission and approval of payment card transactions, and the technology utilized in payment cards themselves, all of which can put payment card data at risk, are central to meeting standards set by the payment card industry ("PCI"). We continue to evaluate and modify our systems and protocols for PCI compliance purposes, and such PCI standards may change from time to time. Activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our systems. Any compromises, breaches or errors in applications related to our systems or failures to comply with standards set by the PCI could cause damage to our reputation and interruptions in our operations, including our customers' ability to pay for our services and products by credit card or their willingness to purchase our services and products and could result in a violation of applicable laws, regulations, orders, industry standards or agreements and subject us to costs, penalties and liabilities which could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

We may not be able to adequately protect our intellectual property and other proprietary rights that are material to our business.

Our ability to compete effectively depends in part on our rights to service marks, trademarks, trade names and other intellectual property rights we own or license, particularly our registered brand names, ServiceMaster, Terminix, American Home Shield, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec. We have not sought to register or protect every one of our marks either in the United States or in every country in which they are or may be used. Furthermore, because of the differences in foreign trademark, patent and other intellectual property or proprietary rights laws, we may not receive the same protection in other countries as we would in the United States. If we are unable to protect our proprietary information and brand names, we could suffer a material adverse impact on our reputation, business, financial position, results of operations and cash flows. Litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products, services or activities infringe their intellectual property rights.

Future acquisitions or other strategic transactions could negatively impact our reputation, business, financial position, results of operations and cash flows.

We may pursue strategic transactions in the future, which could involve acquisitions or dispositions of businesses or assets. Any future strategic transaction could involve integration or implementation challenges, business disruption or other risks, or change our business profile significantly. Any inability on our part to consolidate and manage growth from acquired businesses or successfully implement other strategic transactions could have an adverse impact on our reputation, business, financial position, results of operations and cash flows. Any acquisition that we make may not provide us with the benefits that were anticipated when entering into such acquisition. The process of integrating an acquired business may create unforeseen difficulties and expenses, including the diversion of resources needed to integrate new businesses, technologies, products, personnel or systems; the inability to retain associates, customers and suppliers; the assumption of actual or contingent liabilities (including those relating to the environment); failure to effectively and timely adopt and adhere to our internal control processes and other policies; write-offs or impairment charges relating to goodwill and other intangible assets; unanticipated liabilities relating to acquired businesses; and potential expense associated with litigation with sellers of such businesses. Any future disposition transactions could also impact our business and may subject us to various risks, including failure to obtain appropriate value for the disposed businesses, post-closing claims being levied against us and disruption to our other businesses during the sale process or thereafter.

We may be required to recognize additional impairment charges.

In the first quarter of 2014, we incurred impairment charges with respect to fixed assets, and we have also incurred impairment charges in the past in connection with our disposition activities. We have significant amounts of goodwill and intangible assets, such as trade names. In accordance with applicable accounting standards, goodwill and indefinite-lived intangible assets are not amortized and are subject to assessment for impairment by applying a fair-value based test annually, or more frequently if there are indicators of impairment, including:

- significant adverse changes in the business climate, including economic or financial conditions;
- significant adverse changes in expected operating results;
- adverse actions or assessments by regulators;
- unanticipated competition;
- loss of key personnel; and
- a current expectation that it is more likely than not that a reporting unit or intangible asset will be sold or otherwise disposed of.

In February 2014, American Home Shield ceased efforts to deploy a new operating system that had been intended to improve customer relationship management capabilities and enhance its operations. We recorded an impairment charge of $47 million in the year ended December 31, 2014 relating to this decision.

Based upon future economic and financial market conditions, the operating performance of our reporting units and other factors, including those listed above, we may incur impairment charges in the future. It is possible that such impairment, if required, could be material. Any future impairment charges that we are required to record could have a material adverse impact on our results of operations.

We are subject to various restrictive covenants that could adversely impact our business, financial position, results of operations and cash flows.

From time to time, we enter into noncompetition agreements or other restrictive covenants (e.g., exclusivity, take or pay and non-solicitation), including in connection with business dispositions or strategic contracts, that restrict us from entering into lines of business or operating in certain geographic areas into which we may desire to expand our business. We also are subject to various non-solicitation and no-hire covenants that may restrict our ability to solicit potential customers or associates. If we do not comply with such restrictive covenants, or if a dispute arises regarding the scope and interpretation thereof, litigation could ensue, which could have an adverse impact on our business, financial position, results of operations and cash flows. Further, to the extent that such restrictive covenants prevent us from taking advantage of business opportunities, our business, financial position, results of operations and cash flows may be adversely impacted.

Our business process outsourcing initiatives have increased our reliance on third-party vendors and may expose our business to harm upon the termination or disruption of our third-party vendor relationships.

Our strategy to increase profitability, in part, by reducing our costs of operations includes the implementation of certain business process outsourcing initiatives. Any disruption, termination or substandard performance of these outsourced services, including possible breaches by third-party vendors of their agreements with us, could adversely affect our brands, reputation, customer relationships, financial position, results of operations and cash flows. Also, to the extent a third-party outsourcing provider relationship is terminated, there is a risk of disputes or litigation and that we may not be able to enter into a similar agreement with an alternate provider in a timely manner or on terms that we consider favorable, and even if we find an alternate provider, or choose to insource such services, there are significant risks associated with any transitioning activities. In addition, to the extent we decide to terminate outsourcing services and insource such services, there is a risk that we may not have the capabilities to perform these services internally, resulting in a disruption to our business, which could adversely impact our reputation, business, financial position, results of operations and cash flows. We could incur costs, including personnel and equipment costs, to insource previously outsourced services like these, and these costs could adversely affect our results of operations and cash flows.

Our future success depends on our ability to attract, retain and maintain positive relations with trained workers and third-party contractors.

Our future success and financial performance depend substantially on our ability to attract, train and retain workers, attract and retain third-party contractors and ensure third-party contractor compliance with our policies and standards. Our ability to conduct our operations is in part impacted by our reliance on a network of third-party contractors. When a contractor relationship is terminated, there is a risk that we may not be able to enter into a similar agreement with an alternate contractor in a timely manner or on terms that we consider favorable. We could incur costs to transition to other contractors, and these costs could adversely affect our results of operations and cash flows.

Our ability to conduct our operations is in part impacted by our ability to increase our labor force, including on a seasonal basis, which may be adversely impacted by a number of factors. In the event of a labor shortage, we could experience difficulty in delivering our services in a high-quality or timely manner and could be forced to increase wages in order to attract and retain associates, which would result in higher operating costs and reduced profitability. New decisions and rules by the National Labor Relations Board, including "expedited elections" and restrictions on appeals, could lead to increased organizing activities at our subsidiaries or franchisees. If these labor organizing activities were successful, it could further increase labor costs, decrease operating efficiency and productivity in the future, or otherwise disrupt or negatively impact our operations. In addition, potential competition from key associates who leave ServiceMaster could impact our ability to maintain our market segment share in certain geographic areas.

Risks Related to Our Substantial Indebtedness

We have substantial indebtedness and may incur substantial additional indebtedness, which could adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and satisfy our obligations.

As of December 31, 2016, we had approximately $2.8 billion of total long-term consolidated indebtedness outstanding.

As of December 31, 2016, there were $35 million of letters of credit outstanding and $265 million of available borrowing capacity under the Revolving Credit Facility. In addition, we are able to incur additional indebtedness in the future, subject to the limitations contained in the agreements governing our indebtedness. Our substantial indebtedness could have important consequences to you. Because of our substantial indebtedness:

- our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing is limited;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and our ability to satisfy our obligations with respect to our indebtedness may be impaired in the future;
- a large portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;
- we are exposed to the risk of increased interest rates because a portion of our borrowings are or will be at variable rates of interest;
- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such indebtedness;
- we may be more vulnerable to general adverse economic and industry conditions;
- we may be at a competitive disadvantage compared to our competitors with proportionately less indebtedness or with comparable indebtedness on more favorable terms and, as a result, they may be better positioned to withstand economic downturns;
- our ability to refinance indebtedness may be limited or the associated costs may increase;
- our flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited; and
- we may be prevented from carrying out capital spending and restructurings that are necessary or important to our growth strategy and efforts to improve operating margins of our businesses.

Increases in interest rates would increase the cost of servicing our indebtedness and could reduce our profitability.

A significant portion of our outstanding indebtedness, including indebtedness incurred under the Credit Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our indebtedness and could materially reduce our profitability and cash flows. As of December 31, 2016, each one percentage point change in interest rates would result in an approximately $10 million change in the annual interest expense on the Term Loan Facility after considering the impact of the effective interest rate swaps. Assuming all revolving loans were fully drawn as of December 31, 2016, each one percentage point change in interest rates would result in an approximately $3 million change in annual interest expense on the Revolving Credit Facility. The impact of increases in interest rates could be more significant for us than it would be for some other companies because of our substantial indebtedness.

A lowering or withdrawal of the ratings, outlook or watch assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Our indebtedness currently has a non-investment grade rating, and any rating, outlook or watch assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, current or future circumstances relating to the basis of the rating, outlook or watch, such as adverse changes to our business, so warrant. Any future lowering of our ratings, outlook or watch likely would make it more difficult or more expensive for us to obtain additional debt financing.

The agreements and instruments governing our indebtedness contain restrictions and limitations that could significantly impact our ability to operate our business.

The Credit Facilities contain covenants that, among other things, restrict our ability to:

- incur additional indebtedness (including guarantees of other indebtedness);

- receive dividends from certain of our subsidiaries, redeem stock or make other restricted payments, including investments and, in the case of the Revolving Credit Facility, make acquisitions;
- prepay, repurchase or amend the terms of certain outstanding indebtedness;
- enter into certain types of transactions with affiliates;
- transfer or sell assets;
- create liens;
- merge, consolidate or sell all or substantially all of our assets; and
- enter into agreements restricting dividends or other distributions by our subsidiaries.

The restrictions in the agreements governing the Credit Facilities and the instruments governing our other indebtedness may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. We may be unable to refinance our indebtedness, at maturity or otherwise, on terms acceptable to us, or at all.

Our ability to comply with the covenants and restrictions contained in the agreements governing the Credit Facilities and the instruments governing our other indebtedness may be affected by economic, financial and industry conditions beyond our control including credit or capital market disruptions. The breach of any of these covenants or restrictions could result in a default that would permit the applicable lenders to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, lenders having secured obligations, such as the lenders under the Credit Facilities, could proceed against the collateral securing the indebtedness. In any such case, we may be unable to borrow under the Credit Facilities and may not be able to repay the amounts due under such facilities or our other outstanding indebtedness. This could have serious consequences to our financial position and results of operations and could cause us to become bankrupt or insolvent.

Our ability to generate the significant amount of cash needed to pay interest and principal on our indebtedness and our ability to refinance all or a portion of our indebtedness or obtain additional financing depends on many factors beyond our control.

We are a holding company, and as such we have no independent operations or material assets other than ownership of equity interests in our subsidiaries. We depend on our subsidiaries to distribute funds to us so that we may pay obligations and expenses, including satisfying obligations with respect to indebtedness. Our ability to make scheduled payments on, or to refinance our obligations under, our indebtedness depends on the financial and operating performance of our subsidiaries and their ability to make distributions and dividends to us, which, in turn, depends on their results of operations, cash flows, cash requirements, financial position and general business conditions and any legal and regulatory restrictions on the payment of dividends to which they may be subject, many of which may be beyond our control.

There are third-party restrictions on the ability of certain of our subsidiaries to transfer funds to us. If we cannot receive sufficient distributions from our subsidiaries, we may not be able to meet our obligations to fund general corporate expenses or service our debt obligations. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at ServiceMaster Acceptance Company Limited Partnership (“SMAC”). The payment of ordinary and extraordinary dividends by our home warranty and similar subsidiaries (through which we conduct our American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to us. As of December 31, 2016, the total net assets subject to these third-party restrictions was $173 million. Such limitations are expected to be in effect for the foreseeable future.

We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or restructure our indebtedness. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our indebtedness, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

The $1,628 million of outstanding borrowings under the Term Loan Facility as of December 31, 2016, after including the unamortized original issue discount paid and unamortized debt issuance costs, have a maturity date of November 8, 2023. The Revolving Credit Facility is scheduled to mature on November 8, 2021. We may be unable to refinance any of our indebtedness or obtain additional financing, particularly because of our high levels of indebtedness. Market disruptions, such as those experienced in 2008 and 2009, as well as our significant indebtedness levels, may increase our cost of borrowing or adversely affect our ability to refinance our obligations as they become due. If we are unable to refinance our indebtedness or access additional credit, or if short-term or long-term borrowing costs dramatically increase, our ability to finance current operations and meet our short term and long term obligations could be adversely affected.

If we cannot make scheduled payments on our indebtedness, we will be in default, the lenders under the Credit Facilities could terminate their commitments to loan money, the secured lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

Despite our indebtedness levels, we and our subsidiaries may be able to incur substantially more indebtedness. This could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the instruments governing our indebtedness do not prohibit us or fully prohibit our subsidiaries from doing so. The Credit Facilities permit additional borrowings beyond the committed amounts under certain circumstances. If new indebtedness is added to our current indebtedness levels, the related risks we face would increase, and we may not be able to meet all of our debt obligations.

Risks Related to Our Common Stock

ServiceMaster is a holding company with no operations of its own, and it depends on its subsidiaries for cash to fund all of its operations and expenses, including to make future dividend payments, if any.

ServiceMaster's operations are conducted entirely through our subsidiaries, and our ability to generate cash to fund our operations and expenses, to pay dividends or to meet debt service obligations is highly dependent on the earnings and the receipt of funds from our subsidiaries through dividends or intercompany loans. Deterioration in the financial condition, earnings or cash flow of our subsidiaries for any reason could limit or impair their ability to pay such distributions. Additionally, to the extent that ServiceMaster needs funds, and its subsidiaries are restricted from making such distributions under applicable law or regulation or under the terms of our financing arrangements, or are otherwise unable to provide such funds, it could materially adversely affect our business, financial condition, results of operations or prospects.

We do not currently expect to declare or pay dividends on our common stock for the foreseeable future. Payments of dividends, if any, will be at the sole discretion of our board of directors after taking into account various factors, including general and economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications of the payment of dividends by us to our stockholders or by our subsidiaries to us, and such other factors as our board of directors may deem relevant. In addition, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock. To the extent that we determine in the future to pay dividends on our common stock, none of our subsidiaries will be obligated to make funds available to us for the payment of dividends.

The market price of our common stock may be volatile and could decline.

The market price of our common stock may fluctuate significantly. Among the factors that could affect our stock price are:

- industry or general market conditions;
- domestic and international economic factors unrelated to our performance;
- lawsuits, enforcement actions and other claims by third parties or governmental authorities;
- changes in our customers' preferences;
- new regulatory pronouncements and changes in regulatory guidelines;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in securities analysts' estimates of our financial performance or lack of research coverage and reports by industry analysts;
- action by institutional stockholders or other large stockholders;
- failure to meet any guidance given by us or any change in any guidance given by us, or changes by us in our guidance practices;
- announcements by us of significant impairment charges;
- speculation in the press or investment community;
- investor perception of us and our industry;
- changes in market valuations or earnings of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, dispositions or strategic partnerships;
- war, terrorist acts and epidemic disease;
- any future sales of our common stock or other securities; and
- additions or departures of key personnel.

The stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a company's securities, class action litigation has often been instituted against the affected company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management's attention and resources, which would harm our business, operating results and financial condition.

Future sales of shares by existing stockholders could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

In July 2014, we filed a registration statement on Form S-8 under the Securities Act to register the shares of common stock to be issued under our equity compensation plans and, as a result, all shares of common stock acquired upon exercise of (i) stock options granted under these plans and (ii) other equity based awards granted under the ServiceMaster Global Holdings, Inc. 2014 Omnibus

Incentive Plan ("Omnibus Incentive Plan"), including approximately 2.5 million shares of our common stock that have been sold in the public market through the exercise of stock options as of December 31, 2016, are freely tradable under the Securities Act, unless purchased by our affiliates. As of December 31, 2016, there were stock options outstanding to purchase a total of 3,155,344 shares of our common stock, there were 439,134 shares of our common stock subject to restricted stock units and there were 109,881 shares of our common stock subject to performance share units. In addition, 6,811,337 shares of our common stock are reserved for future issuances under our Omnibus Incentive Plan.

On February 24, 2015, our board of directors approved and recommended for approval by our stockholders the ServiceMaster Global Holdings, Inc. Employee Stock Purchase Plan ("Employee Stock Purchase Plan"), which became effective for offering periods commencing July 1, 2015. The Employee Stock Purchase Plan is intended to qualify for the favorable tax treatment under Section 423 of the Code. Under the plan, eligible employees of the Company may purchase common stock, subject to IRS limits, during pre-specified offering periods at a discount established by the Company not to exceed ten percent of the then current fair market value. On April 27, 2015, our stockholders approved the Employee Stock Purchase Plan with a maximum of one million shares of common stock authorized for sale under the plan. On November 3, 2015, we filed a registration statement on Form S-8 under the Securities Act to register the 1,000,000 shares of common stock that may be issued under the Employee Stock Purchase Plan and, as a result, all shares of common stock acquired under the Employee Stock Purchase Plan will be freely tradable under the Securities Act, unless purchased by our affiliates. As of December 31, 2016, 895,635 shares of our common stock are reserved for future issuances under the Employee Stock Purchase Plan.

In the future, we may issue additional shares of common stock or other equity or debt securities convertible into or exercisable or exchangeable for shares of our common stock in connection with a financing, acquisition, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing stockholders and could cause the trading price of our common stock to decline.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts that covers our common stock downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of the analysts ceases coverage of our common stock or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our common stock price or trading volume to decline.

Future offerings of debt or equity securities which would rank senior to our common stock may adversely affect the market price of our common stock.

If, in the future, we decide to issue debt or equity securities that rank senior to our common stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

Anti-takeover provisions in our amended and restated certificate of incorporation and amended and restated by-laws could discourage, delay or prevent a change of control of our company and may affect the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated by-laws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated by-laws collectively:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- provide for a classified board of directors, which divides our board of directors into three classes, with members of each class serving staggered three-year terms, which prevents stockholders from electing an entirely new board of directors at an annual meeting;
- limit the ability of stockholders to remove directors;
- provide that vacancies on our board of directors, including vacancies resulting from an enlargement of our board of directors, may be filled only by a majority vote of directors then in office;
- prohibit stockholders from calling special meetings of stockholders;
- prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders;
- establish advance notice requirements for nominations of candidates for election as directors or to bring other business before an annual meeting of our stockholders; and
- require the approval of holders of at least $66^2/3$% of the outstanding shares of our common stock to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation.

These provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our amended and restated certificate of incorporation and amended and restated by laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

We do not intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not intend to declare and pay dividends on our common stock for the foreseeable future. We currently intend to use our future earnings, if any, to repay debt, to repurchase shares of our common stock, to fund our growth, to develop our business and for working capital needs and general corporate purposes. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares. In addition, ServiceMaster's operations are conducted almost entirely through our subsidiaries. As such, to the extent that we determine in the future to pay dividends on our common stock, none of our subsidiaries will be obligated to make funds available to ServiceMaster for the payment of dividends. Further, the agreements governing the Credit Facilities may restrict the ability of our subsidiaries to pay dividends, make loans or otherwise transfer assets to us. In addition, the payment of ordinary and extraordinary dividends by our subsidiaries that are regulated as insurance, home service, or similar companies is subject to applicable state law limitations.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the General Corporation Law of the State of Delaware or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. By becoming a stockholder in our company, you will be deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation related to choice of forum. The choice of forum provision in our amended and restated certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and the headquarters for Terminix are located in leased premises at 860 Ridge Lake Boulevard, Memphis, Tennessee. The headquarters for American Home Shield and the Franchise Services Group are located in leased premises at 889 Ridge Lake Boulevard, Memphis, Tennessee. In 2016, we entered into an office lease agreement with Peabody Place Centre GP that will result in the relocation of our corporate headquarters to 150 Peabody Place, Memphis, Tennessee at the end of 2017. In addition, we lease space for call centers located at 6399 Shelby View Drive, Memphis, Tennessee and 7620 Appling Center Drive, Memphis, Tennessee, offices located at 855 Ridge Lake Boulevard, Memphis, Tennessee, and a training facility located at 1650 Shelby Oaks Drive North, Memphis, Tennessee, and own offices at 3839 Forest Hill Irene Road, Memphis, Tennessee.

We and our operating companies own and lease a variety of facilities, principally in the United States, for branch and service center operations and for office, storage, call center and data processing space. Our branches are strategically located to optimize route efficiency, market coverage and branch overhead. The following table identifies the number of owned and leased facilities, other than the headquarters properties listed above, used by each of our reportable segments as of December 31, 2016. We believe that these facilities, when considered with the corporate headquarters, call center facilities, offices and training facilities described above, are suitable and adequate to support the current needs of its business.

Reportable Segment	Owned Facilities	Leased Facilities
Terminix	18	328
American Home Shield	1	6
Franchise Services Group	—	5

ITEM 3. LEGAL PROCEEDINGS

On July 21, 2016, TMX USVI and TMX LP, each an indirect, wholly-owned subsidiary of the Company, entered into the Superseding Plea Agreement in connection with the investigation initiated by the DOJ into allegations that a local Terminix branch used methyl bromide as a fumigant at a resort in St. John, U.S. Virgin Islands. The Superseding Plea Agreement was intended to resolve four misdemeanor charges of violations of the Federal Insecticide, Fungicide, and Rodenticide Act related to improper applications of methyl bromide. Those charges were set forth in an Information, dated March 29, 2016, in the matter styled *United States of America v. The Terminix International Company Limited Partnership and Terminix International USVI, LLC.* At a hearing held on August 25, 2016, the District Court rejected the Superseding Plea Agreement. On August 31, 2016, the DOJ requested that the charges be dismissed, reserving its right to re-file the charges, in light of ongoing discussions to resolve the matter. The District Court granted that request, and the March 29, 2016 Information was dismissed.

On January 20, 2017, TMX USVI and TMX LP entered into the New Plea Agreement with the DOJ, which has been filed with the District Court, and replaces the Superseding Plea Agreement. Under the New Plea Agreement, TMX USVI and TMX LP have agreed to plead guilty to four misdemeanor charges of violations of the Federal Insecticide, Fungicide, and Rodenticide Act related to improper applications of methyl bromide, as set forth in a new Information filed on January 20, 2017 with the District Court that is substantially similar to the March 29, 2016 Information. Under the terms of the New Plea Agreement, the parties agree and jointly recommend to the District Court that (i) TMX USVI and TMX LP each pay a fine of $4 million (total of $8 million); (ii) TMX USVI pay $1 million to the EPA for costs incurred by the EPA for the response and clean-up of the affected units at the resort in St. John; (iii) TMX USVI make a community service payment of $1 million to the National Fish and Wildlife Foundation for the purpose of engaging a third party to provide training to pesticide applicators in the U.S. Virgin Islands; and (iv) both TMX USVI and TMX LP serve a three-year probation period, subject to the special conditions of probation under the New Plea Agreement. The total financial terms of the recommended sentence under the New Plea Agreement are equivalent in total amount to the financial terms under the Superseding Plea Agreement. Unlike the Superseding Plea Agreement, however, the New Plea Agreement is non-binding on the District Court. It is possible that the District Court could use its discretion to impose fines or other terms different than those in the New Plea Agreement. If approved by the District Court, and upon compliance with the terms and conditions of the New Plea Agreement, the New Plea Agreement will resolve the federal criminal consequences associated with the DOJ investigation. The New Plea Agreement does not bind any other federal, state or local authority; however, the EPA has indicated that it does not intend to initiate any administrative enforcement action or refer the matter to the DOJ for any civil enforcement action if the New Plea Agreement is approved by the District Court.

We have recorded within Fumigation related matters in the consolidated statement of operations and comprehensive income charges of $2 million and $8 million in the years ended December 31, 2016 and 2015, respectively, in connection with the aforementioned criminal matter. The New Plea Agreement and the payments contemplated thereunder would not resolve any civil or administrative claims for damages or other relief related to the U.S. Virgin Islands matter; however, we previously disclosed that we have formalized the terms of the settlement agreement, which includes customary releases and confidentiality provisions, and a civil court in Delaware has given the necessary approvals. Accordingly, the civil claims for all four members of the Delaware family impacted are resolved. In the year ended December 31, 2016, we recorded within Fumigation related matters in the consolidated statement of operations and comprehensive income a charge of $87 million in connection with the settlement agreement. In the year ended December 31, 2015, we recorded within Cost of services rendered and products sold in the consolidated statement of operations and comprehensive income a charge of $3 million in connection with the civil claims related to the U.S. Virgin Islands matter, which is an amount equal to our insurance deductible under our general liability insurance policies.

The amount and extent of any further potential penalties, fines, sanctions, costs and damages that the federal or other governmental authorities may yet impose, investigation or other costs and reputational harm, as well as the impact of any additional civil, criminal or other claims or judicial, administrative or regulatory proceedings resulting from or related to the U.S. Virgin Islands matter, which could be material, is not currently known or reasonably estimable, and any such further penalties, fines, sanctions, costs or damages would not be covered under our general liability insurance policies. On December 16, 2016, the U.S. Virgin Islands Department of Justice filed a civil complaint in the Superior Court of the Virgin Islands related to the aforementioned fumigation incident in a matter styled Government of the United States Virgin Islands v. The ServiceMaster Company, LLC, The Terminix International Company Limited Partnership, and Terminix International USVI, LLC. We have not recorded any charge for this new civil lawsuit.

On September 15, 2015, a lawsuit was filed in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida, styled *Carl Robert McCaughey, et al. v. Terminix International Company Limited Partnership, Sunland Pest Control Services, Inc., et al*. The lawsuit alleges that fumigation of a Florida family's residence by Sunland, a subcontractor of TMX LP, resulted in serious injuries to one of the family's children. We have formalized the terms of a settlement agreement, which includes customary releases and confidentiality provisions, and a civil court in Florida has given the necessary approvals. Accordingly, the civil claims of the affected family related to the Florida fumigation matter are now resolved, and the case has been dismissed. Under the terms of the settlement agreement, in addition to the amounts that our insurance carriers have agreed to pay to the family pursuant to our general liability insurance policies, we have paid $3 million, an amount equal to our insurance deductible under our general liability insurance policies. In the year ended December 31, 2016, we recorded within Cost of services rendered and products sold in the consolidated statement of operations and comprehensive income a charge of $3 million in connection with the civil claims related to the Florida fumigation matter.

In addition to the matters discussed above, in the ordinary course of conducting business activities, we and our subsidiaries become involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include insured and uninsured matters that are brought on an individual, collective, representative and class action basis, or other proceedings involving regulatory, employment, general and commercial liability, automobile liability, wage and hour, environmental and other matters. We have entered into settlement agreements in certain cases, including with respect to putative collective and class actions, which are subject to court or other approvals. If one or more of our settlements are not finally approved, we could have additional or different exposure, which could be material. Subject to the paragraphs above, we do not expect any of these proceedings to have a material effect on our reputation, business, financial position, results of operations or cash flows; however, we can give no assurance that the results of any such proceedings will not materially affect our reputation, business, financial position, results of operations and cash flows. See Note 3 to the consolidated financial statements for more details.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

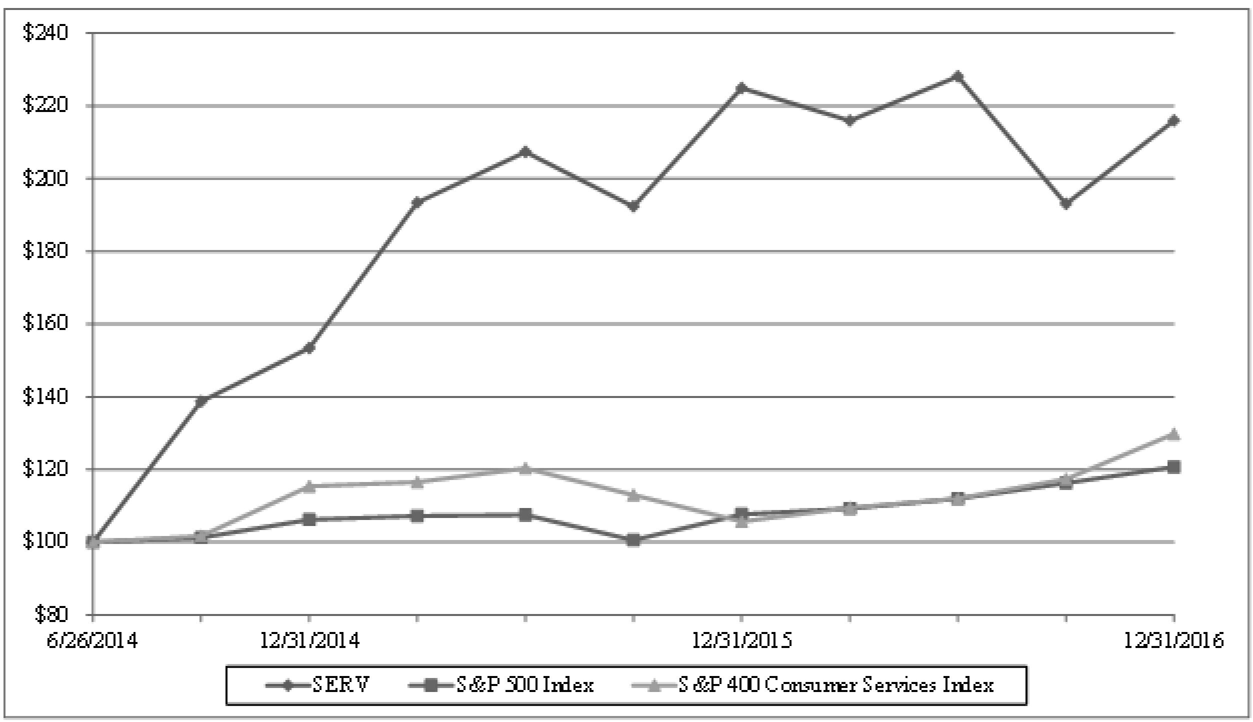
Market Information

Our common stock is listed on the NYSE under the symbol ''SERV.'' Our common stock began trading on the NYSE on June 26, 2014. As of February 17, 2017, there were approximately 11 registered holders of our common stock.

The following table sets forth the high and low sale prices per share of our common stock during 2016 and 2015 as reported on the NYSE:

	High Sales Price	Low Sales Price
2016:		
First Quarter	$ 42.21	$ 34.36
Second Quarter	$ 40.41	$ 34.28
Third Quarter	$ 41.49	$ 33.28
Fourth Quarter	$ 39.47	$ 32.41
2015:		
First Quarter	$ 36.95	$ 25.98
Second Quarter	$ 37.30	$ 31.98
Third Quarter	$ 38.90	$ 32.10
Fourth Quarter	$ 39.99	$ 32.79

The graph below presents our cumulative total shareholder returns relative to the performance of the Standard & Poor's 500 Composite Stock Index and Standard & Poor's 400 Consumer Services Index, commencing on June 26, 2014, our initial day of trading. The graph assumes $100 invested at the opening price of our common stock on NYSE and each index on June 26, 2014.



Dividends

We did not pay any cash dividends in 2015 or 2016. The spin-off of the TruGreen Business in 2014 was accomplished through a tax-free, stock dividend. We do not intend to declare or pay dividends on our common stock for the foreseeable future. We currently intend to use our future earnings, if any, to repay debt, to repurchase shares of our common stock, to fund our growth, to develop our business and for working capital needs and general corporate purposes. Our ability to pay dividends to holders of our common stock may be restricted by the Credit Facilities, insofar as we may seek to pay dividends out of funds made available to us by our subsidiaries. Any future determination to pay dividends on our common stock is subject to the discretion of our board of directors and will depend upon various factors, including our results of operations, financial condition, liquidity requirements, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law, general business conditions and other factors that our board of directors may deem relevant. See "Liquidity—Limitations on

Distributions and Dividends by Subsidiaries" for a description of the impact of our restrictions under our debt instruments on our ability to pay dividends.

Share Repurchase Program

On February 23, 2016, our board of directors authorized a three-year share repurchase program, under which we may repurchase up to $300 million of outstanding shares of our common stock. We expect to fund the share repurchases from net cash provided from operating activities. The share repurchase program is part of our capital allocation strategy that focuses on sustainable growth and maximizing shareholder value.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased[(1)]		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs		Maximum dollar value of shares that may yet be purchased under the plans or programs (in millions)
Jan. 1, 2016 through Mar. 31, 2016	—	$	—	—	$	300
Apr. 1, 2016 through Jun. 30, 2016	461,174	$	36.04	461,174	$	283
Jul. 1, 2016 through Sep. 30, 2016	960,770	$	37.19	960,770	$	248
Fourth Quarter 2016:						
Oct. 1, 2016 through Oct. 31, 2016	—	$	—	—	$	248
Nov. 1, 2016 through Nov. 30, 2016	224,772	$	35.57	224,772	$	240
Dec. 1, 2016 through Dec. 31, 2016	—	$	—	—	$	240
Oct. 1, 2016 through Dec. 31, 2016	224,772	$	35.57	224,772	$	240
Total	1,646,716	$	36.65	1,646,716	$	240

(1) All shares were acquired as part of our share repurchase program.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected financial data derived from our audited consolidated financial statements for each of the periods indicated. The selected financial data presented below should be read in conjunction with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K. Our consolidated financial information may not be indicative of our future performance.

Five-Year Financial Summary

	Year Ended December 31,				
(In millions, except per share data)	**2016**	**2015**	**2014**	**2013**	**2012**
Operating Results:					
Revenue	$ 2,746	$ 2,594	$ 2,457	$ 2,293	$ 2,214
Cost of services rendered and products sold	1,448	1,375	1,298	1,220	1,196
Selling and administrative expenses	711	666	669	691	678
401(k) Plan corrective contribution(1)	2	23	—	—	—
Fumigation related matters(2)	93	9	—	—	—
Insurance reserve adjustment(3)	23	—	—	—	—
Impairment of software and other related costs(4)	1	—	47	—	—
Consulting agreement termination fees(5)	—	—	21	—	—
Interest expense	153	167	219	247	245
Loss on extinguishment of debt(6)	32	58	65	—	55
Income (Loss) from continuing operations	155	162	43	42	(18)
Net Income (Loss)	155	160	(57)	(507)	(714)
Cash dividends per share	$ —	$ —	$ —	$ —	$ —
Weighted-average shares outstanding:					
Basic	135.3	135.0	112.8	91.6	91.9
Diluted	137.3	136.6	113.8	92.2	91.9
Basic Earnings (Loss) Per Share -- Continuing Operations	$ 1.15	$ 1.20	$ 0.38	$ 0.46	$ (0.20)
Diluted Earnings (Loss) Per Share -- Continuing Operations	$ 1.13	$ 1.19	$ 0.38	$ 0.46	$ (0.20)
Financial Position (as of period end):					
Total assets	$ 5,386	$ 5,098	$ 5,028	$ 5,760	$ 6,269
Total long-term debt	2,831	2,752	3,026	3,867	3,882
Total shareholders' equity	686	545	359	23	535
Cash Flow Data:					
Net cash provided from operating activities from continuing operations	$ 325	$ 398	$ 289	$ 208	$ 144
Net cash used for investing activities from continuing operations	(133)	(98)	(56)	(70)	(85)
Net cash used for financing activities from continuing operations	(102)	(381)	(312)	(78)	(54)
Other Non-GAAP Financial Data:					
Adjusted EBITDA(7)	$ 667	$ 622	$ 557	$ 450	$ 413
Adjusted EBITDA Margin(8)	24.3 %	24.0 %	22.7 %	19.6 %	18.7 %
Free Cash Flow(9)	$ 270	$ 358	$ 274	$ 169	$ 100

(1) Represents costs related to the 401(k) Plan described in Note 11 to the consolidated financial statements.

(2) Represents charges for fumigation related matters described in Note 9 to the consolidated financial statements.

(3) Represents an adjustment to the Company’s accrued self-insured claims related to automobile, general liability and workers’ compensation risk described in Note 9 to the consolidated financial statements.

(4) Represents the impairment of software and other related costs described in Note 2 to the consolidated financial statements.

(5) Represents consulting agreement termination fees described in Note 10 to the consolidated financial statements.

(6) For 2016, 2015 and 2014, represents a loss on extinguishment of debt as described in Note 12 to the consolidated financial statements. For 2012, represents a loss on extinguishment of debt related to the redemption of the $996 million aggregate principal amount of the then-existing 10.75% senior notes maturing in 2015 and repayment of $276 million of outstanding borrowings under the then-existing term loan facility.

(7) We use Adjusted EBITDA to facilitate operating performance comparisons from period to period. Adjusted EBITDA is a supplemental measure of our performance that is not required by, or presented in accordance with, GAAP. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income

or any other performance measures derived in accordance with GAAP or as an alternative to net cash provided by operating activities or any other measures of our cash flow or liquidity. Adjusted EBITDA means net income (loss) before: loss from discontinued operations, net of income taxes; provision (benefit) for income taxes; loss on extinguishment of debt; interest expense; depreciation and amortization expense; 401(k) Plan corrective contribution; fumigation related matters; insurance reserve adjustment; non-cash stock-based compensation expense; restructuring charges; gain on sale of Merry Maids branches; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; management and consulting fees; consulting agreement termination fees; and other non-operating expenses.

We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures (affecting net interest income and expense), taxation, the age and book depreciation of facilities and equipment (affecting relative depreciation expense), restructuring initiatives, consulting agreements and equity-based, long-term incentive plans, which may vary for different companies for reasons unrelated to operating performance.

Adjusted EBITDA is not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the methods of calculation.

Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our tax expense or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect historical capital expenditures or future requirements for capital expenditures or contractual commitments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in our industries may calculate Adjusted EBITDA differently, limiting its usefulness as a comparative measure.

The following table sets forth Adjusted EBITDA for each of our reportable segments and Corporate and reconciles total Adjusted EBITDA to Net Income (Loss) for the periods presented, which we consider to be the most directly comparable GAAP financial measure:

(In millions)	Year Ended December 31, 2016	2015	2014	2013	2012
Adjusted EBITDA:					
Terminix	$ 371	$ 347	$ 309	$ 266	$ 266
American Home Shield	220	205	179	145	117
Franchise Services Group	79	77	78	78	70
Reportable Segment Adjusted EBITDA	$ 670	$ 630	$ 566	$ 489	$ 453
Corporate[a]	(3)	(9)	(9)	(39)	(40)
Total Adjusted EBITDA	$ 667	$ 622	$ 557	$ 450	$ 413
Depreciation and amortization expense	(94)	(84)	(100)	(99)	(100)
401(k) Plan corrective contribution[b]	(2)	(23)	—	—	—
Fumigation related matters[c]	(93)	(9)	—	—	—
Insurance reserve adjustment[d]	(23)	—	—	—	—
Non-cash stock-based compensation expense[e]	(13)	(10)	(8)	(4)	(7)
Restructuring charges[f]	(17)	(5)	(11)	(6)	(15)
Gain on sale of Merry Maids branches[g]	2	7	1	—	—
Non-cash impairment of software and other related costs[h]	(1)	—	(47)	—	—
Non-cash impairment of property and equipment[i]	—	—	—	—	(9)
Management and consulting fees[j]	—	—	(4)	(7)	(7)
Consulting agreement termination fees[k]	—	—	(21)	—	—
Loss from discontinued operations, net of income taxes[l]	(1)	(2)	(100)	(549)	(696)
(Provision) benefit for income taxes	(85)	(107)	(40)	(43)	8
Loss on extinguishment of debt[m]	(32)	(58)	(65)	—	(55)
Interest expense	(153)	(167)	(219)	(247)	(245)
Other non-operating expenses[n]	—	(3)	—	(2)	(1)
Net Income (Loss)	$ 155	$ 160	$ (57)	$ (507)	$ (714)

(a) Represents unallocated corporate expenses.

(b) Represents costs related to the 401(k) Plan described in Note 11 to the consolidated financial statements. We exclude these charges from Adjusted EBITDA because we believe they do not reflect our ongoing operations and because we believe doing so is useful to investors in aiding period-to-period comparability.

(c) Represents charges for fumigation related matters described in Note 9 to the consolidated financial statements. We exclude these charges from Adjusted EBITDA because we believe they do not reflect our ongoing operations and because we believe doing so is useful to investors in aiding period-to-period comparability.

(d) Represents an adjustment to our accrued self-insured claims related to automobile, general liability and workers' compensation risks. The adjustment is based on our detailed annual assessment of this actuarially determined accrual, which we complete the second quarter of each year. This adjustment relates to coverage periods of 2015 and prior. We have excluded this discrete second quarter 2016 adjustment from Adjusted EBITDA because we believe it does not reflect our ongoing operations and because we believe doing so is useful to investors in aiding period-to-period comparability. Adjustments to accrued self-insured claims related to this insurance program of $4 million, $9 million, $13 million and $4 million in the years ended December 31, 2016, 2015, 2014 and 2013, respectively, were recorded as charges in total Adjusted EBITDA, and an adjustment of $1 million in the year ended December 31, 2012 was recorded as a credit in total Adjusted EBITDA.

(e) Represents the non-cash expense of our equity-based compensation. We exclude this expense from Adjusted EBITDA primarily because it is a non-cash expense and because it is not used by management to assess ongoing operational performance. We believe excluding this expense from Adjusted EBITDA is useful to investors in aiding period-to-period comparability.

(f) For 2016, 2015, and 2014, represents restructuring charges described in Note 8 to the consolidated financial statements. For 2013 and 2012, represents restructuring charges related primarily to the impact of a branch optimization program at Terminix, a reorganization of leadership at Franchise Services Group and an initiative to enhance capabilities and reduce costs in our headquarters functions. We exclude these restructuring charges from Adjusted EBITDA because we believe they do not reflect our ongoing operations and because we believe doing so is useful to investors in aiding period-to-period comparability.

(g) Represents the gain associated with the conversion of certain company-owned Merry Maids branches to franchises in 2014, 2015 and 2016 (the "branch conversions").

(h) Represents the impairment of software and other related costs described in Note 2 to the consolidated financial statements. We exclude non-cash impairments from Adjusted EBITDA because we believe doing so is useful to investors in aiding period-to-period comparability.

(i) Represents a $3 million impairment of licensed intellectual property and a $1 million impairment of abandoned real estate at Terminix, and a $4 million impairment of certain internally developed software at Merry Maids recorded in 2012. We exclude non-cash impairments of property and equipment from Adjusted EBITDA because we believe doing so is useful to investors in aiding period-to-period comparability.

(j) Represents the amounts paid to certain of our Equity Sponsors under the consulting agreements described in Note 10 to the consolidated financial statements. We exclude these amounts from Adjusted EBITDA primarily because they are not reflective of ongoing operating results and because they are not used by management to assess ongoing operational performance. In addition, we have excluded these amounts from Adjusted EBITDA because the consulting agreements terminated in connection with our initial public offering.

(k) Represents the consulting agreement termination fees described in Note 10 to the consolidated financial statements. We exclude these amounts from Adjusted EBITDA because we believe doing so is useful to investors in aiding period-to-period comparability.

(l) Represents our loss in connection with the spin-off of TruGreen in 2014. See Note 7 to the consolidated financial statements for further discussion of the spin-off of TruGreen. We exclude these amounts from Adjusted EBITDA because these charges are not part of our ongoing operations and we believe doing so is useful to investors in aiding period-to-period comparability.

(m) For 2016, 2015 and 2014, represents a loss on extinguishment of debt as described in Note 12 to the consolidated financial statements. For 2012, represents a loss on extinguishment of debt related to the redemption of the $996 million aggregate principal amount of the then-existing 10.75% senior notes maturing in 2015 and repayment of $276 million of outstanding borrowings under the then-existing term loan facility. We believe excluding this expense from Adjusted EBITDA is useful to investors in aiding period-to-period comparability.

(n) For 2015, primarily represents secondary offering expenses. We exclude these amounts from Adjusted EBITDA because we believe doing so is useful to investors in aiding period-to-period comparability. For 2013 and 2012, represents certain administrative expenses. We excluded these expenses from the calculation of Adjusted EBITDA in order to present Adjusted EBITDA on a basis consistent with Adjusted EBITDA as reported in periods prior to our initial public offering, which is familiar to holders of our indebtedness.

(8) Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of revenue.

(9) Free Cash Flow is not a measurement of our financial performance or liquidity under GAAP and does not purport to be an alternative to net cash provided from operating activities from continuing operations or any other performance or liquidity measures derived in accordance with GAAP. Free Cash Flow means (i) net cash provided from operating activities from continuing operations before cash paid for consulting agreement termination fees; (ii) less property additions. Free Cash Flow has limitations as an analytical tool and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP. Other companies in our industries may calculate Free Cash Flow or similarly titled non-GAAP financial measures differently, limiting its usefulness as a comparative measure.

Management believes Free Cash Flow is useful as a supplemental measure of our liquidity. Management uses Free Cash Flow to facilitate company-to-company cash flow comparisons by removing payments for consulting agreement termination fees, which may vary from company to company for reasons unrelated to operating performance.

The following table reconciles net cash provided from operating activities from continuing operations, which we consider to be the most directly comparable GAAP measure, to Free Cash Flow using data derived from our consolidated financial statements for the periods indicated:

	Year Ended December 31,				
(In millions)	**2016**	**2015**	**2014**	**2013**	**2012**
Net Cash Provided from Operating Activities from Continuing Operations	$ 325	$ 398	$ 289	$ 208	$ 144
Cash paid for consulting agreement termination fees	—	—	21	—	—
Property additions	(56)	(40)	(35)	(39)	(44)
Free Cash Flow	$ 270	$ 358	$ 274	$ 169	$ 100

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with Item 6 "Selected Financial Data" and the consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this report, particularly in "—Information Regarding Forward-Looking Statements" and "Risk Factors."

Overview

Our core services include termite and pest control, home warranties, disaster restoration, janitorial, residential cleaning, cabinet and wood furniture repair and home inspection under the following leading brands: Terminix, American Home Shield, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec. Our operations for the periods presented in this report are organized into three reportable segments: Terminix, American Home Shield and Franchise Services Group.

Management Change

On January 18, 2017, we announced that Senior Vice President and Chief Financial Officer Alan Haughie will retire in March 2017, following the filing of our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 10-K"). We also announced that Anthony (Tony) DiLucente has joined the Company as a Senior Vice President and will assume the role of Chief Financial Officer after the filing of the 2016 10-K.

Key Business Metrics

We focus on a variety of indicators and key operating and financial metrics to monitor the financial condition and performance of the continuing operations of our businesses. These metrics include:

- revenue,
- operating expenses,
- net income (loss),
- earnings (loss) per share,
- Adjusted EBITDA,
- organic revenue growth,
- customer retention rates, and
- customer counts growth.

To the extent applicable, these measures are evaluated with and without impairment, restructuring and other charges that management believes are not indicative of the earnings capabilities of our businesses. We also focus on measures designed to monitor cash flow, including net cash provided from operating activities from continuing operations and free cash flow.

Revenue. Our revenue results are primarily a function of the volume and pricing of the services and products provided to our customers by our businesses as well as the mix of services and products provided across our businesses. The volume of our revenue in Terminix and American Home Shield is impacted by new unit sales, the retention of our existing customers and acquisitions. We expect to continue our tuck-in acquisition program at Terminix and to periodically evaluate other strategic acquisitions. Revenue results in the Franchise Services Group are driven principally by royalty fees earned from our franchisees. We serve both residential and commercial customers, principally in the United States. In 2016, approximately 98 percent of our revenue was generated by sales in the United States.

Operating Expenses. In addition to the impact of changes in our revenue results, our operating results are affected by, among other things, the level of our operating expenses. A number of our operating expenses are subject to inflationary pressures, such as fuel, chemicals, raw materials, wages and salaries, employee benefits and health care, vehicles, contractor costs, self-insurance costs and other insurance premiums, as well as various regulatory compliance costs.

We have historically hedged a significant portion of our annual fuel consumption. Fuel costs for 2016, after the impact of the hedges and after adjusting for the impact of year-over-year changes in the number of gallons used, decreased $5 million compared to 2015, and 2015 decreased $5 million compared to 2014. Based upon current Department of Energy fuel price forecasts, as well as hedges we have executed to date for 2017, we project that fuel prices for 2017 will decrease our fuel costs for 2017 by approximately $4 million compared to 2016.

After adjusting for the impact of year-over-year changes in the number of covered employees, health care and related costs for 2016 decreased approximately $6 million compared to 2015 while costs in 2015 were comparable to 2014. We expect our health care costs in 2017 to increase approximately $5 million compared to 2016.

Net Income (Loss) and Earnings (Loss) Per Share. Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. The dilutive effect of stock options and RSUs are reflected in diluted net income (loss) per share by applying the treasury stock method. The presentation of net income (loss) and earnings (loss) per share provides GAAP measures of performance which are useful for investors, analysts and other interested parties in company-to-company operating performance comparisons.

Adjusted EBITDA. We evaluate performance and allocate resources based primarily on Adjusted EBITDA. We define Adjusted EBITDA as net income (loss) before: loss from discontinued operations, net of income taxes; provision (benefit) for income taxes; loss on extinguishment of debt; interest expense; depreciation and amortization expense; 401(k) Plan corrective contribution; fumigation related matters; insurance reserve adjustment; non-cash stock-based compensation expense; restructuring charges; gain on sale of Merry Maids branches; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; management and consulting fees; consulting agreement termination fees; and other non-operating expenses. We believe Adjusted EBITDA is useful for investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures, taxation, the age and book depreciation of facilities and equipment, restructuring initiatives, consulting agreements and equity-based, long-term incentive plans.

Organic Revenue Growth. We evaluate organic revenue growth to track performance of the business, including the impacts of sales, pricing, new service offerings and other growth initiatives. Organic revenue growth excludes revenue from acquired customers for 12 months following the acquisition date.

Customer Retention Rates and Customer Counts Growth. Where applicable, we report our customer retention rates and growth in customer counts in order to track the performance of the business. Customer counts represent our recurring customer base, which includes customers with active contracts for recurring services. Retention rates are calculated as the ratio of ending customer counts to the sum of beginning customer counts, new sales and acquired accounts for the applicable period. These measures are presented on a rolling, 12-month basis in order to avoid seasonal anomalies. See "—Segment Review."

Seasonality

We have seasonality in our business, which drives fluctuations in revenue and Adjusted EBITDA for interim periods. In 2016, approximately 22 percent, 27 percent, 28 percent and 23 percent of our revenue and approximately 19 percent, 30 percent, 29 percent and 22 percent of our Adjusted EBITDA was recognized in the first, second, third and fourth quarters, respectively.

Effect of Weather Conditions

The demand for our services and our results of operations are also affected by weather conditions, including the seasonal nature of our termite and pest control services, home inspection services and disaster restoration services. Weather conditions which have a potentially unfavorable impact to our business include cooler temperatures or droughts which can impede the development of termite swarms and lead to lower demand for our termite control services; and extreme temperatures which can lead to an increase in service requests related to household systems. For example, in the third quarter of 2016, we experienced an increase in contract claims cost at American Home Shield driven by a higher number of HVAC work orders driven by high temperatures. Weather conditions which have a potentially favorable impact to our business include mild winters which can lead to higher demand for termite and pest control services; mild winters or summers which can lead to lower household systems claim frequency; and severe storms which can lead to an increase in demand for disaster restoration services.

Refinancing of Indebtedness

On November 8, 2016, we entered into a $1,650 million Term Loan Facility and a $300 million Revolving Credit Facility and sold $750 million of 2024 Notes. On November 8, 2016, we used the net proceeds from the Term Loan Facility and the 2024 Notes to repay the remaining outstanding $2,356 million in aggregate principal amount of the $2,400 million Old Term Loan Facility. In connection with the repayment, we recorded a loss on extinguishment of debt of $32 million in the year ended December 31, 2016, which includes the write-off of $14 million of original issue discount and $18 million of debt issuance costs.

Results of Operations

(In millions)	Year Ended December 31, 2016	2015	2014	Increase (Decrease) 2016 vs. 2015	2015 vs. 2014	% of Revenue 2016	2015	2014
Revenue	$ 2,746	$ 2,594	$ 2,457	6 %	6 %	100 %	100 %	100 %
Cost of services rendered and products sold	1,448	1,375	1,298	5	6	53	53	53
Selling and administrative expenses	711	666	669	7	—	26	26	27
Amortization expense	33	38	52	(13)	(27)	1	1	2
401(k) Plan corrective contribution	2	23	—	*	*	—	1	—
Fumigation related matters	93	9	—	*	*	3	—	—
Insurance reserve adjustment	23	—	—	*	*	1	—	—
Impairment of software and other related costs	1	—	47	*	*	—	—	2
Consulting agreement termination fees	—	—	21	*	*	—	—	1
Restructuring charges	17	5	11	*	*	1	—	—
Gain on sale of Merry Maids branches	(2)	(7)	(1)	*	*	—	—	—
Interest expense	153	167	219	(8)	(24)	6	6	9
Interest and net investment income	(6)	(9)	(7)	(33)	29	—	—	—
Loss on extinguishment of debt	32	58	65	*	*	1	2	3
Income from Continuing Operations before Income Taxes	241	270	84	(11)	221	9	10	3
Provision for income taxes	85	107	40	(21)	168	3	4	2
Equity in losses of joint venture	(1)	—	—	*	*	—	—	—
Income from Continuing Operations	155	162	43	(4)	277	6	6	2
Loss from discontinued operations, net of income taxes	(1)	(2)	(100)	*	*	—	—	(4)
Net Income (Loss)	$ 155	$ 160	$ (57)	(3)	*	6 %	6 %	(2)%

* not meaningful

Revenue

We reported revenue of $2,746 million, $2,594 million and $2,457 million for the years ended December 31, 2016, 2015 and 2014, respectively. A summary of changes in revenue for each of our reportable segments and Corporate is included in the table below. See "—Segment Review" for a discussion of the drivers of the year-over-year changes.

(In millions)	Terminix	American Home Shield	Franchise Services Group	Corporate	Total
Year Ended December 31, 2014	$ 1,370	$ 828	$ 253	$ 7	$ 2,457
Pest Control(1)	54	—	—	—	54
Termite and Other Services(2)	17	—	—	—	17
Home Warranties(3)	—	89	—	—	89
Franchise-Related Revenue	—	—	(5)	—	(5)
Sale of Merry Maids branches(4)	—	—	(16)	—	(16)
Other	3	—	—	(5)	(2)
Year Ended December 31, 2015	$ 1,444	$ 917	$ 232	$ 2	$ 2,594
Pest Control(1)	63	—	—	—	63
Termite and Other Services(2)	13	—	—	—	13
Home Warranties(3)	—	103	—	—	103
Franchise-Related Revenue	—	—	(1)	—	(1)
Sale of Merry Maids branches(4)	—	—	(31)	—	(31)
Other	4	—	—	—	5
Year Ended December 31, 2016	$ 1,524	$ 1,020	$ 200	$ 2	$ 2,746

(1) Includes growth from acquisitions of approximately $55 million and $26 million for the years ended December 31, 2016 and 2015, respectively, of which approximately $42 million and $8 million, respectively, is a result of the acquisition of Alterra Pest Control, LLC ("Alterra") on November 10, 2015.

(2) Includes wildlife exclusion, crawl space encapsulation and attic insulation products which are managed as a component of our termite line of business. Includes growth from acquisitions of approximately $5 million and $4 million for the years ended December 31, 2016 and 2015, respectively.

(3) Includes approximately $22 million for the year ended December 31, 2016 as a result of the acquisition of OneGuard Home Warranties ("OneGuard") on June 27, 2016 and Landmark Home Warranty, LLC ("Landmark") on November 30, 2016. Includes approximately $10 million for the year ended December 31, 2015 as a result of the acquisition of Home Security of America, Inc., ("HSA") on February 28, 2014.

(4) Includes a $33 million and a $17 million reduction in revenue from company-owned branches, offset, in part, by a $2 million and a $1 million increase in royalty fees as result of the branch conversions for the years ended December 31, 2016 and 2015, respectively.

Cost of Services Rendered and Products Sold

We reported cost of services rendered and products sold of $1,448 million, $1,375 million and $1,298 million for the years ended December 31, 2106, 2015 and 2014, respectively. The following table provides a summary of changes in cost of services rendered and products sold for each of our reportable segments and Corporate:

(In millions)	Terminix	American Home Shield	Franchise Services Group	Corporate	Total
Year Ended December 31, 2014	$ 763	$ 404	$ 118	$ 14	$ 1,298
Impact of change in revenue[1]	36	32	—	—	68
Fuel prices	(5)	—	—	—	(5)
Contract claims	—	33	—	—	33
Sale of Merry Maids branches	—	—	(12)	—	(12)
Insurance program	—	—	—	(4)	(4)
Cost reduction initiatives	(3)	—	—	—	(3)
Other	1	(1)	—	—	—
Year Ended December 31, 2015	$ 792	$ 468	$ 106	$ 10	$ 1,375
Impact of change in revenue[1]	44	41	1	—	86
Production labor	6	—	—	—	6
Fuel prices	(5)	—	—	—	(5)
Legal expense	4	—	—	—	4
Contract claims	—	17	—	—	17
Sale of Merry Maids branches	—	—	(26)	—	(26)
Insurance program	—	—	—	(5)	(5)
Other	(2)	(2)	—	(1)	(5)
Year Ended December 31, 2016	$ 839	$ 524	$ 81	$ 4	$ 1,448

(1) For American Home Shield, includes approximately $10 million for the year ended December 31, 2016 as a result of the acquisitions of OneGuard on June 27, 2016 and Landmark on November 30, 2016 and approximately $5 million for the year ended December 31, 2015 as a result of the acquisition of HSA on February 28, 2014.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The increase in production labor at Terminix was driven by investments in field operations focused on improving safety, technician efficiency, customer service and retention. We realized lower fuel costs at Terminix as a result of lower fuel prices in 2016. The increase in legal expense at Terminix was driven by increased provisions for certain legal matters.

The increase in contract claims cost at American Home Shield was primarily driven by normal inflationary pressure on the underlying costs of repairs.

We realized a reduction in cost of sales of $26 million in the Franchise Services Group as a result of the branch conversions.

The decrease in expense related to our automobile, general liability and workers' compensation insurance program was driven by the impact of increased reserves of $4 million and $9 million recorded in 2016 and 2015, respectively, driven by unfavorable claims trends.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

We realized lower fuel costs at Terminix as a result of lower fuel prices in 2015.

The increase in contract claims cost at American Home Shield was driven by an increase in the average cost per service request associated with appliance repairs due to greater use of more expensive out-of-network contractors, largely in the fourth quarter, and, to a lesser extent, by warmer summer temperatures in 2015 and normal inflationary pressure on the underlying costs of repairs.

We realized a reduction in cost of sales of $12 million in the Franchise Services Group as a result of the branch conversions.

The decrease in expense related to our automobile, general liability and workers' compensation insurance program was driven by the impact of increased reserves of $9 million and $13 million recorded in 2015 and 2014, respectively, driven by unfavorable claims trends.

Selling and Administrative Expenses

For the years ended December 31, 2016, 2015 and 2014, we reported selling and administrative expenses of $711 million, $666 million and $669 million, respectively, which comprised general and administrative expenses of $284 million, $255 million and $271 million, respectively, and selling and marketing expenses of $427 million, $411 million and $398 million, respectively. The following table provides a summary of changes in selling and administrative expenses for each of our reportable segments and Corporate:

(In millions)	Terminix	American Home Shield	Franchise Services Group	Corporate	Total
Year Ended December 31, 2014	$ 329	$ 257	$ 59	$ 23	$ 669
Sales and marketing costs	11	(2)	(3)	—	6
Customer service costs	—	5	—	—	5
HSA selling and administrative expenses	—	4	—	—	4
Technology costs	—	(2)	—	—	(2)
Sale of Merry Maids branches	—	—	(2)	—	(2)
Incentive compensation	(4)	(4)	—	—	(8)
Cost reduction initiatives	—	(1)	(3)	—	(4)
Management and consulting fees	—	—	—	(4)	(4)
Stock-based compensation expense	—	—	—	3	3
Secondary offering expenses	—	—	—	3	3
Other	(1)	(1)	—	(1)	(3)
Year Ended December 31, 2015	$ 335	$ 256	$ 51	$ 24	$ 666
Sales and marketing costs	4	12	—	—	16
Technology costs	12	7	—	6	25
Incentive compensation	(7)	(2)	(1)	—	(10)
OneGuard and Landmark selling and administrative expenses	—	8	—	—	8
Customer service costs	—	4	—	—	4
Sale of Merry Maids branches	—	—	(3)	—	(3)
Cost reduction initiatives	—	—	(4)	—	(4)
Stock-based compensation expense	—	—	—	3	3
Secondary offering expenses	—	—	—	(3)	(3)
Other	4	3	—	1	8
Year Ended December 31, 2016	$ 348	$ 288	$ 43	$ 31	$ 711

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The increase in sales costs at Terminix was driven by higher depreciation and, to a lesser extent, other costs related to a sales vehicle program initiated in 2016. The increase in sales and marketing costs at American Home Shield was primarily driven by the shift in the timing of a holiday mail campaign from the fourth quarter of 2015 to the first quarter of 2016 and, to a lesser extent, an increase in sales commissions.

The increase in technology costs was primarily due to an acceleration of investments to improve our customers' experiences through technology.

We incurred incremental selling and administrative expenses at American Home Shield as a result of the OneGuard and Landmark acquisitions. The increase in customer service costs at American Home Shield was due to higher labor costs resulting from an acceleration of pre-season hiring and training in preparation for the high-volume summer season.

We realized a reduction in selling and administrative expenses of $3 million in the Franchise Services Group as a result of the branch conversions.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The increase in sales costs at Terminix was primarily driven by investments to grow and train our sales force and higher commissions attributable to the growth in new products and pest control revenue.

The increase in customer service costs at American Home Shield was due to higher labor costs resulting from customer growth. Additionally, we incurred incremental selling and administrative expenses at American Home Shield as a result of the HSA acquisition on February, 28, 2014. The decrease in technology costs at American Home Shield was driven by our decision in the first quarter of 2014 to abandon efforts to deploy a new operating system.

We realized a reduction in selling and administrative expenses of $2 million in the Franchises Services Group as a result of the branch conversions.

Amortization Expense

Amortization expense was $33 million, $38 million and $52 million in the years ended December 31, 2016, 2015 and 2014, respectively. The decreases in 2016 and 2015 were a result of certain finite-lived intangible assets recorded in connection with the merger transaction by which the Company was taken public in 2007 being fully amortized.

401(k) Plan Corrective Contribution

We recorded charges of $2 million and $23 million in the years ended December 31, 2016 and 2015, respectively, related to the 401(k) Plan. See Note 11 to the consolidated financial statements for more details.

Fumigation Related Matters

We recorded charges of $93 and $9 million in the years ended December 31, 2016 and 2015, respectively, for fumigation related matters. See Note 9 to the consolidated financial statements for more details.

Insurance Reserve Adjustment

We recorded a charge of $23 million in the year ended December 31, 2016 for an adjustment to the Company's accrued self-insured claims related to automobile, general liability and workers' compensation risks. The adjustment is based on the Company's detailed annual assessment of this actuarially determined accrual, which the Company completes in the second quarter of each year. This adjustment relates to coverage periods of 2015 and prior.

Impairment of Software and Other Related Costs

We recorded impairment charges of $1 million and $47 million in the years ended December 31, 2016 and 2014, respectively, relating to our decision in the second quarter of 2016 to replace certain software pursuant to our ServSmart initiative and our decision in the first quarter of 2014 to abandon our efforts to deploy a new operating system at American Home Shield.

Consulting Agreement Termination Fees

On July 1, 2014, in connection with the completion of our initial public offering, we paid the Equity Sponsors aggregate fees of $21 million in connection with the termination of the consulting agreements, which was recorded in the year ended December 31, 2014. See Note 10 to the consolidated financial statements for more details.

Restructuring Charges

We incurred restructuring charges of $17 million, $5 million and $11 million for the years ended December 31, 2016, 2015 and 2014, respectively. Restructuring charges were comprised of the following:

	Year Ended December 31,		
(In millions)	**2016**	**2015**	**2014**
Terminix(1)	$ 7	$ 3	$ 2
American Home Shield(2)	2	—	—
Franchise Services Group(3)	—	1	3
Corporate(4)	5	1	6
Headquarters relocation(5)	3	—	—
Total restructuring charges	$ 17	$ 5	$ 11

(1) For the year ended December 31, 2016, these charges include $1 million of severance costs and $3 million of stock-based compensation expense due to the modification of non-vested stock options and RSUs as part of the severance agreement with the former president of Terminix. Additionally, $4 million, $3 million and $2 million for the years ended December 31, 2016, 2015 and 2014, respectively, relate to lease termination and severance costs driven by Terminix's branch optimization program.

(2) Represents lease termination and other costs driven by the decision to consolidate the stand-alone operations of HSA acquired in February 2014 with those of American Home Shield.

(3) Represents severance costs related to the reorganization of the Franchise Services Group.

(4) For the year ended December 31, 2016, these charges include professional fees of $2 million and accelerated depreciation of $2 million related to the early termination of a long-term human resources outsourcing agreement. Additionally, for the years ended December 31, 2016, 2015 and 2014, these charges included severance and other costs of $2 million, $1 million and $6

million, respectively, related to an initiative to enhance capabilities and reduce costs in our headquarters functions that provide company-wide administrative services for our operations.

(5) Represents impairment charges of $1 million and professional fees and other costs of $1 million related to the relocation of the Company's headquarters.

Gain on Sale of Merry Maids Branches

We recorded a gain of $2 million, $7 million and $1 million for the years ended December 31, 2016, 2015 and 2014, respectively, associated with the branch conversions. As of October 10, 2016, the branch conversion process was complete.

Interest Expense

Interest expense was $153 million, $167 million and $219 million for the years ended December 31, 2016, 2015 and 2014, respectively. The decrease in interest expense in the year ended December 31, 2016 compared to the year ended December 31, 2015 was driven by the redemption of the 2020 Notes in 2015, offset, in part, by additional borrowings under the Old Term Loan Facility. The decrease in interest expense in the year ended December 31, 2015 compared to the year ended December 31, 2014 was driven by the refinancing of the then-existing term loan facility on July 1, 2014 and the redemption of the 2020 Notes, offset, in part, by additional borrowings under the Old Term Loan Facility. See Note 12 to the consolidated financial statements for more details.

Interest and Net Investment Income

Interest and net investment income was $6 million, $9 million and $7 million for the years ended December 31, 2016, 2015 and 2014, respectively, and comprised net investment gains and interest and dividend income realized on the American Home Shield investment portfolio and interest income on other cash balances.

Loss on Extinguishment of Debt

A loss on extinguishment of debt of $32 million was recorded in the year ended December 31, 2016 related to the refinancing of our Old Term Loan Facility on November 8, 2016. A loss on extinguishment of debt of $58 million was recorded in the year ended December 31, 2015 related to the redemptions of the 8% 2020 Notes on February 17, 2015 and April 1, 2015 and the redemption of the 7% 2020 Notes on August 17, 2015. A loss on extinguishment of debt of $65 million was recorded in the year ended December 31, 2014 related to the repayment of the then-existing term loan facility and the partial redemption of the 2020 Notes on July 16, 2014. See Note 12 to the consolidated financial statements for more details.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes was $241 million, $270 million and $84 million for the years ended December 31, 2016, 2015 and 2014, respectively. The change in income from continuing operations before income taxes primarily reflects the net effect of year-over-year changes in the following items:

	Year Ended December 31,	
(In millions)	**2016 vs. 2015**	**2015 vs. 2014**
Reportable segments and Corporate[1]	$ 45	$ 65
Amortization expense[2]	5	14
401(k) Plan corrective contribution[3]	21	(23)
Fumigation related matters[4]	(84)	(9)
Insurance reserve adjustment[5]	(23)	—
Impairment of software and other related costs[6]	(1)	47
Consulting agreement termination fees[7]	—	21
Restructuring charges[8]	(12)	6
Gain on sale of Merry Maids branches[9]	(5)	6
Interest expense[10]	14	52
Loss on extinguishment of debt[11]	26	7
Other[12]	(15)	—
(Decrease) increase in income from continuing operations before income taxes	$ (29)	$ 186

(1) Represents the net change in Adjusted EBITDA as described in "—Segment Review."

(2) Represents the net change in amortization expense as described in "—Amortization Expense."

(3) Represents the $2 million and $23 million charges recorded in the years ended December 31, 2016 and 2015, respectively, related to the 401(k) Plan as described in "—401(k) Plan Corrective Contribution."

(4) Represents the $93 million and $9 million charges for fumigation related matters recorded in the years ended December 31, 2016 and 2015, respectively, a described in "—Fumigation Related Matters."

(5) Represents the $23 million insurance reserve adjustment recorded in the year ended December 31, 2016 as described in "—Insurance Reserve Adjustment."

(6) Represents impairment charges of $1 million and $47 million recorded in the years ended December 31, 2016 and 2014, respectively, as described in "—Impairment of Software and Other Related Costs."

(7) Represents the consulting agreement termination fees of $21 million recorded in the year ended December 31, 2014 as described in "—Consulting Agreement Termination Fees."

(8) Represents the $17 million, $5 million and $11 million charges recorded in the years ended December 31, 2016, 2015 and 2014, respectively, as described in "—Restructuring Charges."

(9) Represents the $2 million, $7 million and $1 million gains in the years ended December 31, 2016, 2015 and 2014, respectively, as described in "—Gain on Sale of Merry Maids branches."

(10) Represents the net change in interest expense as described in "—Interest Expense."

(11) Represents the $32 million, $58 million and $65 million loss on extinguishment of debt recorded in the years ended December 31, 2016, 2015 and 2014, respectively, as described in "—Loss on Extinguishment of Debt."

(12) Primarily represents the net change in management and consulting fees, stock-based compensation, secondary offering fees and depreciation.

Provision for Income Taxes

The effective tax rate on income from continuing operations was 35.4 percent, 39.8 percent and 48.2 percent for the years ended December 31, 2016, 2015 and 2014, respectively. The effective tax rate on income from continuing operations for the year ended December 31, 2016 was favorably impacted by tax benefits relating to stock-based compensation and the resolution of certain prior year tax matters applied against lower pre-tax income. The effective tax rate on income from continuing operations for the year ended December 31, 2014 was affected by an adjustment to deferred state taxes as a result of a change in the state apportionment factors attributable to the spin-off of TruGreen in 2014. For 2014, the increased state tax expense applied against lower pre-tax income was the primary driver of a higher overall effective tax rate. Additional information on income taxes, including our effective tax rate reconciliation and liabilities for uncertain tax positions, can be found in Note 5 to the consolidated financial statements.

Net Income (Loss)

Net income (loss) was $155 million, $160 million and $(57) million for the years ended December 31, 2016, 2014 and 2014, respectively. The $5 million reduction for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily driven by a $29 million reduction in income from continuing operations before income taxes, offset, in part, by a $22 million reduction in provision for income taxes. The $217 million improvement for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily driven by a $186 million improvement in income from continuing operations before income taxes and a $98 million reduction in loss from discontinued operations, net of income taxes, offset, in part, by a $67 million increase in provision for income taxes.

Segment Review

The following business segment reviews should be read in conjunction with the required footnote disclosures presented in the notes to the consolidated financial statements included in this report.

Revenue and Adjusted EBITDA by reportable segment and for Corporate are as follows:

(In millions)	Year Ended December 31, 2016	2015	2014	Increase (Decrease) 2016 vs. 2015	2015 vs. 2014
Revenue:					
Terminix	$ 1,524	$ 1,444	$ 1,370	6 %	5 %
American Home Shield	1,020	917	828	11 %	11 %
Franchise Services Group	200	232	253	(14) %	(8) %
Corporate	2	2	7	— %	(71) %
Total Revenue:	$ 2,746	$ 2,594	$ 2,457	6 %	6 %
Adjusted EBITDA:(1)					
Terminix	$ 371	$ 347	$ 309	7 %	12 %
American Home Shield	220	205	179	7 %	15 %
Franchise Services Group	79	77	78	3 %	(1) %
Reportable Segment Adjusted EBITDA	$ 670	$ 630	$ 566	6 %	11 %
Corporate(2)	(3)	(9)	(9)	(67) %	— %
Total Adjusted EBITDA	$ 667	$ 622	$ 557	7 %	12 %

(1) For our definition of Adjusted EBITDA and a reconciliation to net income (loss), see "—Selected Historical Financial Data."

(2) Represents unallocated corporate expenses.

Terminix Segment

The Terminix segment, which provides termite and pest control services to residential and commercial customers and distributes pest control products, reported a six percent increase in revenue and a seven percent increase in Adjusted EBITDA for the year ended December 31, 2016 compared to the year ended December 31, 2015. The Terminix segment reported a five percent increase in revenue and a 12 percent increase in Adjusted EBITDA for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Revenue

Revenue by service line is as follows:

(In millions)	Year Ended December 31, 2016	2015	Growth		Acquired		Organic	
Pest Control	$ 875	$ 812	$ 63	8 %	$ 55	7 %	$ 8	1 %
Termite and Other Services	571	559	13	2 %	5	1 %	8	1 %
Other	77	73	4	5 %	—	— %	4	5 %
Total revenue	$ 1,524	$ 1,444	$ 80	6 %	$ 60	4 %	$ 20	1 %

(In millions)	Year Ended December 31, 2015	2014	Growth		Acquired		Organic	
Pest Control	$ 812	$ 758	$ 54	7 %	$ 26	3 %	$ 28	4 %
Termite and Other Services	559	542	17	3 %	4	1 %	13	2 %
Other	73	70	3	4 %	—	— %	3	4 %
Total revenue	$ 1,444	$ 1,370	$ 74	5 %	$ 30	2 %	$ 44	3 %

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Pest control revenue increased eight percent, reflecting the impact of the Alterra acquisition, improved price realization and growth in mosquito and bed bug services. Organic pest control revenue growth was negatively impacted by a $2 million organic revenue decline associated with Alterra. Excluding Alterra, organic pest control revenue growth was $10 million and one percent.

Termite revenue, including the wildlife exclusion, crawl space encapsulation and attic insulation products which are managed as a component of our termite line of business, increased two percent. In 2016, termite renewal revenue comprised 51 percent of total termite revenue, while the remainder consisted of termite new unit revenue. The increase in termite revenue reflects an increase in core termite sales and increased sales of wildlife exclusion and crawlspace encapsulation, offset, in part, by lower price realization driven by targeted offerings of bundled services. Termite activity is unpredictable in its nature. Factors that can impact termite activity include conducive weather conditions and consumer awareness of termite swarms.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Pest control revenue increased seven percent, reflecting improved price realization, a favorable product mix, the impact of the Alterra acquisition and growth in mosquito and bed bug services.

Termite revenue, including the wildlife exclusion, crawl space encapsulation and attic insulation products which are managed as a component of our termite line of business, increased three percent. In 2015, termite renewal revenue comprised 50 percent of total termite revenue, while the remainder consisted of termite new unit revenue. The increase in termite revenue reflects increased sales of wildlife exclusion, crawlspace encapsulation and attic insulation and improved price realization, offset, in part, by a decrease in core termite sales.

Adjusted EBITDA

The following table provides a summary of changes in the segment's Adjusted EBITDA:

(In millions)		
Year Ended December 31, 2014	$	309
Impact of change in revenue		38
Fuel prices		5
Sales costs		(11)
Incentive compensation		4
Cost reduction initiatives		3
Other		(1)
Year Ended December 31, 2015	$	347
Impact of change in revenue		36
Production labor		(6)
Fuel prices		5
Legal expense		(4)
Technology costs		(12)
Incentive compensation		7
Other		(2)
Year Ended December 31, 2016	$	371

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The increase in production labor was driven by investments in field operations focused on improving safety, technician efficiency, customer service and retention. We realized lower fuel costs as a result of lower fuel prices in 2016. The increase in legal expense was driven by increased provisions for certain legal matters. The increase in technology costs was primarily due to an acceleration of investments to transform our customers' experiences through technology.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

We realized lower fuel costs as a result of lower fuel prices in 2015. The increase in sales costs was primarily driven by investments to grow and train our sales force and higher commissions attributable to the growth in new products and pest control revenue.

American Home Shield Segment

The American Home Shield segment, which provides home warranties for household systems and appliances, reported an 11 percent increase in revenue and a seven percent increase in Adjusted EBITDA for the year ended December 31, 2016 compared to the year ended December 31, 2015. The American Home Shield segment reported an 11 percent increase in revenue and a 15 percent increase in Adjusted EBITDA for the year ended December 31, 2015 compared to the year ended December 31, 2014.

The growth in renewable customer counts and customer retention are presented below.

	As of December 31,		
	2016[(1)]	2015	2014[(2)]
American Home Shield			
Growth in Home Warranties	15 %	7 %	15 %
Customer Retention Rate	76 %	75 %	75 %

(1) As of December 31, 2016, excluding the OneGuard and Landmark accounts acquired on June 27, 2016 and November 30, 2016, respectively, the growth in home warranties was seven percent, and, excluding all OneGuard and Landmark accounts, the customer retention rate for our American Home Shield segment was 75 percent.

(2) As of December 31, 2014, excluding the HSA accounts acquired on February 28, 2014, the growth in home warranties was five percent, and, excluding all HSA accounts, the customer retention rate for our American Home Shield segment was 76 percent.

Revenue

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The revenue results reflect an increase in new unit sales, improved price realization and the impact of the OneGuard and Landmark acquisitions (an approximate $22 million increase).

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The revenue results reflect an increase in new unit sales, improved price realization, a favorable product mix and the impact of the HSA acquisition (an approximate $10 million increase as a result of the acquisition on February 28, 2014).

Adjusted EBITDA

The following table provides a summary of changes in the segment's Adjusted EBITDA:

(In millions)	
Year Ended December 31, 2014	$ 179
Impact of change in revenue	57
Contract claims	(33)
Marketing costs	2
Customer services costs	(5)
HSA selling and administrative expenses	(4)
Technology costs	2
Incentive compensation	4
Cost reduction initiatives	1
Interest and net investment income	2
Year Ended December 31, 2015	$ 205
Impact of change in revenue	62
Contract claims	(17)
Sales and marketing costs	(12)
Technology costs	(7)
OneGuard and Landmark selling and administrative expenses	(8)
Customer services costs	(4)
Incentive compensation	2
Interest and net investment income	(3)
Other	2
Year Ended December 31, 2016	$ 220

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The increase in contract claims cost was primarily driven by normal inflationary pressure on the underlying costs of repairs. Extreme temperatures in 2017 could lead to an increase in service requests related to household systems, resulting in higher claim frequency and costs.

The increase in sales and marketing costs was primarily driven by the shift in the timing of a holiday mail campaign from the fourth quarter of 2015 to the first quarter of 2016 and, to a lesser extent, an increase in sales commissions. The increase in technology costs was primarily due to an acceleration of investments to improve our customers' experiences through technology. Additionally, we incurred incremental selling and administrative expenses as a result of the OneGuard and Landmark acquisitions. The increase in customer service costs was due to higher labor costs resulting from an acceleration of pre-season hiring and training in preparation for the high-volume summer season.

In 2016 and 2015, the segment's Adjusted EBITDA included interest and net investment income from the American Home Shield investment portfolio of $5 million and $8 million, respectively.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The increase in contract claims cost was driven by an increase in the average cost per service request associated with appliance repairs due to greater use of more expensive out-of-network contractors, largely in the fourth quarter, and, to a lesser extent, by warmer summer temperatures in 2015 and normal inflationary pressure on the underlying costs of repairs.

The increase in customer service costs was due to higher labor costs resulting from customer growth. Additionally, we incurred incremental selling and administrative expenses as a result of the HSA acquisition on February 28, 2014. The decrease in technology costs was driven by our decision in the first quarter of 2014 to abandon efforts to deploy a new operating system.

In 2015 and 2014, the segment's Adjusted EBITDA included interest and net investment income from the American Home Shield investment portfolio of $8 million and $6 million, respectively.

Franchise Services Group Segment

The Franchise Services Group segment, which consists of the ServiceMaster Restore (disaster restoration), ServiceMaster Clean (janitorial), Merry Maids (residential cleaning), Furniture Medic (cabinet and wood furniture repair) and AmeriSpec (home inspection) businesses, reported a 14 percent decrease in revenue and a three percent increase in Adjusted EBITDA for the year ended December 31, 2016 compared to the year ended December 31, 2015. The Franchise Services Group segment reported an eight percent decrease in revenue and a one percent decrease in Adjusted EBITDA for the year ended December 31, 2015 compared to the year ended December 31, 2014.

Revenue

Revenue by service line is as follows:

	Year Ended December 31,			% of Revenue
(In millions)	**2016**	**2015**	**2014**	**2016**
Royalty Fees	$ 120	$ 117	$ 118	60 %
Company-Owned Merry Maids Branches	8	42	62	4 %
Janitorial National Accounts	43	41	36	21 %
Sales of Products	16	18	23	8 %
Other	14	14	14	7 %
Total revenue	$ 200	$ 232	$ 253	100 %

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The increase in royalty fees was primarily driven by higher disaster restoration services and a $2 million increase attributable to the branch conversions. Approximately $33 million of the decline in revenue from company-owned Merry Maids branches was attributable to the branch conversions with the remainder of the decline attributable to a decrease in new unit sales. The increase in revenue from janitorial national accounts was driven by increased sales activity. We intend to continue to focus on expanding our market share in janitorial national accounts. The decrease in sales of products was driven by lower franchisee demand.

In 2014, we began converting company-owned Merry Maids locations to franchises. During the year ended December 31, 2016, we converted 28 company-owned Merry Maids branches to franchises, and as of October 10, 2016, the branch conversion process was complete. As a result of the completion of the branch conversions, we do not expect any significant future revenues from company-owned Merry Maids branches. We expect this decline to be offset, in part, by modest increases in royalty fees.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The decrease in royalty fees was primarily driven by lower disaster restoration services, offset, in part, by a $1 million increase attributable to the branch conversions. Approximately $17 million of the decline in revenue from company-owned Merry Maids branches was attributable to the branch conversions with the remainder of the decline attributable to a decrease in new unit sales. The increase in revenue from janitorial national accounts was driven by strong sales activity. The decrease in sales of products was driven by lower franchisee demand.

Adjusted EBITDA

The following table provides a summary of changes in the segment's Adjusted EBITDA:

(In millions)		
Year Ended December 31, 2014	$	78
Impact of change in revenue		(5)
Sale of Merry Maids branches		(2)
Sales and marketing costs		3
Cost reduction initiatives		3
Year Ended December 31, 2015	$	77
Impact of change in revenue		(1)
Sale of Merry Maids branches		(3)
Incentive compensation		1
Cost reduction initiatives		4
Other		1
Year Ended December 31, 2016	$	79

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The impact of the decrease in revenue on Adjusted EBITDA was driven by the decrease in revenue from company-owned Merry Maids branches and sales of products, offset, in part, by the increase in royalty fees and relatively low margin revenue from janitorial national accounts.

We realized a reduction in Adjusted EBITDA of $3 million as a result of the branch conversions.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The impact of the decrease in revenue on Adjusted EBITDA was driven by the decrease in royalty fees, revenue from company-owned Merry Maids branches and sales of products, offset, in part, by the increase in relatively low margin revenue from janitorial national accounts.

We realized a reduction in Adjusted EBITDA of $2 million as a result of the branch conversions.

Corporate

Corporate reported a $6 million increase in Adjusted EBITDA for the year ended December 31, 2016 compared to the year ended December 31, 2015. Adjusted EBITDA for Corporate for the year ended December 31, 2015 was comparable to December 31, 2014.

Adjusted EBITDA

The following table provides a summary of changes in Corporate's Adjusted EBITDA:

(In millions)		
Year Ended December 31, 2014	$	(9)
Insurance program		4
Other		(4)
Year Ended December 31, 2015	$	(9)
Insurance program		5
Other		1
Year Ended December 31, 2016	$	(3)

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The decrease in expense related to our automobile, general liability and workers' compensation insurance program was driven by the impact of increased reserves of $4 million and $9 million recorded in 2016 and 2015, respectively, driven by unfavorable claims trends. The unfavorable claims trends for 2016 were impacted by a charge of $3 million in connection with civil claims related to an incident at a family's residence in Palm Beach County, Florida, and the unfavorable claims trends for 2015 were impacted by a charge of $3 million in connection with civil claims related to an incident at a resort in St. John in the U.S. Virgin Islands. Each of the $3 million charges are amounts equal to our insurance deductible under our general liability insurance program.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The decrease in expense related to our automobile, general liability and workers' compensation insurance program was driven by the impact of increased reserves of $9 million and $13 million recorded in 2015 and 2014, respectively, driven by unfavorable claims trends. The unfavorable claims trends for 2015 were impacted by a charge of $3 million in connection with civil claims related to an incident at a resort in St. John in the U.S. Virgin Islands. The $3 million charge is an amount equal to our insurance deductible under our general liability insurance program.

Discontinued Operations

TruGreen Spin-off

On January 14, 2014, we completed a separation transaction (the "TruGreen Spin-off"), resulting in the spin-off of the assets and certain liabilities of the business that comprises the lawn, tree and shrub care services previously conducted by ServiceMaster primarily under the TruGreen brand name (collectively, the "TruGreen Business") through a tax-free, pro rata dividend to our stockholders. As a result of the completion of the TruGreen Spin-off, TruGreen Holding Corporation ("New TruGreen") operates the TruGreen Business as a private independent company.

In connection with the TruGreen Spin-off, we entered into a transition services agreement with New TruGreen pursuant to which we provide New TruGreen with specified communications, public relations, finance and accounting, tax, treasury, internal audit, human resources operations and benefits, risk management and insurance, supply management, real estate management, marketing, facilities, information technology and other support services. The charges for the transition services are designed to allow us to fully recover the direct costs of providing the services, plus specified margins and any out-of-pocket costs and expenses. The services provided under the transition services agreement terminated at various specified times on or prior to December 31, 2016, except certain information technology services which we have entered into an agreement with New TruGreen to extend through June 30, 2018. New TruGreen may terminate the extended transition services agreement for convenience upon 90 days written notice.

Under this transition services agreement, in the years ended December 31, 2016, 2015 and 2014, we recorded $9 million, $25 million and $36 million, respectively, of fees from New TruGreen, which is included as a reduction, net of costs incurred, in Selling and administrative expenses in the consolidated statement of operations and comprehensive income (loss). As of December 31, 2016, all amounts owed by New TruGreen under this agreement have been paid.

During the year ended December 31, 2014, we processed certain of New TruGreen's accounts payable transactions. Through this process, in the year ended December 31, 2014, $97 million was paid on New TruGreen's behalf, all of which was repaid by New TruGreen.

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

Financial Information of Discontinued Operations

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

The operating results of discontinued operations are as follows:

	Year Ended December 31,		
(In millions)	**2016**	**2015**	**2014**
Revenue	$ —	$ —	$ 6
Cost of services rendered and products sold	—	—	12
Selling and administrative expenses	1	3	14
Trade name impairment(1)	—	—	139
Restructuring charges	—	—	3
Loss before income taxes(1)	(1)	(3)	(161)
Benefit for income taxes(1)	—	(1)	(61)
Loss from discontinued operations, net of income taxes(1)	$ (1)	$ (2)	$ (100)

(1) During the year ended December 31, 2014, the Company recorded a pre-tax non-cash impairment charge of $139 million ($84 million, net of tax) associated with the trade name at its former TruGreen business, which is reported in Loss from discontinued operations, net of income taxes in the consolidated statements of operations and comprehensive income (loss).

Liquidity and Capital Resources

Liquidity

We are highly leveraged, and a substantial portion of our liquidity needs are due to service requirements on our significant indebtedness. The agreements governing the Credit Facilities contain covenants that limit or restrict our ability, including the ability of certain of our subsidiaries, to incur additional indebtedness, repurchase debt, incur liens, sell assets, make certain payments (including dividends) and enter into transactions with affiliates. As of December 31, 2016, we were in compliance with the covenants under the agreements that were in effect on such date.

Our ongoing liquidity needs are expected to be funded by cash on hand, net cash provided by operating activities and, as required, borrowings under the Credit Facilities. We expect that cash provided from operations and available capacity under the Revolving Credit Facility will provide sufficient funds to operate our business, make expected capital expenditures and meet our liquidity requirements for the following 12 months, including payment of interest and principal on our debt. Cash and short- and long-term marketable securities totaled $335 million as of December 31, 2016, compared with $377 million as of December 31, 2015. As of December 31, 2016, there were $35 million of letters of credit outstanding and $265 million of available borrowing capacity under the Revolving Credit Facility. The letters of credit are posted to satisfy collateral requirements under our automobile, general liability and workers' compensation insurance program and fuel swap contracts.

On February 23, 2016, our board of directors authorized a three-year share repurchase program, under which we may repurchase up to $300 million of outstanding shares of our common stock. As of December 31, 2016, we have repurchased $60 million of outstanding shares, which is included in treasury stock on the consolidated statements of financial position. Additionally, for January 1, 2017 through February 17, 2017, we purchased 1.1 million shares of common stock at an average price paid per share of $37.50.

In 2016, we settled all civil claims of the affected families related to the U.S. Virgin Islands and Florida fumigation matters, and payments in connection with those claims totaled $90 million ($56 million, net of tax). We have also sought to resolve by plea agreement the federal criminal consequences related to the U.S. Virgin Islands matter pursuant to which we expect to pay approximately $10 million. See Note 9 to the consolidated financial statements for more details.

We have submitted to the IRS a voluntary correction proposal to remedy an administrative error related to our Profit Sharing and Retirement Plan. Our current estimate of the cost of the correction ranges from $25 million to approximately $92 million. See Note 11 to the consolidated financial statements for more details.

Cash and short- and long-term marketable securities include balances associated with regulatory requirements at American Home Shield. See "—Limitations on Distributions and Dividends by Subsidiaries." American Home Shield's investment portfolio has been invested in a combination of high-quality, debt securities and equity securities. We closely monitor the performance of the investments. From time to time, we review the statutory reserve requirements to which our regulated entities are subject and any changes to such requirements. These reviews may result in identifying current reserve levels above or below minimum statutory reserve requirements, in which case we may adjust our reserves. The reviews may also identify opportunities to satisfy certain regulatory reserve requirements through alternate financial vehicles.

As of December 31, 2016, we had posted $31 million in letters of credit, which were issued under the Revolving Credit Facility, and $95 million of cash, which is included in Restricted cash on the consolidated statements of financial position, as collateral under our automobile, general liability and workers' compensation insurance program. This amount is not related to the payments made in connection with fumigation related matters. We may from time to time change the amount of cash or marketable securities used to satisfy collateral requirements under our automobile, general liability and workers' compensation insurance program. The amount of cash or marketable securities utilized to satisfy these collateral requirements will depend on the relative cost of the issuance of letters of credit under the Revolving Credit Facility and our cash position. Any change in cash or marketable securities used as collateral would result is a corresponding change in our available borrowing capacity under the Revolving Credit Facility.

Additionally, under the terms of our fuel swap contracts, we are required to post collateral in the event the fair value of the contracts exceeds a certain agreed upon liability level and in other circumstances required by the agreement with the counterparty. As of December 31, 2016, the estimated fair value of our fuel swap contracts was a net asset of $5 million, and we had posted $3 million in letters of credit as collateral under our fuel hedging program, which were also issued under the Revolving Credit Facility. The continued use of letters of credit for this purpose in the future could limit our ability to post letters of credit for other purposes and could limit our borrowing availability under the Revolving Credit Facility. However, we do not expect the fair value of the outstanding fuel swap contracts to materially impact our financial position or liquidity.

We may from time to time repurchase or otherwise retire or extend our debt and/or take other steps to reduce our debt or otherwise improve our financial position, results of operations or cash flows. These actions may include open market debt repurchases, negotiated repurchases, other retirements of outstanding debt and/or opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired or refinanced, if any, will depend on market conditions, trading levels of our debt, our cash position, compliance with debt covenants and other considerations.

Refinancing of Indebtedness

On November 8, 2016, we entered into a $1,650 million Term Loan Facility and a $300 million Revolving Credit Facility and sold $750 million of 2024 Notes. Borrowings under the Term Loan Facility and the 2024 Notes were used to repay the remaining outstanding $2,356 million in aggregate principal amount of the Old Term Loan Facility. In connection with the repayment, we recorded a loss on extinguishment of debt of $32 million in the year ended December 31, 2016, which includes the write-off of $14 million of original issue discount and $18 million of debt issuance costs. In addition, $38 million of proceeds was used to pay debt issuance costs of $34 million and original issue discount of $4 million in connection with the Term Loan Facility, the Revolving Credit Facility and the 2024 Notes.

On November 7, 2016, we entered into a seven-year interest rate swap agreement effective November 8, 2016. The notional amount of the agreement was $650 million. Under the terms of the agreement, we will pay a fixed rate of interest of 1.493 percent on the $650 million notional amount, and we will receive a floating rate of interest (based on one-month LIBOR, subject to a floor of zero percent) on the notional amount. Therefore, during the term of the agreement, the effective interest rate on $650 million of the Term Loan Facility is fixed at a rate of 1.493 percent, plus the incremental borrowing margin of 2.50 percent. On November 8, 2016, the Company terminated the then-existing interest rate swap agreements and paid $10 million in connection with the terminations.

Fleet and Equipment Financing Arrangements

We have entered into a fleet management services agreement (the “Fleet Agreement”) which, among other things, allows us to obtain fleet vehicles through a leasing program. We expect to fulfill substantially all of our vehicle fleet needs through the leasing program under the Fleet Agreement. For the year ended December 31, 2016, we acquired $61 million of vehicles through the leasing program under the Fleet Agreement. All leases under the Fleet Agreement are capital leases for accounting purposes. The lease rental payments include an interest component calculated using a variable rate based on one-month LIBOR plus other contractual adjustments and a borrowing margin totaling 2.45 percent. We have no minimum commitment for the number of vehicles to be obtained under the Fleet Agreement. We anticipate new lease financings for the full year 2017 will range from approximately $30 million to $40 million.

Limitations on Distributions and Dividends by Subsidiaries

We are a holding company, and as such have no independent operations or material assets other than ownership of equity interests in our subsidiaries. We depend on our subsidiaries to distribute funds to us so that we may pay obligations and expenses, including satisfying obligations with respect to indebtedness. The ability of our subsidiaries to make distributions and dividends to us depends on their operating results, cash requirements and financial condition and general business conditions, as well as restrictions under the laws of our subsidiaries’ jurisdictions.

The agreements governing the Credit Facilities may restrict the ability of our subsidiaries to pay dividends, make loans or otherwise transfer assets to us. Further, our subsidiaries are permitted under the terms of the Credit Facilities and other indebtedness to incur additional indebtedness that may restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us.

Furthermore, there are third-party restrictions on the ability of certain of our subsidiaries to transfer funds to us. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at SMAC. The payments of ordinary and extraordinary dividends by our home warranty and similar subsidiaries (through which we conduct our American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to us. As of December 31, 2016, the total net assets subject to these third-party restrictions was $173 million. We expect that such limitations will be in effect for the foreseeable future. None of our subsidiaries are obligated to make funds available to us through the payment of dividends.

We consider undistributed earnings of our foreign subsidiaries as of December 31, 2016 to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Cumulative undistributed earnings of our foreign subsidiaries amounted to $60 million and $56 million as of December 31, 2016 and 2015, respectively. Should these earnings become taxable, we could be subject to U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes in various jurisdictions. The amount of cash associated with indefinitely reinvested foreign earnings was approximately $23 million and $17 million as of December 31, 2016 and December 31, 2015, respectively. We have not repatriated, nor do we anticipate the need to repatriate, funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

Cash Flows

Cash flows from operating, investing and financing activities, as reflected in the accompanying consolidated statements of cash flows, are summarized in the following table.

(In millions)	Year Ended December 31, 2016	2015	2014
Net cash provided from (used for):			
Operating activities	$ 325	$ 398	$ 289
Investing activities	(133)	(98)	(56)
Financing activities	(102)	(381)	(312)
Discontinued operations	—	(11)	(15)
Effect of exchange rate changes on cash	—	(2)	—
Cash increase (decrease) during the period	$ 89	$ (92)	$ (95)

Operating Activities

Net cash provided from operating activities from continuing operations decreased $73 million to $325 million for the year ended December 31, 2016 compared to $398 million for the year ended December 31, 2015 and $289 million for the year ended December 31, 2014.

Net cash provided from operating activities in 2016 comprised $431 million in earnings adjusted for non-cash charges, offset, in part, by $90 million in payments related to fumigation matters and a $16 million increase in cash required for working capital (a $22 million increase excluding the working capital impact of accrued interest, restructuring and taxes). For the year ended December 31, 2016, working capital requirements were negatively impacted by timing of payments related to self-insured claims.

Net cash provided from operating activities in 2015 comprised $406 million in earnings adjusted for non-cash charges, offset, in part, by $1 million in payments related to fumigation matters and a $7 million increase in cash required for working capital (an $18 million decrease excluding the working capital impact of accrued interest, restructuring and taxes). For the year ended December 31, 2015, working capital requirements were negatively impacted by the timing of interest payments driven by the redemption of the 2020 Notes, offset, in part, by favorable changes in the payment terms with certain of our vendors.

Net cash provided from operating activities in 2014 comprised $303 million in earnings adjusted for non-cash charges, offset, in part, by a $14 million increase in cash required for working capital (a $3 million decrease excluding the working capital impact of accrued interest, restructuring and taxes). Accrued interest balances were reduced in 2014 as a result of the reduction in long-term debt.

Investing Activities

Net cash used for investing activities from continuing operations was $133 million for the year ended December 31, 2016 compared to $98 million for the year ended December 31, 2015 and $56 million for the year ended December 31, 2014.

Capital expenditures increased to $56 million in 2016 from $40 million in 2015 and $35 million in 2014 and included recurring capital needs and information technology projects. We anticipate capital expenditures for the full year 2017 will range from $50 million to $60 million, reflecting recurring capital needs and the continuation of investments in information systems and productivity enhancing technology. We expect to fulfill our ongoing vehicle fleet needs through vehicle capital leases. We have no additional material capital commitments at this time.

Proceeds from the sale of equipment and other assets was $8 million, $14 million and $2 million in 2016, 2015 and 2014, respectively, primarily driven by the branch conversions at Merry Maids. The branches were sold for a total purchase price of $9 million, $17 million and $2 million, respectively. In 2016 and 2015, we received cash of $6 million and $13 million and provided financing of $2 million and $4 million respectively. In 2014, we provided financing of $2 million. As of October 10, 2016, the branch conversion process was complete.

Cash payments for acquisitions totaled $121 million in 2016, compared with $92 million in 2015 and $58 million in 2014. On June 27, 2016, we acquired OneGuard for $61 million consisting of net cash consideration of $52 million and deferred payments of $9 million. On November 30, 2016, we acquired Landmark for $39 million consisting of net cash consideration of $35 million and deferred payments of $5 million. Consideration paid for tuck-in acquisitions consisted of cash payments and debt payable to sellers. We expect to continue our tuck-in acquisition program at Terminix and to periodically evaluate other strategic acquisitions.

Cash flows provided from purchases, sales and maturities of securities, net, in 2016, 2015 and 2014 were $43 million, $26 million and $40 million, respectively, and were driven by the maturity and sale of marketable securities at American Home Shield.

Cash flows used for notes receivable, net, were $3 million in 2016 and $6 million in 2015 and 2014 and were a result of increased financing provided by SMAC to our franchisees and retail customers of our operating units.

Financing Activities

Net cash used for financing activities from continuing operations was $102 million for the year ended December 31, 2016 compared to $381 million for the year ended December 31, 2015 and $312 million for the year ended December 31, 2014.

During 2016, we entered into a $1,650 Term Loan Facility and sold $750 million of 2024 Notes and used the proceeds to repay the remaining outstanding $2,356 million in aggregate principal amount of the Old Term Facility. Additionally, we made scheduled principal payments on long-term debt of $61 million, paid $4 million in original issue discount, paid $34 million in debt issuance costs, repurchased $60 million of common stock and received $13 million from the issuance of common stock through the exercise of stock options and the sale of shares under the Employee Stock Purchase Plan.

During 2015, we borrowed an incremental $583 million, made scheduled principal payments on long-term debt of $45 million and redeemed $390 million and $488 million in aggregate principal amount of our 8% 2020 Notes and 7% 2020 Notes, respectively, at a redemption price of 106.0% and 105.25%, respectively, of the principal amounts. Additionally, we paid $2 million in original issue discount, paid $5 million in debt issuance costs, paid $49 million for the call premium paid on the retirement of debt and received $16 million from the issuance of common stock through the exercise of stock options and the sale of shares under the Employee Stock Purchase Plan.

On July 1, 2014, we completed the initial public offering of 41,285,000 shares of our common stock at a price of $17.00 per share, and we terminated the agreements governing the then-existing term loan facility and the then-existing revolving credit facility and entered into the Old Credit Facilities. The net proceeds and use of proceeds in connection with the offering and related refinancing, which are included in financing activities from continuing operations during 2014, are as follows:

(In millions)	
Net proceeds from the initial public offering	$ 663
Borrowings under the Old Term Loan Facility	1,825
Repayment of the then-existing term loan facility	(2,187)
Partial redemption of 8% 2020 Notes	(210)
Partial redemption of 7% 2020 Notes	(263)
Call premium paid on the retirement of debt	(35)
Original issue discount paid in connection with the Old Term Loan Facility	(18)
Debt issuance costs paid in connection with the Old Term Loan Facility	(24)
Net cash used for financing activities in connection with the initial public offering	$ (249)

In addition to the aforementioned financing activities in connection with our initial public offering, during 2014, we made scheduled principal payments on long-term debt of $38 million and contributed $35 million to New TruGreen in connection with the TruGreen Spin-off. Additionally, during 2014, we paid $6 million for the purchase of common stock and RSUs and received $16 million from the issuance of common stock.

Contractual Obligations

The following table presents our contractual obligations and commitments as of December 31, 2016.

(In millions)	Total	Less than 1 Yr	1 - 3 Yrs	3 - 5 Yrs	More than 5 Yrs
Principal repayments*	$ 2,826	$ 32	$ 158	$ 41	$ 2,595
Capital leases*	88	27	39	20	2
Estimated interest payments(1)	978	129	241	233	375
Non-cancelable operating leases(2)	134	21	30	18	65
Purchase obligations(3)	89	65	22	2	—
Insurance claims*	232	111	51	22	48
Other, including deferred compensation trust*	8	2	1	1	4
Total amount	$ 4,355	$ 387	$ 542	$ 337	$ 3,089

* These items are reported in the consolidated statements of financial position.

(1) These amounts represent future interest payments related to existing debt obligations based on fixed and variable interest rates and principal maturities specified in the associated debt agreements. As of December 31, 2016, payments related to variable debt are based on applicable rates at December 31, 2016 plus the specified margin in the associated debt agreements for each period presented. As of December 31, 2016, the estimated debt balance (including capital leases) as of each fiscal year end from 2017 through 2021 is $2,855 million, $2,701 million, $2,658 million, $2,620 million and $2,597 million, respectively. The weighted-average interest rate on the estimated debt balances at each fiscal year end from 2017 through 2021 is expected to be 4.4 percent. See Note 12 to the consolidated financial statements for the terms and maturities of existing debt obligations.

(2) These amounts primarily represent future payments relating to real estate operating leases. A portion of our vehicle fleet and some equipment are leased through cancelable operating leases and are therefore excluded in the table above.

(3) These obligations include commitments for various products and services including, among other things, inventory purchases, telecommunications services, marketing and advertising services and other professional services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transactions. Most arrangements are cancelable without a significant penalty and with short notice (usually 30-120 days) and amounts reflected above include our minimum contractual obligation (inclusive of applicable cancellation penalties). For obligations with significant penalties associated with termination, the minimum required expenditures over the term of the agreement have been included in the table above.

Due to the uncertainty with respect to the timing of future cash flows associated with unrecognized tax benefits at December 31, 2016, we are unable to reasonably estimate the period of cash settlement with the respective taxing authority. Accordingly, $13 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See the discussion of income taxes in Note 5 to the consolidated financial statements.

Financial Position—Continuing Operations

The following discussion describes changes in our financial position from December 31, 2015 to December 31, 2016.

Receivables increased from prior year levels, primarily related to customer growth at American Home Shield.

Property and equipment increased from prior year levels, reflecting purchases for recurring capital needs and information technology projects and the acquisition of vehicles under the Fleet Agreement, offset, in part, by depreciation expense.

Goodwill increased from prior year levels due to the OneGuard and Landmark acquisitions and several pest control and termite acquisitions, offset, in part, by reductions due to the Merry Maids branch conversions. See Notes 4 and 6 to the consolidated financial statements for more details.

Restricted cash represents amounts posted as collateral under our automobile, general liability and workers' compensation insurance program.

Marketable securities decreased from prior year levels, primarily due to the sale of securities at American Home Shield.

Deferred revenue increased from prior year levels, primarily reflecting customer growth American Home Shield.

Long-term debt increased from prior year levels primarily due to additional borrowings under the Fleet Agreement and Credit Facilities. See Note 12 to the consolidated financial statements for more details.

Deferred taxes increased from prior year levels, primarily due to the current year deferred tax provision and current year deferred taxes related to unrealized gain on derivatives. See Note 5 to the consolidated financial statements for more details.

Other long-term obligations, primarily self-insured claims decreased from prior year levels, primarily due to settlements of insured fumigation related matters.

Total shareholders' equity was $686 million as of December 31, 2016 compared to $545 million as of December 31, 2015. The increase was primarily driven by the $173 million of comprehensive income offset, in part, by $60 million of share repurchases. See the consolidated statements of shareholders' equity for further information.

Financial Position—Discontinued Operations

The assets and liabilities related to discontinued operations have been classified in a separate caption on the consolidated statements of financial position.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any significant off-balance sheet arrangements.

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off- balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. The following are our most critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The following discussion is not intended to represent a comprehensive list of our accounting policies. For a detailed description of the application of these and other accounting policies, see Note 2 to the consolidated financial statements included in this Annual Report on Form 10-K.

Self-insurance accruals

We carry insurance policies on insurable risks at levels which we believe to be appropriate, including workers' compensation, auto and general liability risks. We purchase insurance from third-party insurance carriers. These policies typically incorporate significant deductibles or self-insured retentions. We are responsible for all claims that fall within the retention limits. In determining our accrual for self-insured claims, we use historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual include both known claims, as well as incurred but not reported claims. We adjust our 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. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals. However, the use of any estimation technique in this area is inherently sensitive given the magnitude of claims involved and the length of time until the ultimate cost is known. We believe our recorded obligations for these expenses are consistently measured. Nevertheless, changes in healthcare costs, accident frequency and claim severity can materially affect the estimates for these liabilities.

Home Warranty Claims Accruals

Home warranty contracts are typically one year in duration. Home warranty claims costs are expensed as incurred. We recognize revenue over the life of these contracts in proportion to the expected direct costs. Those costs bear a direct relationship to the fulfillment of our obligations under the contracts and are representative of the relative value provided to the customer (proportional performance method). Accruals for home warranty claims at American Home Shield are made based on our claims experience and actuarial projections. The Company's actuary performs a reserve analysis utilizing generally accepted actuarial methods that incorporate cumulative historical claims experience and information provided by the Company. We regularly review our estimates of claims costs and adjust the estimates when appropriate. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals. However, the use of any estimation technique in this area is inherently sensitive given the magnitude of claims involved. We believe our recorded obligations for these expenses are consistently measured. Nevertheless, changes in claims costs can materially affect the estimates for these liabilities.

Income Taxes

We record deferred income tax balances based on the net tax effects of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and income tax purposes. Based on the evaluation of all available information, the Company recognizes future tax benefits, such as net operating loss carryforwards, to the extent that realizing these benefits is considered more likely than not. We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets (such as net operating loss carry-forwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets.

On an interim basis, we estimate what our effective tax rate will be for the full fiscal year. This estimated annual effective tax rate is then applied to the year-to-date income before income taxes, excluding infrequently occurring or unusual items, to determine the year-to-date income tax expense. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs. Our current and deferred tax provisions are based on estimates and assumptions that could differ from the final positions reflected in our income tax returns. We adjust our current and deferred tax provisions based on our income tax returns which are generally filed in the third or fourth quarters of the subsequent year.

Our income tax returns are audited by U.S. state, U.S. federal and foreign tax authorities, and we are typically engaged in various tax examinations at any given time. Uncertain tax positions often arise due to uncertainty or differing interpretations of the application of tax rules throughout the various jurisdictions in which we operate. On a quarterly basis, we evaluate the probability that a tax position will be effectively sustained and the appropriateness of the amount recognized for uncertain tax positions based on factors including changes in facts or circumstances, changes in tax law, settled audit issues and new audit activity. Changes in our assessment may result in the recognition of a tax benefit or an additional charge to the tax provision in the period our assessment changes. While management believes that these judgments and estimates are appropriate and reasonable under the circumstances, actual resolution of these matters may differ from recorded estimated amounts. We recognize interest and penalties related to income tax matters in income tax expense.

Property and Equipment, Intangible Assets and Goodwill

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

As required under accounting standards for goodwill and other intangibles, goodwill is not subject to amortization, and intangible assets with indefinite useful lives are not amortized until their useful lives are determined to no longer be indefinite. Goodwill and intangible assets that are not subject to amortization 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. We adopted the provisions of ASU 2011-08, ''Testing Goodwill for Impairment,'' in the fourth quarter of 2011. This Accounting Standards Update (''ASU''), gives entities the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not greater than its carrying amount, the two-step impairment test would not be required. For the 2016, 2015 and 2014 annual goodwill impairment analysis performed as of October 1 of each year, we did not perform qualitative assessments on any reporting unit, but instead completed Step 1 of the goodwill impairment test for all reporting units.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. In performing the first step, we determine the fair value of a reporting unit using a combination of a discounted cash flow, or ''DCF,'' analysis, a market-based comparable approach and a market-based transaction approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based comparable approach and relevant transaction multiples for the market-based transaction approach. The cash flows employed in the DCF analyses are based on our most recent annual operating plan and, for years beyond the annual operating plan, our estimates, which are based on estimated growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. In addition, the market-based comparable and transaction approaches utilize comparable company public trading values, comparable company historical results, research analyst estimates and, where available, values observed in private market transactions. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF valuation analysis. The DCF methodology used to value trade names is known as the relief from royalty method and entails identifying the hypothetical cash flows generated by an assumed royalty rate that a third-party would pay to license the trade names and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates and hypothetical royalty rates, estimating the amount and timing of estimated future cash flows attributable to the hypothetical royalty rates and identification of appropriate terminal growth rate assumptions. The discount rates used in the DCF analyses are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

Goodwill and indefinite-lived intangible assets, primarily our trade names, are assessed annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. Our goodwill is assigned to three reporting units: Terminix, American Home Shield and Franchise Services Group. The October 1, 2016 estimated fair values for all reporting units were substantially in excess of their respective carrying values, and we do not believe the reporting units were at risk of impairment as of December 31, 2016. Our 2016, 2015, and 2014 annual impairment analyses, which were performed as of October 1 of each year, did not result in any goodwill or trade name impairments to continuing operations.

Stock-Based Compensation

Stock-based compensation expense for stock options is estimated at the grant date based on an award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense over the requisite service period. The Black-Scholes model requires various highly judgmental assumptions including expected volatility and option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense for future grants may differ materially from that recorded in the current period related to options granted to date. In addition, we estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly. See Note 17 to the consolidated financial statements for more details.

Contingent Liabilities

Accruals for contingent liabilities, including legal and environmental matters, are recorded when it is probable that a liability has been incurred or an asset impaired and the amount of the loss can be reasonably estimated. Liabilities accrued for legal matters require judgments regarding projected outcomes and range of loss based on historical experience and recommendations of legal counsel. Liabilities for environmental matters require evaluations of relevant environmental regulations and estimates of future remediation alternatives and costs.

Newly Issued Accounting Standards

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. In the year ended December 31, 2016, we adopted Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting," ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" and ASU 2016-18, "Restricted Cash." See Note 2 to the consolidated financial statements for further information on these adoptions and other newly issued accounting standards.

Information Regarding Forward-Looking Statements

This report contains forward-looking statements and cautionary statements. Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "shall," "should," "would," "could," "seeks," "aims," "projects," "is optimistic," "intends," "plans," "estimates," "anticipates" or other comparable terms. Forward-looking statements include, without limitation, all matters that are not historical facts. They appear in a number of places throughout this report and include, without limitation, statements regarding our intentions, beliefs, assumptions or current expectations concerning, among other things, financial position; results of operations; cash flows; prospects; growth strategies or expectations; customer retention; the continuation of acquisitions, including the integration of any acquired company and risks relating to any such acquired company; fuel prices; attraction and retention of key personnel; the impact of fuel swaps; the valuation of marketable securities; estimates of accruals for self-insured claims related to workers' compensation, auto and general liability risks; estimates of accruals for home warranty claims; estimates of future payments under operating and capital leases; estimates on current and deferred tax provisions; the outcome (by judgment or settlement) and costs of legal or administrative proceedings, including, without limitation, collective, representative or class action litigation; and the impact of prevailing economic conditions.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance or outcomes and that actual performance and outcomes, including, without limitation, our actual results of operations, financial condition and liquidity, and the development of the market segments in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and cash flows, and the development of the market segments in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors, including, without limitation, the risks and uncertainties discussed in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" above, could cause actual results and outcomes to differ from those reflected in the forward-looking statements. Additional factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

- resolution of fumigation related matters, including approval of the terms of the New Plea Agreement by the District Court related to the criminal aspects of the U.S. Virgin Islands fumigation incident;
- lawsuits, enforcement actions and other claims by third parties or governmental authorities;
- the 401(k) Plan correction contribution and other employee benefit plan compliance issues;
- compliance with, or violation of, environmental, health and safety laws and regulations;
- weakening general economic conditions, especially as they may affect home sales, unemployment and consumer confidence or spending levels;
- our ability to generate the significant amount of cash needed to fund our operations and service our debt obligations;
- our ability to successfully implement our business strategies;
- adverse credit and financial markets impeding access, increasing financing costs or causing our customers to incur liquidity issues leading to some of our services not being purchased or cancelled;
- cyber security breaches, disruptions or failures in our information technology systems and our failure to protect the security of personal information about our customers;
- our ability to attract and retain key personnel, including our ability to attract, retain and maintain positive relations with trained workers and third-party contractors;
- increase in prices for fuel and raw materials, and in minimum wage levels;
- changes in the source and intensity of competition in our market segments;
- adverse weather conditions;

- our franchisees, subcontractors, third-party distributors and vendors taking actions that harm our business;
- changes in our services or products;
- our ability to protect our intellectual property and other material proprietary rights;
- negative reputational and financial impacts resulting from future acquisitions or strategic transactions;
- laws and governmental regulations increasing our legal and regulatory expenses;
- increases in interest rates increasing the cost of servicing our substantial indebtedness;
- increased borrowing costs due to lowering or withdrawal of the ratings, outlook or watch assigned to our debt securities;
- restrictions contained in our debt agreements;
- the effects of our substantial indebtedness and the limitations contained in the agreements governing such indebtedness; and
- other factors described in this report and from time to time in documents that we file with the SEC.

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, and changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The economy and its impact on discretionary consumer spending, labor wages, fuel prices and other material costs, home resales, unemployment rates, insurance costs and medical costs could have a material adverse impact on future results of operations.

We do not hold or issue derivative financial instruments for trading or speculative purposes. We have entered into specific financial arrangements, primarily fuel swap agreements and interest rate swap agreements, in the normal course of business to manage certain market risks, with a policy of matching positions and limiting the terms of contracts to relatively short durations. The effect of derivative financial instrument transactions could have a material impact on our financial statements.

Interest Rate Risk

We are exposed to the impact of interest rate changes and manage this exposure through the use of variable-rate and fixed-rate debt and by utilizing interest rate swaps.

On November 7, 2016, we entered into a seven-year interest rate swap agreement effective November 8, 2016. The notional amount of the agreement was $650 million. Under the terms of the agreement, we will pay a fixed rate of interest of 1.493 percent on the $650 million notional amount, and we will receive a floating rate of interest (based on one-month LIBOR, subject to a floor of zero percent) on the notional amount. Therefore, during the term of the agreement, the effective interest rate on $650 million of the Term Loan Facility is fixed at a rate of 1.493 percent, plus the incremental borrowing margin of 2.50 percent.

We believe our exposure to interest rate fluctuations, when viewed on both a gross and net basis, is material to our overall results of operations. A significant portion of our outstanding debt, including debt under the Credit Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our indebtedness and could materially reduce our profitability and cash flows. As of December 31, 2016, each one percentage point change in interest rates would result in an approximate $10 million change in the annual interest expense on our Term Loan Facility after considering the impact of the effective interest rate swap. Assuming all revolving loans were fully drawn as of December 31, 2016, each one percentage point change in interest rates would result in an approximate $3 million change in annual interest expense on our Revolving Credit Facility. The impact of increases in interest rates could be more significant for us than it would be for some other companies because of our substantial indebtedness.

The following table summarizes information about our debt as of December 31, 2016 (after considering the impact of the effective interest rate swaps), including the principal cash payments and related weighted-average interest rates by expected maturity dates based on applicable rates at December 31, 2016.

	Expected Year of Maturity							Fair
(In millions)	2017	2018	2019	2020	2021	Thereafter	Total	Value
Debt:								
Fixed rate	$ 17	$ 100	$ 9	$ 7	$ —	$ 1,678	$ 1,811	$ 1,825
Average interest rate	5.1 %	6.7 %	5.0 %	5.0 %	5.0 %	5.1 %	5.2 %	
Variable rate	$ 42	$ 54	$ 34	$ 31	$ 23	$ 919	$ 1,103	$ 1,106
Average interest rate	3.3 %	3.2 %	3.3 %	3.3 %	3.3 %	3.3 %	3.3 %	
Interest Rate Swaps:								
Receive variable/pay fixed						$ 650		
Average pay rate[(1)]						1.5 %		
Average receive rate[(1)]						0.8 %		

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

Fuel Price Risk

We are exposed to market risk for changes in fuel prices through the consumption of fuel by our vehicle fleet in the delivery of services to our customers. We expect to use approximately 14 million gallons of fuel in 2017. As of December 31, 2016, a ten percent change in fuel prices would result in a change of approximately $3 million in our annual fuel cost before considering the impact of fuel swap contracts.

We use fuel swap contracts to mitigate the financial impact of fluctuations in fuel prices. As of December 31, 2016, we had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $33 million, maturing through 2018. The estimated fair value of these contracts as of December 31, 2016 was a net asset of $5 million. These fuel swap contracts provide a fixed price for approximately 63 percent and 40 percent of our estimated fuel usage for 2017 and 2018, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
ServiceMaster Global Holdings, Inc.
Memphis, Tennessee

We have audited the accompanying consolidated statements of financial position of ServiceMaster Global Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ServiceMaster Global Holdings, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company retrospectively adopted Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments* and ASU 2016-09 - Compensation—Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework* (*2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2017, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Memphis, Tennessee
February 24, 2017

Consolidated Statements of Operations and Comprehensive Income (Loss)
(In millions, except per share data)

	Year Ended December 31,		
	2016	2015	2014
Revenue	$ 2,746	$ 2,594	$ 2,457
Cost of services rendered and products sold	1,448	1,375	1,298
Selling and administrative expenses	711	666	669
Amortization expense	33	38	52
401(k) Plan corrective contribution	2	23	—
Fumigation related matters	93	9	—
Insurance reserve adjustment	23	—	—
Impairment of software and other related costs	1	—	47
Consulting agreement termination fees	—	—	21
Restructuring charges	17	5	11
Gain on sale of Merry Maids branches	(2)	(7)	(1)
Interest expense	153	167	219
Interest and net investment income	(6)	(9)	(7)
Loss on extinguishment of debt	32	58	65
Income from Continuing Operations before Income Taxes	241	270	84
Provision for income taxes	85	107	40
Equity in losses of joint venture	(1)	—	—
Income from Continuing Operations	155	162	43
Loss from discontinued operations, net of income taxes	(1)	(2)	(100)
Net Income (Loss)	$ 155	$ 160	$ (57)
Other Comprehensive Income (Loss), Net of Income Taxes:			
Net unrealized losses on securities	(2)	(3)	(1)
Net unrealized gains (losses) on derivative instruments	20	(2)	(6)
Foreign currency translation loss	—	(8)	(5)
Other Comprehensive Income (Loss), Net of Income Taxes	18	(13)	(13)
Total Comprehensive Income (Loss)	$ 173	$ 147	$ (70)
Weighted-average common shares outstanding - Basic	135.3	135.0	112.8
Weighted-average common shares outstanding - Diluted	137.3	136.6	113.8
Basic Earnings (Loss) Per Share:			
Income from Continuing Operations	$ 1.15	$ 1.20	$ 0.38
Loss from discontinued operations, net of income taxes	—	(0.01)	(0.88)
Net Income (Loss)	1.14	1.19	(0.50)
Diluted Earnings (Loss) Per Share:			
Income from Continuing Operations	$ 1.13	$ 1.19	$ 0.38
Loss from discontinued operations, net of income taxes	—	(0.01)	(0.88)
Net Income (Loss)	1.13	1.17	(0.50)

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Financial Position
(In millions, except share data)

	As of December 31, 2016	As of December 31, 2015
Assets:		
Current Assets:		
Cash and cash equivalents	$ 291	$ 296
Marketable securities	25	24
Receivables, less allowances of $22 and $23, respectively	536	487
Inventories	43	40
Prepaid expenses and other assets	70	54
Deferred customer acquisition costs	34	32
Total Current Assets	998	933
Other Assets:		
Property and equipment, net	210	160
Goodwill	2,247	2,129
Intangible assets, primarily trade names, service marks and trademarks, net	1,708	1,704
Restricted cash	95	—
Notes receivable	37	32
Long-term marketable securities	19	57
Other assets	71	83
Total Assets	$ 5,386	$ 5,098
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	$ 112	$ 110
Accrued liabilities:		
Payroll and related expenses	54	64
Self-insured claims and related expenses	111	106
Accrued interest payable	16	10
Other	60	59
Deferred revenue	629	552
Current portion of long-term debt	59	54
Total Current Liabilities	1,042	955
Long-Term Debt	2,772	2,698
Other Long-Term Liabilities:		
Deferred taxes	719	687
Other long-term obligations, primarily self-insured claims	167	213
Total Other Long-Term Liabilities	886	901
Commitments and Contingencies (Note 9)		
Shareholders' Equity:		
Common stock $0.01 par value (authorized 2,000,000,000 shares with 144,339,338 shares issued and 135,030,283 outstanding at December 31, 2016 and 143,170,897 shares issued and 135,511,176 outstanding at December 31, 2015)	2	2
Additional paid-in capital	2,274	2,245
Accumulated deficit	(1,405)	(1,560)
Accumulated other comprehensive loss	(3)	(21)
Less common stock held in treasury, at cost (9,309,055 shares at December 31, 2016 and 7,659,721 shares at December 31, 2015)	(182)	(122)
Total Shareholders' Equity	686	545
Total Liabilities and Shareholders' Equity	$ 5,386	$ 5,098

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity
(In millions)

	Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Treasury Amount	Total Equity
Balance December 31, 2013	99	$ 1	$ 1,523	$ (1,390)	$ 7	(7)	$ (118)	$ 23
Net loss	—	—	—	(57)	—	—	—	(57)
Other comprehensive income, net of tax	—	—	—	—	(13)	—	—	(13)
Total comprehensive loss	—	—	—	(57)	(13)	—	—	(70)
Net assets distributed to New TruGreen	—	—	—	(274)	(1)	—	—	(275)
Issuance of common stock	—	—	6	—	—	—	—	6
Issuance of common stock through IPO	41	—	663	—	—	—	—	663
Exercise of stock options	1	—	10	—	—	—	—	10
Vesting of RSUs	—	—	(1)	—	—	—	—	(1)
DSUs converted into common stock	—	—	(1)	—	—	—	1	—
Repurchase of common stock	—	—	—	—	—	—	(5)	(5)
Stock-based employee compensation	—	—	8	—	—	—	—	8
Balance December 31, 2014	142	$ 2	$ 2,207	$ (1,720)	$ (8)	(8)	$ (122)	$ 359
Net income	—	—	—	160	—	—	—	160
Other comprehensive loss, net of tax	—	—	—	—	(13)	—	—	(13)
Total comprehensive income (loss)	—	—	—	160	(13)	—	—	147
Issuance of common stock	—	—	1	—	—	—	—	1
Exercise of stock options	1	—	15	—	—	—	—	15
DSUs converted into common stock	—	—	(1)	—	—	—	1	—
Repurchase of common stock	—	—	—	—	—	—	(1)	(1)
Stock-based employee compensation	—	—	10	—	—	—	—	10
Excess tax benefits from stock-based compensation	—	—	13	—	—	—	—	13
Balance December 31, 2015	143	$ 2	$ 2,245	$ (1,560)	$ (21)	(8)	$ (122)	$ 545
Net income	—	—	—	155	—	—	—	155
Other comprehensive income, net of tax	—	—	—	—	18	—	—	18
Total comprehensive income	—	—	—	155	18	—	—	173
Issuance of common stock	—	—	2	—	—	—	—	2
Exercise of stock options	1	—	10	—	—	—	—	10
Repurchase of common stock	—	—	—	—	—	(2)	(60)	(60)
Stock-based employee compensation	—	—	16	—	—	—	—	16
Balance December 31, 2016	144	$ 2	$ 2,274	$ (1,405)	$ (3)	(9)	$ (182)	$ 686

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows
(In millions)

	Year Ended December 31,		
	2016	2015	2014
Cash and Cash Equivalents and Restricted Cash at Beginning of Period	$ 296	$ 389	$ 484
Cash Flows from Operating Activities from Continuing Operations:			
Net Income (Loss)	155	160	(57)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:			
Loss from discontinued operations, net of income taxes	1	2	100
Equity in losses of joint venture	1	—	—
Depreciation expense	61	47	48
Amortization expense	33	38	52
Amortization of debt issuance costs	5	5	8
401(k) Plan corrective contribution	2	23	—
Fumigation related matters	93	9	—
Payments on fumigation related matters	(90)	(1)	—
Insurance reserve adjustment	23	—	—
Impairment of software and other related costs	1	—	47
Gain on sale of Merry Maids branches	(2)	(7)	(1)
Loss on extinguishment of debt	32	58	65
Deferred income tax provision	22	60	29
Stock-based compensation expense	13	10	8
Gain on sale of marketable securities	(3)	(6)	(4)
Other	(3)	8	7
Change in working capital, net of acquisitions:			
Receivables	(40)	(44)	(34)
Inventories and other current assets	(6)	5	(1)
Accounts payable	7	18	(1)
Deferred revenue	44	38	39
Accrued liabilities	(28)	1	1
Accrued interest payable	6	(24)	(17)
Accrued restructuring charges	7	(2)	3
Current income taxes	(8)	2	(3)
Net Cash Provided from Operating Activities from Continuing Operations	325	398	289
Cash Flows from Investing Activities from Continuing Operations:			
Property additions	(56)	(40)	(35)
Sale of equipment and other assets	8	14	2
Other business acquisitions, net of cash acquired	(121)	(92)	(58)
Purchases of available-for-sale securities	(6)	(6)	(11)
Sales and maturities of available-for-sale securities	49	32	51
Origination of notes receivable	(100)	(98)	(85)
Collections on notes receivable	97	92	79
Other investments	(3)	—	—
Net Cash Used for Investing Activities from Continuing Operations	(133)	(98)	(56)
Cash Flows from Financing Activities from Continuing Operations:			
Borrowings of debt	2,400	583	1,825
Payments of debt	(2,417)	(923)	(2,698)
Discount paid on issuance of debt	(4)	(2)	(18)
Debt issuance costs paid	(34)	(5)	(24)
Call premium paid on retirement of debt	—	(49)	(35)
Contribution to TruGreen Holding Corporation	—	—	(35)
Repurchase of common stock and RSU vesting	(60)	—	(6)
Issuance of common stock	13	16	679
Net Cash Used for Financing Activities from Continuing Operations	(102)	(381)	(312)
Cash Flows from Discontinued Operations:			
Cash used for operating activities	—	(11)	(11)
Cash used for investing activities	—	—	(2)
Cash used for financing activities	—	—	(3)
Net Cash Used for Discontinued Operations	—	(11)	(15)
Effect of Exchange Rate Changes on Cash	—	(2)	—
Cash Increase (Decrease) During the Period	89	(92)	(95)
Cash and Cash Equivalents and Restricted Cash at End of Period	$ 386	$ 296	$ 389

See accompanying Notes to the Consolidated Financial Statements.

Note 1. Basis of Presentation

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

On June 25, 2014, the Company's registration statement on Form S-1 for our initial public offering was declared effective by the SEC. On July 1, 2014, the Company completed the offering of 41,285,000 shares of its common stock at a price of $17.00 per share. During 2015, through secondary public offerings of the Company's common stock, the selling stockholders completed the offering of an additional 80,711,763 shares of common stock. Since completion of the secondary public offerings in 2015, the Equity Sponsors have not held a significant amount of the Company's common stock.

Note 2. Significant Accounting Policies

Consolidation

The consolidated financial statements of the Company include all of its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. The more significant areas requiring the use of management estimates relate to revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers' compensation, auto and general liability insurance claims; accruals for home warranties and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; share based compensation; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets. In 2016, there were no changes in the significant areas that require estimates or in the underlying methodologies used in determining the amounts of these associated estimates.

The allowance for receivables is developed based on several factors including overall customer credit quality, historical write-off experience and specific account analyses that project the ultimate collectability of the outstanding balances. As such, these factors may change over time causing the allowance level to vary.

The Company carries insurance policies on insurable risks at levels which it believes to be appropriate, including workers' compensation, auto and general liability risks. The Company purchases insurance policies from third-party insurance carriers, which typically incorporate significant deductibles or self-insured retentions. The Company is responsible for all claims that fall below the retention limits. In determining the Company's accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual include known claims, as well as incurred but not reported claims. The Company adjusts its estimate of accrued self-insured claims when required to reflect changes based on factors such as changes in health care costs, accident frequency and claim severity.

The Company seeks to reduce the potential amount of loss arising from self-insured claims by insuring certain levels of risk. While insurance agreements are designed to limit the Company's losses from large exposure and permit recovery of a portion of direct unpaid losses, insurance does not relieve the Company of its ultimate liability. Accordingly, the accruals for insured claims represent the Company's total unpaid gross losses. Insurance recoverables, which are reported within Prepaid expenses and other assets and Other assets, relate to estimated insurance recoveries on the insured claims reserves.

Accruals for home warranty claims in the American Home Shield business are made based on the Company's claims experience and actuarial projections. Termite damage claim accruals in the Terminix business are recorded based on both the historical rates of claims incurred within a contract year and the cost per claim. Current activity could differ causing a change in estimates. The Company has certain liabilities with respect to existing or potential claims, lawsuits, and other proceedings. The Company accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified.

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

Revenue

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

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

The Company has franchise agreements in its Terminix, ServiceMaster Restore, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec businesses. Franchise revenue (which in the aggregate represents approximately five percent of annual consolidated revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee's customer-level revenue. Monthly fee revenue is recognized when the related customer-level revenue generating activity is performed by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise or a license. These initial franchise or license fees are pre-established fixed amounts and are recognized as revenue when collectability is reasonably assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations were $83 million, $75 million, and $71 million for the years ended December 31, 2016, 2015 and 2014, respectively. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company's consolidated financial statements for all periods.

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

The Company had $629 million and $552 million of deferred revenue as of December 31, 2016 and 2015, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home warranties, termite baiting, termite inspection and pest control services.

Deferred Customer Acquisition Costs

Customer acquisition costs, which are incremental and direct costs of obtaining a customer, are deferred and amortized over the life of the related contract in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale. Deferred customer acquisition costs amounted to $34 million and $32 million as of December 31, 2016 and 2015, respectively.

Advertising

On an interim basis, certain advertising costs are deferred and recognized approximately in proportion to the revenue over the year and are not deferred beyond the calendar year-end. Certain other advertising costs are expensed when the advertising occurs. The cost of direct-response advertising at Terminix, consisting primarily of direct-mail and digital promotions, is capitalized and amortized over its expected period of future benefits. Deferred advertising costs are included in Prepaid expenses and other assets on the consolidated statements of financial position. Advertising expense for the years ended December 31, 2016, 2015 and 2014 was $110 million, $113 million and $122 million, respectively.

Inventory

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

Property and Equipment, Intangible Assets and Goodwill

Property and equipment consist of the following:

(In millions)	As of December 31, 2016	2015	Estimated Useful Lives (Years)
Land	$ 6	$ 6	N/A
Buildings and improvements	38	38	10 - 40
Technology and communications	230	200	3 - 7
Machinery, production equipment and vehicles	202	146	3 - 9
Office equipment, furniture and fixtures	20	17	5 - 7
	496	408	
Less accumulated depreciation	(286)	(248)	
Net property and equipment	$ 210	$ 160	

Depreciation of property and equipment, including depreciation of assets held under capital leases was $61 million, $47 million and $48 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company recorded an impairment charge of $1 million in the year ended December 31, 2016 relating to its decision in the second quarter of 2016 to replace certain software pursuant to our ServSmart initiative.

The Company recorded an impairment charge of $47 million ($28 million, net of tax) in the year ended December 31, 2014 related to its decision in the first quarter of 2014 to abandon its efforts to deploy a new operating system at American Home Shield. This impairment represented an adjustment of the carrying value of the asset to its estimated fair value of zero on a non-recurring basis.

As of December 31, 2016 and 2015, goodwill was $2,247 million and $2,129 million, respectively, and intangible assets consisted primarily of indefinite-lived trade names in the amount of $1,608 million and other intangible assets in the amount of $100 million and $96 million, respectively.

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

As required under accounting standards for goodwill and other intangibles, goodwill is not subject to amortization, and intangible assets with indefinite useful lives are not amortized until their useful lives are determined to no longer be indefinite. Goodwill and intangible assets that are not subject to amortization 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 adopted the provisions of ASU 2011-08, "Testing Goodwill for Impairment," in the fourth quarter of 2011. This ASU gives entities the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not greater than its carrying amount, the two-step impairment test would not be required. For the 2016, 2015 and 2014 annual goodwill impairment analysis performed as of October 1 of each year, the Company did not perform qualitative assessments on any reporting unit, but instead completed Step 1 of the goodwill impairment test for all reporting units.

Goodwill and indefinite-lived intangible assets, primarily the Company's trade names, are assessed annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. The Company's 2016, 2015, and 2014 annual impairment analyses, which were performed as of October 1 of each year, did not result in any goodwill or trade name impairments to continuing operations.

Restricted Cash

Restricted cash consists of cash held in trust as collateral under the Company's automobile, general liability and workers' compensation insurance program.

Restricted Net Assets

There are third-party restrictions on the ability of certain of the Company's subsidiaries to transfer funds to the Company. These restrictions are related to regulatory requirements at American Home Shield and to a subsidiary borrowing arrangement at SMAC. The payment of ordinary and extraordinary dividends by the Company's home warranty and similar subsidiaries (through which the Company conducts its American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to the Company. As of December 31, 2016, the total net assets subject to these third-party restrictions was $173 million. None of the Company's subsidiaries are obligated to make funds available to the Company through the payment of dividends.

Financial Instruments and Credit Risk

The Company has entered into specific financial arrangements in the normal course of business to manage certain market risks, with a policy of matching positions and limiting the terms of contracts to relatively short durations. The effect of derivative financial instrument transactions could have a material impact on the Company's financial statements. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company has historically hedged a significant portion of its annual fuel consumption. The Company has also historically 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 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 income (loss).

Financial instruments, which potentially subject the Company to financial and credit risk, consist principally of investments and receivables. Investments consist primarily of publicly traded debt, certificates of deposit and common equity securities. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes. The majority of the Company's receivables and notes receivable have little concentration of credit risk due to the large number of customers with relatively small balances and their dispersion across geographical areas. The Company maintains an allowance for losses based upon the expected collectability of receivables. See Note 18 to the consolidated financial statements for information relating to the fair value of financial instruments.

Stock-Based Compensation

Stock-based compensation expense for stock options is estimated at the grant date based on an award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense over the requisite service period. The Black-Scholes model requires various highly judgmental assumptions including expected volatility and option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense for future grants may differ materially from that recorded in the current period related to options granted to date. In addition, the Company estimates the expected forfeiture rate and only recognizes expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience. To the extent the actual forfeiture rate is different from the estimate, stock-based compensation expense is adjusted accordingly. See Note 17 to the consolidated financial statements for more details.

Income Taxes

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

Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. The dilutive effect of stock options, restricted stock units ("RSUs") and performance shares are reflected in diluted net income (loss) per share by applying the treasury stock method. See Note 19 to the consolidated financial statements for more details.

Newly Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This model supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." Entities have the option of using either a full retrospective or modified approach to adopt the guidance. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for fiscal years, and interim period within those years, beginning after December 15, 2016. The Company currently expects to adopt the new revenue standards in the first quarter of 2018 utilizing the full retrospective transition method. The Company does not expect adoption of the new revenue standards to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" to change how entities measure certain equity investments, to require the disclosure of changes in the fair value of financial liabilities measured under the fair value option that are attributable to a company's own credit, and to change certain other disclosure requirements. The changes in ASU 2016-01 specifically require that the changes in fair value of all investments in equity securities be recognized in net income. The Company is impacted as unrealized gains or losses on the Company's available-for-sale securities are currently recognized in other comprehensive income. The amendments in ASU 2016-01 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and will be adopted prospectively.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which is the final standard on accounting for leases. While both lessees and lessors are affected by the new guidance, the effects on lessees are much more significant. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Entities are required to use a modified retrospective approach to adopt the guidance. The amendments in ASU 2016-02 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the Company's consolidated financial statements and currently expects that most of the operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption of ASU 2016-02, which will increase the amount of total assets and total liabilities that is reported relative to such amounts prior to adoption.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" to require the recognition of the income tax effects of share-based awards in the income statement when the awards vest or are settled and the presentation of excess tax benefits as an operating activity on the statement of cash flows as part of the FASB's simplification initiative. Under previous guidance, an entity generally recorded excess tax benefits and certain tax deficiencies in additional paid-in capital instead of through income tax expense or benefit in the income statement and presented excess tax benefits as a financing activity rather than an operating activity in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. As allowed, the Company has elected to early adopt the amendments of ASU 2016-09. The adoption of ASU 2016-09 has been accounted for as a change in accounting principle prospectively for the income statement effect, as required, and retrospectively for the cash flow statement effect, as allowed. As a result of the implementation of ASU 2016-09, $13 million of excess tax benefits for the year ended December 31, 2015 were retrospectively presented as an operating activity within the consolidated statements of cash flows.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In particular, under previous guidance, debt prepayment or debt extinguishment costs paid by a borrower in connection with settling a debt financing arrangement before the maturity date were inconsistently classified in the statement of cash flows as either operating activities or financing activities by borrowers. The Company has historically presented debt prepayment costs as cash outflows for operating activities. ASU 2016-15 requires that cash payments for debt prepayment or extinguishment costs be classified as cash outflows for financing activities. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. As allowed, the Company has elected to early adopt the amendments of ASU 2016-15 and has applied the applicable amendments retrospectively as required. As a result of the implementation of ASU 2016-15, $49 million and $35 million of call premium paid on retirement of debt for the years ended December 31, 2015 and 2014, respectively, was retrospectively presented as a financing activity within the consolidated statements of cash flows. ASU 2016-15 contains additional clarifications on the classification of certain transactions in the statement of cash flows, which the Company has applied retrospectively, as applicable.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash" to add and clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. ASU 2016-18 states than an entity should include in its cash and cash equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents; should disclose a reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash and restricted cash equivalents; and should not present changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, restricted cash and restricted cash equivalents as cash flow activities in the statement of cash flows. The Company is impacted due to activity associated with the Company's restricted cash balance. As allowed, the Company has elected to early adopt the amendments of ASU 2016-18 and has applied the applicable amendments retrospectively as required. As a result of the implementation of ASU 2016-18, the Company has included Restricted cash within the beginning and ending cash amounts presented in the consolidated statements of cash flows. In Note 15 to the consolidated financial statements, we have provided a reconciliation of the cash and cash equivalents and restricted cash balances reported within the consolidated statements of financial position to the amounts reported in the consolidated statements of cash flows.

Note 3. Business Segment Reporting

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

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

Information regarding the accounting policies used by the Company is described in Note 2 to the consolidated financial statements. The Company derives substantially all of its revenue from customers and franchisees in the United States with approximately two percent generated in foreign markets. Operating expenses of the business units consist primarily of direct costs and indirect costs allocated from Corporate. Identifiable assets are those used in carrying out the operations of the business unit and include intangible assets directly related to its operations.

The Company uses Reportable Segment Adjusted EBITDA as its measure of segment profitability. Accordingly, the CODM evaluates performance and allocates resources based primarily on Reportable Segment Adjusted EBITDA. Reportable Segment Adjusted EBITDA is defined as net income (loss) before: unallocated corporate expenses; loss from discontinued operations, net of income taxes; provision for income taxes; loss on extinguishment of debt; interest expense; depreciation and amortization expense; 401(k) Plan corrective contribution; fumigation related matters; insurance reserve adjustment; non-cash stock-based compensation expense; restructuring charges; gain on sale of Merry Maids branches; non-cash impairment of software and other related costs; non-cash impairment of property and equipment; management and consulting fees; consulting agreement termination fees; and other non-operating expenses. The Company's definition of Reportable Segment Adjusted EBITDA may not be calculated or comparable to similarly titled measures of other companies. The Company believes Reportable Segment Adjusted EBITDA is useful for investors, analysts and other interested parties as it facilitates company-to-company operating performance comparisons by excluding potential differences caused by variations in capital structures, taxation, the age and book depreciation of facilities and equipment, restructuring initiatives, consulting agreements and equity-based, long-term incentive plans.

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

(In millions)	Year Ended December 31, 2016	2015	2014
Revenue:			
Terminix	$ 1,524	$ 1,444	$ 1,370
American Home Shield	1,020	917	828
Franchise Services Group	200	232	253
Reportable Segment Revenue	$ 2,744	$ 2,592	$ 2,450
Corporate	2	2	7
Total Revenue	$ 2,746	$ 2,594	$ 2,457
Reportable Segment Adjusted EBITDA:(1)			
Terminix	$ 371	$ 347	$ 309
American Home Shield	220	205	179
Franchise Services Group	79	77	78
Reportable Segment Adjusted EBITDA	$ 670	$ 630	$ 566
Identifiable Assets:			
Terminix	$ 2,820	$ 2,764	$ 2,663
American Home Shield	1,312	1,137	1,063
Franchise Services Group	480	492	506
Reportable Segment Identifiable Assets	$ 4,612	$ 4,394	$ 4,232
Corporate	774	705	796
Total Identifiable Assets(2)	$ 5,386	$ 5,098	$ 5,028
Depreciation & Amortization Expense:			
Terminix	$ 58	$ 59	$ 73
American Home Shield	13	9	9
Franchise Services Group	7	8	8
Reportable Segment Depreciation & Amortization Expense	$ 78	$ 75	$ 90
Corporate	16	9	10
Total Depreciation & Amortization Expense(3)	$ 94	$ 84	$ 100
Capital Expenditures:			
Terminix	$ 11	$ 9	$ 7
American Home Shield	10	7	10
Franchise Services Group	2	3	4
Reportable Segment Capital Expenditures	$ 22	$ 19	$ 21
Corporate	33	21	15
Total Capital Expenditures	$ 56	$ 40	$ 35

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

(In millions)	Year Ended December 31, 2016	2015	2014
Reportable Segment Adjusted EBITDA:			
Terminix	$ 371	$ 347	$ 309
American Home Shield	220	205	179
Franchise Services Group	79	77	78
Reportable Segment Adjusted EBITDA	$ 670	$ 630	$ 566
Unallocated corporate expenses	$ (3)	$ (9)	$ (9)
Depreciation and amortization expense	(94)	(84)	(100)
401(k) Plan corrective contribution	(2)	(23)	—
Fumigation related matters	(93)	(9)	—
Insurance reserve adjustment	(23)	—	—
Non-cash stock-based compensation expense	(13)	(10)	(8)
Restructuring charges	(17)	(5)	(11)
Gain on sale of Merry Maids branches	2	7	1
Non-cash impairment of software and other related costs	(1)	—	(47)
Management and consulting fees	—	—	(4)
Consulting agreement termination fees	—	—	(21)
Loss from discontinued operations, net of income taxes	(1)	(2)	(100)
Provision for income taxes	(85)	(107)	(40)
Loss on extinguishment of debt	(32)	(58)	(65)
Interest expense	(153)	(167)	(219)
Other non-operating expenses	—	(3)	—
Net Income (Loss)	$ 155	$ 160	$ (57)

(2) Assets of discontinued operations are not included in the business segment table.

(3) There are no adjustments necessary to reconcile total depreciation and amortization as presented in the business segment table to consolidated totals. Amortization of debt issue costs is not included in the business segment table. See Note 4 to the consolidated financial statements for information relating to segment goodwill.

Note 4. Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are not amortized and 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 during the years ended December 31, 2016, 2015, and 2014. There were no accumulated impairment losses recorded in continuing operations as of December 31, 2016, 2015 and 2014.

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

(In millions)	Terminix	American Home Shield	Franchise Services Group	Total
Balance as of December 31, 2014	$ 1,497	381	191	2,069
Acquisitions	74	—	—	74
Disposals	—	—	(9)	(9)
Other [1]	(4)	—	(1)	(5)
Balance as of December 31, 2015	1,567	381	182	2,129
Acquisitions	34	90	—	124
Disposals	—	—	(6)	(6)
Balance as of December 31, 2016	$ 1,601	$ 471	$ 175	$ 2,247

(1) Reflects the impact of foreign exchange rates.

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

(In millions)	As of December 31, 2016						As of December 31, 2015					
		Gross		Accumulated Amortization		Net		Gross		Accumulated Amortization		Net
Trade names[1]	$	1,608		—		1,608	$	1,608	$	—	$	1,608
Customer relationships		594		(538)		56		571		(517)		53
Franchise agreements		88		(67)		21		88		(63)		25
Other		65		(42)		23		53		(36)		18
Total	$	2,356	$	(647)	$	1,708	$	2,320		(616)		1,704

(1) Not subject to amortization.

Amortization expense of $33 million, $38 million and $52 million was recorded in the years ended December 31, 2016, 2015 and 2014, respectively. For the existing intangible assets, the Company anticipates amortization expense of $26 million, $21 million, $15 million, $13 million and $9 million in 2017, 2018, 2019, 2020 and 2021, respectively.

During the year ended December 31, 2014, the Company recorded a pre-tax non-cash impairment charge of $139 million ($84 million, net of tax) associated with the trade name at its former TruGreen business, which is reported in Loss from discontinued operations, net of income taxes in the consolidated statements of operations and comprehensive income (loss).

Note 5. Income Taxes

As of December 31, 2016, 2015 and 2014, the Company has $13 million, $16 million and $13 million, respectively, of tax benefits primarily reflected in state tax returns that have not been recognized for financial reporting purposes ("unrecognized tax benefits"). At December 31, 2016 and 2015, $9 million and $12 million, respectively, of unrecognized tax benefits would impact the effective tax rate if recognized. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

(In millions)	Year Ended December 31,					
		2016		2015		2014
Gross unrecognized tax benefits at beginning of period	$	16	$	13	$	8
Increases in tax positions for prior years		—		—		1
Decrease in tax positions for prior years		(5)		—		—
Increases in tax positions for current year		3		3		7
Lapse in statute of limitations		(1)		(1)		(1)
Gross unrecognized tax benefits at end of period	$	13	$	16	$	13

Based on information currently available, it is reasonably possible that over the next 12 month period unrecognized tax benefits may decrease by $2 million as the result of settlements of ongoing audits, statute of limitation expirations or final settlements of uncertain tax positions in multiple jurisdictions.

The Company files consolidated and separate income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. In the ordinary course of business, the Company is subject to review by domestic and foreign taxing authorities. For U.S. federal income tax purposes, the Company participates in the IRS's Compliance Assurance Process whereby its U.S. federal income tax returns are reviewed by the IRS both prior to and after their filing. The U.S. federal income tax returns filed by the Company through the year ended December 31, 2014 have been audited by the IRS. In the fourth quarter of 2016, the IRS completed the audits of the Company's tax returns for the year ended December 31, 2014 with no additional payments. The IRS commenced examinations of the Company's U.S. federal income tax returns for 2015 in the first quarter of 2015. The examination is anticipated to be completed by the second quarter of 2017. Five state tax authorities are in the process of auditing state income tax returns of various subsidiaries. The Company is no longer subject to state and local or foreign income tax examinations by tax authorities for years before 2008.

The Company's policy is to recognize potential interest and penalties related to its tax positions within the tax provision. Total interest and penalties included in the consolidated statements of income are immaterial. As of December 31, 2016 and 2015, the Company had accrued for the payment of interest and penalties of approximately $1 million.

The components of income (loss) from continuing operations before income taxes are as follows:

(In millions)	Year Ended December 31, 2016	2015	2014
U.S.	$ 238	$ 266	$ 79
Foreign	3	4	5
Income from Continuing Operations before Income Taxes	$ 241	$ 270	$ 84

The reconciliation of income tax computed at the U.S. federal statutory tax rate to the Company's effective income tax rate for continuing operations is as follows:

	Year Ended December 31, 2016	2015	2014
Tax at U.S. federal statutory rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net of U.S. federal benefit	4.7	3.2	12.3
Tax credits	(0.9)	(0.8)	(3.1)
Other permanent items	1.5	2.4	1.8
Stock option forfeitures	—	—	1.6
Remeasurement of prior year tax positions	(1.9)	—	—
Excess tax benefits from stock-based compensation	(3.0)	—	—
Other, including foreign rate differences and reserves	—	—	0.6
Effective rate	35.4 %	39.8 %	48.2 %

The effective tax rate for discontinued operations for the years ended December 31, 2016, 2015 and 2014 was a tax benefit of 37.7 percent, 37.7 percent and 38.1 percent, respectively. The effective tax rate for the year ending December 31, 2014 was impacted by the impairment of non-deductible goodwill.

Income tax expense from continuing operations is as follows:

(In millions)	Year Ended December 31, 2016	2015	2014
Current:			
U.S. federal	$ 50	$ 33	$ —
Foreign	2	2	3
State and local	12	12	9
	64	47	11
Deferred:			
U.S. federal	17	59	27
Foreign	(2)	—	—
State and local	6	1	2
	22	60	29
Provision for income taxes	$ 85	$ 107	$ 40

Deferred income tax expense results from timing differences in the recognition of income and expense for income tax and financial reporting purposes. Deferred income tax balances reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. The deferred tax asset primarily reflects the impact of future tax deductions related to the Company's accruals and certain net operating loss carryforwards. The deferred tax liability is primarily attributable to the basis differences related to intangible assets. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The valuation allowance for deferred tax assets as of December 31, 2016 was $7 million.

Significant components of the Company's deferred tax balances are as follows:

(In millions)	As of December 31, 2016	2015
Long-term deferred tax assets (liabilities):		
Intangible assets[1]	$ (727)	$ (719)
Property and equipment	(34)	(21)
Prepaid expenses and deferred customer acquisition costs	(18)	(17)
Receivables allowances	13	13
Self-insured claims and related expenses	11	11
Accrued liabilities	28	30
Other long-term obligations	(19)	(14)
Net operating loss and tax credit carryforwards	36	37
Less valuation allowance	(7)	(7)
Net Long-term deferred tax liability[2]	$ (717)	$ (687)

(1) The deferred tax liability relates primarily to the difference in the tax versus book basis of intangible assets. The Company had $759 million and $760 million of deferred tax liability included in this net deferred tax liability as of December 31, 2016 and 2015, respectively, that will not actually be paid unless certain business units of the Company are sold.

(2) As of December 31, 2016, includes a deferred tax asset of $2 million recorded in Other assets on the consolidated statement of financial position.

As of December 31, 2016, the Company had deferred tax assets, net of valuation allowances, of $29 million for federal and state net operating loss and capital loss carryforwards, which expire at various dates up to 2036. The Company also had deferred tax assets, net of valuation allowances, of less than $1 million for federal and state credit carryforwards which expire at various dates up to 2026. The federal and state net operating loss carryforwards in the filed income tax returns included unrecognized tax benefits taken in prior years. The net operating losses for which a deferred tax asset is recognized for financial statement purposes in accordance with ASC 740 are presented net of these unrecognized tax benefits.

For the year ended December 31, 2011, the Company reorganized certain foreign subsidiaries in conjunction with its international growth initiatives and evaluated its liquidity requirements in the United States and the capital requirements of its foreign subsidiaries. Based on these factors, the Company considers undistributed earnings of its foreign subsidiaries as of December 31, 2016 to be indefinitely reinvested. Accordingly, the Company has not recorded any material deferred taxes for U.S. or foreign withholding taxes on the excess of the amount for financial reporting purposes over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. Cumulative undistributed earnings of the Company's foreign subsidiaries amounted to $60 million and $56 million as of December 31, 2016 and 2015, respectively. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. Should these earnings become taxable, the Company could be subject to U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes in various jurisdictions. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable due to the complexities of the hypothetical calculation. The amount of cash associated with indefinitely reinvested foreign earnings was approximately $23 million and $17 million as of December 31, 2016 and 2015, respectively. The Company does not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with domestic debt service requirements.

Note 6. Acquisitions

Acquisitions have been accounted for using the acquisition method and, accordingly, the results of operations of the acquired businesses have been included in the consolidated financial statements since their dates of acquisition. The assets and liabilities of these businesses were recorded in the financial statements at their estimated fair values as of the acquisition dates.

2016

On June 27, 2016, the Company acquired OneGuard for a total purchase price of $61 million. The Company recorded goodwill of $57 million and other intangibles, primarily customer relationships, of $15 million related to this acquisition.

On November 30, 2016, the Company acquired Landmark for a total purchase price of $39 million. The Company recorded goodwill of $33 million and other intangibles, primarily customer relationships, of $17 million related to this acquisition. As of December 31, 2016, the purchase price allocation for this acquisition has not been finalized. In particular, the Company is still evaluating the fair value of certain intangible assets. As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period in 2017.

During the year ended December 31, 2016, the Company completed several pest control and termite acquisitions. The total purchase price for these acquisitions was $43 million. The Company recorded goodwill of $34 million and other intangibles, primarily customer relationships, of $6 million related to these acquisitions.

Prior Years

During the year ended December 31, 2015, the Company completed several pest control and termite acquisitions. The total purchase price for these acquisitions was $125 million. The Company recorded goodwill of $74 million and other intangibles, primarily customer relationships, of $46 million related to these acquisitions.

On February 28, 2014, the Company acquired HSA. The total purchase price for this acquisition was $32 million. The Company recorded goodwill of $34 million and other intangibles, primarily customer relationships, of $18 million related to this acquisition.

During the year ended December 31, 2014, the Company completed several pest control, termite and franchise acquisitions. The total purchase price for these acquisitions was $32 million. The Company recorded goodwill of $20 million and other intangibles, primarily customer relationships, of $11 million related to these acquisitions.

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

	Year Ended December 31,		
(In millions)	**2016**	**2015**	**2014**
Assets acquired	$ 184	$ 126	$ 99
Liabilities assumed	(40)	—	(34)
Net assets acquired	$ 144	$ 125	$ 64
Net cash paid	$ 121	$ 92	$ 58
Seller financed debt	23	33	6
Purchase price	$ 144	$ 125	$ 64

Note 7. Discontinued Operations

TruGreen Spin-off

On January 14, 2014, the Company completed the TruGreen Spin-off resulting in the spin-off of the assets and certain liabilities of the TruGreen Business through a tax-free, pro rata dividend to the Company's stockholders. As a result of the completion of the TruGreen Spin-off, New TruGreen operates the TruGreen Business as a private independent company. The following is a summary of the assets and liabilities distributed to New TruGreen as part of the TruGreen spin-off on January 14, 2014:

(In millions)	
Assets:	
Cash and cash equivalents	$ 57
Receivables, net	22
Inventories and other current assets	39
Property and equipment, net	181
Intangible assets, net	216
Other long-term assets	6
Total Assets	$ 521
Liabilities:	
Current liabilities	$ 149
Long-term debt and other long-term liabilities	97
Total Liabilities	$ 246
Net assets distributed to New TruGreen	$ 275

The historical results of the TruGreen Business, including the results of operations, cash flows and related assets and liabilities, are reported as discontinued operations for all periods presented herein.

In connection with the TruGreen Spin-off, the Company entered into a transition services agreement with New TruGreen pursuant to which the Company provides New TruGreen with specified communications, public relations, finance and accounting, tax, treasury, internal audit, human resources operations and benefits, risk management and insurance, supply management, real estate management, marketing, facilities, information technology and other support services. The charges for the transition services are designed to allow the Company to fully recover the direct costs of providing the services, plus specified margins and any out-of-pocket costs and expenses. The services provided under the transition services agreement terminated at various specified times on or prior to December 31, 2016, except certain information technology services which the Company has entered into an agreement with New TruGreen to extend through June 30, 2018. New TruGreen may terminate the extended transition services agreement for convenience upon 90 days written notice.

Under this transition services agreement, in the years ended December 31, 2016, 2015 and 2014, the Company recorded $9 million, $25 million and $36 million, respectively, of fees from New TruGreen, which is included as a reduction, net of costs incurred, in Selling and administrative expenses in the consolidated statement of operations and comprehensive income (loss). As of December 31, 2016, all amounts owed by New TruGreen under this agreement have been paid.

During the year ended December 31, 2014, the Company processed certain of New TruGreen's accounts payable transactions. Through this process, in the year ended December 31, 2014, $97 million was paid on New TruGreen's behalf, all of which was repaid by New TruGreen.

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

TruGreen Intangible Assets

Indefinite lived intangible assets, primarily the Company's trade names, are assessed annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances.

Intangible Assets – Prior Years

As a result of the TruGreen Spin-off, the Company was required to perform an interim impairment analysis as of January 14, 2014 on the TruGreen trade name. The assumptions were developed with the view of the TruGreen Business as a stand-alone company, resulting in an increase in the assumed discount rate of 350 bps, as compared to the discount rate used in the October 1, 2013 impairment test for the TruGreen trade name. This interim impairment analysis resulted in a pre-tax non-cash trade name impairment charge of $139 million ($84 million, net of tax) to reduce the carrying value of the TruGreen trade name to its estimated fair value. This impairment charge was recorded in Loss from discontinued operations, net of income taxes, in the year ended December 31, 2014. The impairment of the TruGreen trade name represented an adjustment of the carrying value of the asset to its estimated fair value on a non-recurring basis using significant unobservable inputs on the date of the TruGreen Spin-off.

Financial Information for Discontinued Operations

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

The operating results of discontinued operations are as follows:

	Year Ended December 31,		
(In millions)	**2016**	**2015**	**2014**
Revenue	$ —	$ —	$ 6
Cost of services rendered and products sold	—	—	12
Selling and administrative expenses	1	3	14
Trade name impairment[1]	—	—	139
Restructuring charges	—	—	3
Loss before income taxes[1]	(1)	(3)	(161)
Benefit for income taxes[1]	—	(1)	(61)
Loss from discontinued operations, net of income taxes[1]	$ (1)	$ (2)	$ (100)

(1) During the year ended December 31, 2014, the Company recorded a pre-tax non-cash impairment charge of $139 million ($84 million, net of tax) associated with the trade name at its former TruGreen business, which is reported in Loss from discontinued operations, net of income taxes in the consolidated statements of operations and comprehensive income (loss).

Note 8. Restructuring Charges

The Company incurred restructuring charges of $17 million ($11 million, net of tax), $5 million ($3 million, net of tax) and $11 million ($7 million, net of tax) for the years ended December 31, 2016, 2015 and 2014, respectively. Restructuring charges were comprised of the following:

	Year Ended December 31,		
(In millions)	2016	2015	2014
Terminix(1)	$ 7	$ 3	$ 2
American Home Shield(2)	2	—	—
Franchise Services Group(3)	—	1	3
Corporate(4)	5	1	6
Headquarters relocation(5)	3	—	—
Total restructuring charges	$ 17	$ 5	$ 11

____

(1) For the year ended December 31, 2016, these charges include $1 million of severance costs and $3 million of stock-based compensation expense due to the modification of non-vested stock options and RSUs as part of the severance agreement with the former president of Terminix. Additionally, $4 million, $3 million and $2 million for the years ended December 31, 2016, 2015 and 2014, respectively, relate to lease termination and severance costs driven by Terminix's branch optimization program.

(2) Represents lease termination and other costs driven by the decision to consolidate the stand-alone operations of HSA acquired in February 2014 with those of American Home Shield.

(3) Represents severance costs related to the reorganization of the Franchise Services Group.

(4) For the year ended December 31, 2016, these charges include professional fees of $2 million and accelerated depreciation of $2 million related to the early termination of a long-term human resources outsourcing agreement. Additionally, for the years ended December 31, 2016, 2015, and 2014, these charges include severance and other costs of $2 million, $1 million, and $6 million, respectively, related to an initiative to enhance capabilities and reduce costs in the Company's headquarters functions that provide company-wide administrative services for its operations.

(5) Represents impairment charges of $1 million and professional fees and other costs of $1 million related to the relocation of the Company's headquarters.

The pretax charges discussed above are reported in Restructuring charges in the consolidated statements of operations and comprehensive (loss) income.

A reconciliation of the beginning and ending balances of accrued restructuring charges, which are included in Accrued liabilities—Other on the consolidated statements of financial position, is presented as follows:

(In millions)	Accrued Restructuring Charges
Balance as of December 31, 2014	$ 4
Costs incurred	5
Costs paid or otherwise settled	(7)
Balance as of December 31, 2015	1
Costs incurred	17
Costs paid or otherwise settled	(16)
Balance as of December 31, 2016	$ 3

Note 9. Commitments and Contingencies

The Company leases certain property and equipment under various operating lease arrangements. Most of the property leases provide that the Company pay taxes, insurance and maintenance applicable to the leased premises. As leases for existing locations expire, the Company expects to renew the leases or substitute another location and lease.

Rental expense for the years ended December 31, 2016, 2015 and 2014 was $29 million, $29 million and $31 million, respectively. Based on leases in place as of December 31, 2016, future long-term non-cancelable operating lease payments will be approximately $21 million in 2017, $17 million in 2018, $13 million in 2019, $11 million in 2020, $7 million in 2021 and $65 million in 2022 and thereafter.

In the normal course of business, the Company periodically enters into agreements that incorporate indemnification provisions. While the maximum amount to which the Company may be exposed under such agreements cannot be estimated, the Company does not expect these guarantees and indemnifications to have a material effect on the Company's business, financial condition, results of operations or cash flows.

The Company carries insurance policies on insurable risks at levels that it believes to be appropriate, including workers' compensation, automobile 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, exceed our coverage limits or are otherwise not covered by our insurance policies. In determining the Company's accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual include known claims, as well as incurred but not reported claims. The Company adjusts its estimate of accrued self-insured claims when required to reflect changes based on factors such as changes in health care costs, accident frequency and claim severity.

A reconciliation of beginning and ending accrued self-insured claims, which are included in Accrued liabilities—Self-insured claims and related expenses and Other long-term obligations, primarily self-insured claims on the consolidated statements of financial position, net of insurance recoverables, which are included in Prepaid expenses and other assets and Other assets on the consolidated statements of financial position, is presented as follows:

(In millions)	Accrued Self-insured Claims, Net
Balance as of December 31, 2014	$ 104
Provision for self-insured claims	41
Cash payments	(31)
Balance as of December 31, 2015	114
Provision for self-insured claims[(1)]	58
Cash payments	(51)
Balance as of December 31, 2016	$ 120

(1) Includes a charge of $23 million recorded in the year ended December 31, 2016 for an adjustment to the Company's accrued self-insured claims related to automobile, general liability and workers' compensation risks. The adjustment is based on the Company's detailed annual assessment of this actuarially determined accrual, which the Company completes in the second quarter of each year. This adjustment relates to coverage periods of 2015 and prior.

Accruals for home warranty claims in the American Home Shield business are made based on the Company's claims experience and actuarial projections. Termite damage claim accruals in the Terminix business are recorded based on both the historical rates of claims incurred within a contract year and the cost per claim. Current activity could differ causing a change in estimates. The Company has certain liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified.

For more information on the 401(k) Plan corrective contribution, see Note 11 to the consolidated financial statements.

In addition to the matters discussed above and the fumigation related matters discussed below, in the ordinary course of conducting business activities, the Company and its subsidiaries become involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include insured and uninsured matters that are brought on an individual, collective, representative and class action basis, or other proceedings involving regulatory, employment, general and commercial liability, automobile liability, wage and hour, environmental and other matters. The Company has entered into settlement agreements in certain cases, including with respect to putative collective and class actions, which are subject to court or other approvals. If one or more of the Company's settlements are not finally approved, the Company could have additional or different exposure, which could be material. Subject to the paragraphs below, 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.

Fumigation Related Matters

On July 21, 2016, TMX USVI and TMX LP, each an indirect, wholly-owned subsidiary of the Company, entered into the Superseding Plea Agreement in connection with the investigation initiated by the DOJ into allegations that a local Terminix branch used methyl bromide as a fumigant at a resort in St. John, U.S. Virgin Islands. The Superseding Plea Agreement was intended to resolve four misdemeanor charges of violations of the Federal Insecticide, Fungicide, and Rodenticide Act related to improper applications of methyl bromide. Those charges were set forth in an Information, dated March 29, 2016, in the matter styled *United States of America v. The Terminix International Company Limited Partnership and Terminix International USVI, LLC.* At a hearing held on August 25, 2016, the District Court rejected the Superseding Plea Agreement. On August 31, 2016, the DOJ requested that the charges be dismissed, reserving its right to re-file the charges, in light of ongoing discussions to resolve the matter. The District Court granted that request, and the March 29, 2016 Information was dismissed.

On January 20, 2017, TMX USVI and TMX LP entered into the New Plea Agreement with the DOJ, which has been filed with the District Court, and replaces the Superseding Plea Agreement. Under the New Plea Agreement, TMX USVI and TMX LP have agreed to plead guilty to four misdemeanor charges of violations of the Federal Insecticide, Fungicide, and Rodenticide Act related to improper applications of methyl bromide, as set forth in a new Information filed on January 20, 2017 with the District Court that is substantially similar to the March 29, 2016 Information. Under the terms of the New Plea Agreement, the parties agree and jointly recommend to the District Court that (i) TMX USVI and TMX LP each pay a fine of $4 million (total of $8 million); (ii) TMX USVI pay $1 million to the EPA for costs incurred by the EPA for the response and clean-up of the affected units at the resort in St. John; (iii) TMX USVI make a community service payment of $1 million to the National Fish and Wildlife Foundation for the purpose of engaging a third party to provide training to pesticide applicators in the U.S. Virgin Islands; and (iv) both TMX USVI and TMX LP serve a three-year probation period, subject to the special conditions of probation under the New Plea Agreement. The total financial terms of the recommended sentence under the New Plea Agreement are equivalent in total amount to the financial terms under the Superseding Plea Agreement. Unlike the Superseding Plea Agreement, however, the New Plea Agreement is non-binding on the District Court. It is possible that the District Court could use its discretion to impose fines or other terms different than those in the New Plea Agreement. If approved by the District Court, and upon compliance with the terms and conditions of the New Plea Agreement, the New Plea Agreement will resolve the federal criminal consequences associated with the DOJ investigation. The New Plea Agreement does not bind any other federal, state or local authority; however, the EPA has indicated that it does not intend to initiate any administrative enforcement action or refer the matter to the DOJ for any civil enforcement action if the New Plea Agreement is approved by the District Court.

The Company has recorded within Fumigation related matters in the consolidated statement of operations and comprehensive income charges of $2 million and $8 million in the years ended December 31, 2016 and 2015, respectively, in connection with the aforementioned criminal matter. The New Plea Agreement and the payments contemplated thereunder would not resolve any civil or administrative claims for damages or other relief related to the U.S. Virgin Islands matter; however, the Company previously disclosed that it has formalized the terms of the settlement agreement, which includes customary releases and confidentiality provisions, and a civil court in Delaware has given the necessary approvals. Accordingly, the civil claims for all four members of the Delaware family impacted are resolved. For the year ended December 31, 2016, the Company recorded within Fumigation related matters in the consolidated statement of operations and comprehensive income a charge of $87 million in connection with the settlement agreement. For the year ended December 31, 2015, the Company recorded within Cost of services rendered and products sold in the consolidated statement of operations and comprehensive income a charge of $3 million related to the civil claims related to the U.S. Virgin Islands matter, which is an amount equal to the Company's insurance deductible under its general liability insurance policies.

The amount and extent of any further potential penalties, fines, sanctions, costs and damages that the federal or other governmental authorities may yet impose, investigation or other costs and reputational harm, as well as the impact of any additional civil, criminal or other claims or judicial, administrative or regulatory proceedings resulting from or related to the U.S. Virgin Islands matter, which could be material, is not currently known or reasonably estimable, and any such further penalties, fines, sanctions, costs or damages would not be covered under the Company's general liability insurance policies. On December 16, 2016, the U.S. Virgin Islands Department of Justice filed a civil complaint in the Superior Court of the Virgin Islands related to the aforementioned fumigation incident in a matter styled Government of the United States Virgin Islands v. The ServiceMaster Company, LLC, The Terminix International Company Limited Partnership, and Terminix International USVI, LLC. The Company has not recorded any charge for this new civil lawsuit.

On September 15, 2015, a lawsuit was filed in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida, styled *Carl Robert McCaughey, et al. v. Terminix International Company Limited Partnership, Sunland Pest Control Services, Inc., et al*. The lawsuit alleges that fumigation of a Florida family's residence by Sunland, a subcontractor of TMX LP, resulted in serious injuries to one of the family's children. The Company has formalized the terms of a settlement agreement, which includes customary releases and confidentiality provisions, and a civil court in Florida has given the necessary approvals. Accordingly, the civil claims of the affected family related to the Florida fumigation matter are now resolved, and the case has been dismissed. Under the terms of the settlement agreement, in addition to the amounts that the Company's insurance carriers have agreed to pay to the family pursuant to our general liability insurance policies, the Company has paid $3 million, an amount equal to the Company's insurance deductible under its general liability insurance policies. In the year ended December 31, 2016, the Company recorded within Cost of services rendered and products sold in the consolidated statement of operations and comprehensive income a charge of $3 million in connection with civil claims related to the Florida fumigation matter.

Note 10. Related Party Transactions

On July 24, 2007, the Company was taken private pursuant to a merger transaction, and, following the completion of the merger and other subsequent transactions, the significant majority of the Company's outstanding common stock was owned by investment funds managed by, or affiliated with, the Equity Sponsors. Since completion of the Company's initial public offering in 2014 and the Company's secondary public offerings in 2015, the Equity Sponsors have not held a significant amount of the Company's common stock.

Consulting Agreements

The Company was a party to a consulting agreement with CD&R under which CD&R provided the Company with ongoing consulting and management advisory services. The annual consulting fee payable under the consulting agreement with CD&R was $6 million. The Company was also a party to consulting agreements with StepStone, JPMorgan and Ridgemont. Pursuant to the consulting agreements, the Company was required to pay aggregate annual consulting fees of $1 million to StepStone, JPMorgan and Ridgemont. Under these agreements, the Company recorded consulting fees of $4 million for the year ended December 31, 2014 which is included in Selling and administrative expenses in the consolidated statements of operations and comprehensive income (loss).

On July 1, 2014, in connection with the completion of the Company's initial public offering, the Company paid the Equity Sponsors aggregate fees of $21 million in connection with the termination of the consulting agreements, which is recorded in the year ended December 31, 2014 in Consulting agreement termination fees in the consolidated statements of operations and comprehensive income (loss). Due to the termination of the consulting agreements, there were no consulting fees recorded in the years ended December 31, 2016 and 2015.

Note 11. Employee Benefit Plans

Discretionary contributions to the Company's 401(k) plan were made in the amount of $15 million, $14 million and $12 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In 2008, the Company amended its 401(k) Plan to implement a QACA under the safe harbor provisions of the Code. QACA plans, in general, require automatic enrollment of employees into the retirement plan absent an affirmative election that such employees do not wish to participate. Although the Company implemented processes to auto-enroll new hires after adopting the QACA plan in 2008, it discovered that it did not auto-enroll then existing employees who were not participating in the 401(k) Plan. In response, the Company implemented an auto-enrollment process for affected active employees and submitted to the IRS a voluntary correction proposal to remedy the issue for prior years. The Company's current estimate of the cost of the correction ranges from $25 million to approximately $92 million. The Company has recorded within Selling and administrative expenses in the consolidated statement of operations and comprehensive income charges of $2 million and $23 million for the years ended December 31, 2016 and 2015, respectively. However, there can be no assurances as to the ultimate cost of the correction.

Note 12. Long-Term Debt

Long-term debt is summarized in the following table:

	As of December 31,	
(In millions)	**2016**	**2015**
Senior secured term loan facility maturing in 2021(1)	$ —	$ 2,336
Senior secured term loan facility maturing in 2023(2)	1,628	—
5.125% notes maturing in 2024(3)	737	—
Revolving credit facility maturing in 2021	—	—
7.10% notes maturing in 2018(4)	77	75
7.45% notes maturing in 2027(4)	167	164
7.25% notes maturing in 2038(4)	65	65
Vehicle capital leases(5)	87	47
Other	71	65
Less current portion	(59)	(54)
Total long-term debt	$ 2,772	$ 2,698

(1) As of December 31, 2015, presented net of $21 million in unamortized debt issuance costs and $17 million in unamortized original issue discount paid as described below under "—Term Loan Facility."

(2) As of December 31, 2016, presented net of $18 million in unamortized debt issuance costs and $4 million in unamortized original issue discount paid as described below under "—Term Loan Facility."

(3) As of December 31, 2016, presented net of $13 million in unamortized debt issuance costs as described below under "—2024 Notes."

(4) As of December 31, 2016 and 2015, collectively presented net of $48 million and $53 million, respectively, of unamortized fair value adjustments related to purchase accounting, which increases the effective interest rate from the coupon rates shown above.

(5) The Company has entered into the Fleet Agreement which, among other things, allows the Company to obtain fleet vehicles through a leasing program. All leases under the Fleet Agreement are capital leases for accounting purposes. The lease rental payments include an interest component calculated using a variable rate based on one-month LIBOR plus other contractual adjustments and a borrowing margin totaling 2.45 percent.

Term Loan Facility

On July 1, 2014, in connection with the Company's initial public offering, the Company entered into the $1,825 million Old Term Loan Facility, maturing July 1, 2021. Borrowings under the Old Term Loan Facility, together with $243 million of available cash and $120 million of net proceeds of the initial public offering, were used to repay in full the $2,187 million outstanding under the then-existing term loan facility. In addition, $42 million of available cash was used to pay debt issuance costs of $24 million and original issue discount of $18 million in connection with the Old Term Loan Facility.

On April 1, 2015, the Company entered into a first amendment to the Old Term Loan Facility, which provides for incremental term loans in an aggregate principal amount of $175 million. On April 1, 2015, the Company used the net proceeds from the incremental term loans, together with cash on hand, to redeem the remaining outstanding $200 million in aggregate principal amount of the 8% 2020 Notes at a redemption price of 106.0% of the principal amount. In addition, $2 million of available cash was used to pay debt issuance costs in connection with the incremental term loans.

On August 17, 2015, the Company entered into a second amendment to the Old Term Loan Facility, which provides for incremental term loans in an aggregate principal amount of $400 million. On August 17, 2015, the Company used the net proceeds from incremental term loans, together with cash on hand, to redeem the remaining outstanding $488 million in aggregate principal amount of the 7% 2020 Notes at a redemption price of 105.25% of the principal amount. In addition, $5 million of available cash was used to pay debt issuance costs of $3 million and original issue discount of $2 million in connection with the incremental term loans.

On November 8, 2016, the Company entered into a $1,650 million Term Loan Facility maturing November 8, 2023. Borrowings under the Term Loan Facility, together with the 2024 Notes, were used to repay the remaining outstanding $2,356 million in aggregate principal amount of the Old Term Loan Facility. In connection with the repayment, the Company recorded a loss on extinguishment of debt of $32 million in the year ended December 31, 2016, which includes the write-off of $14 million of original issue discount and $18 million of debt issuance costs. In addition, $38 million of proceeds was used to pay debt issuance costs of $34 million and original issue discount of $4 million in connection with the Term Loan Facility, the Revolving Credit Facility and the 2024 Notes.

The interest rates applicable to the term loans under the Term Loan Facility are based on a fluctuating rate of interest measured by reference to either, at The Company’s option, (i) an adjusted LIBOR (subject to a floor of zero percent) plus a margin of 2.50 percent per annum or (ii) an alternate base rate (subject to a floor of 1.00 percent) plus a margin of 1.50 percent per annum. Voluntary prepayments of borrowings under the Term Loan Facility are permitted at any time, in minimum principal amounts, without premium or penalty.

The Term Loan Facility and the guarantees thereof are secured by substantially all of the tangible and intangible assets of the Company and certain of its domestic subsidiaries, excluding certain subsidiaries subject to regulatory requirements in various states, including pledges of all the capital stock of all direct domestic subsidiaries (other than foreign subsidiary holding companies, which are deemed to be foreign subsidiaries) owned by the Company or any Guarantor and of up to 65% of the capital stock of each direct foreign subsidiary owned by the Company or any Guarantor. The Term Loan Facility security interests are subject to certain exceptions, including, but not limited to, exceptions for (i) equity interests, (ii) indebtedness or other obligations of subsidiaries, (iii) real estate or (iv) any other assets, if the granting of a security interest therein would require that any notes issued under the Company’s indenture dated as of August 15, 1997 be secured. The Term Loan Facility is secured on a *pari passu* basis with the security interests created in the same collateral securing the Revolving Credit Facility.

The Company has historically entered into interest rate swap agreements. Under the terms of these agreements, the Company pays a fixed rate of interest on the stated notional amount and receives a floating rate of interest (based on one month LIBOR) on the stated notional amount. Therefore, during the term of the swap agreements, the effective interest rate on the portion of the term loans equal to the stated notional amount is fixed at the stated rate in the interest rate swap agreements plus the incremental borrowing margin.

On July 23, 2014, the Company entered into two four-year interest rate swap agreements effective August 1, 2014. The aggregate notional amount of the agreements was $300 million. Under the terms of the agreements, the Company paid weighted-average fixed rate of interest of 1.786 percent on the $300 million notional amount, and the Company received a floating rate of interest (based on one-month LIBOR) on the notional amount. Therefore, during the term of the agreements, the effective interest rate on $300 million of the Old Term Loan Facility was fixed at a rate of 1.786 percent, plus the incremental borrowing margin of 3.25 percent.

On July 23, 2014, the Company entered into three forty-one month interest rate swap agreements effective March 1, 2015. The aggregate notional amount of the agreements was $400 million. Under the terms of the agreements, the Company paid a weighted-average fixed rate of interest of 1.927 percent on the $400 million notional amount, and the Company received a floating rate of interest (based on one-month LIBOR) on the notional amount. Therefore, during the term of the agreements, the effective interest rate on $400 million of the Old Term Loan Facility was fixed at a rate of 1.927 percent, plus the incremental borrowing margin of 3.25 percent.

On November 8, 2016, in connection with the repayment of the Old Term Loan Facility, the Company terminated the then-existing interest rate swap agreements and paid $10 million in connection with the terminations. The fair value of the terminated agreements of $10 million is recorded within accumulated other comprehensive income (loss) on the consolidated statements of financial position and will be amortized into interest expense over the original term of the agreements.

On November 7, 2016 the Company entered into a seven-year interest rate swap agreement effective November 8, 2016. The notional amount of the agreement was $650 million. Under the terms of the agreement, the Company will pay a fixed rate of interest of 1.493 percent on the $650 million notional amount, and the Company will receive a floating rate of interest (based on one-month

LIBOR, subject to a floor of zero percent) on the notional amount. Therefore, during the term on the agreement, the effective interest rate on $650 million of the Term Loan Facility is fixed at a rate of 1.493 percent, plus the incremental borrowing margin of 2.50 percent.

The changes in interest rate swap agreements, as well as the cumulative interest rate swaps outstanding, are as follows:

(In millions)		Notional Amount	Weighted Average Fixed Rate[1]
Interest rate swap agreements in effect as of December 31, 2014	$	300	1.786 %
Entered into effect		400	
Interest rate swap agreements in effect as of December 31, 2015		700	1.867 %
Terminated		(700)	
Entered into effect		650	
Interest rate swap agreements in effect as of December 31, 2016	$	650	1.493 %

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

In accordance with accounting standards for derivative instruments and hedging activities, and as further described in Note 18 to the consolidated financial statements, these interest rate swap agreements are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the consolidated statements of financial position as either an asset or liability at fair value, with the effective portion of the changes in fair value attributable to the hedged risks recorded in accumulated other comprehensive income (loss).

Revolving Credit Facility

On November 8, 2016, in connection with the Company's refinancing, the Company terminated the Old Revolving Credit Facility and entered into a $300 million Revolving Credit Facility. The maturity date for the Revolving Credit Facility is November 8, 2021. The Revolving Credit Facility provides for senior secured revolving loans and stand-by and other letters of credit. The Revolving Credit Facility limits outstanding letters of credit to $225 million. As of December 31, 2016, there were $35 million of letters of credit outstanding and $265 million of available borrowing capacity under the Revolving Credit Facility.

The Revolving Credit Facility and the guarantees thereof are secured by the same collateral securing the Term Loan Facility, on a *pari passu* basis with the security interests created in the same collateral securing the Term Loan Facility.

The interest rates applicable to the loans under the Revolving Credit Facility are based on a fluctuating rate of interest measured by reference to either, at the Company's option, (i) an adjusted LIBOR plus a margin of 2.50 percent per annum or (ii) an alternate base rate plus a margin of 1.50 percent per annum.

2024 Notes

On November 8, 2016, the Company sold $750 million of 2024 Notes. The 2024 Notes will mature on November 15, 2024 and bear interest at a rate of 5.125 percent per annum. The 2024 Notes are jointly and severally guaranteed on a senior unsecured basis by the Company's domestic subsidiaries that guarantee its indebtedness under the Credit Facilities (the "Guarantors"). The 2024 Notes are not guaranteed by any of the Company's non-U.S. subsidiaries, any subsidiaries subject to regulation as an insurance, home warranty or similar company, or certain other subsidiaries (the "Non-Guarantors").

The 2024 Notes are our unsecured obligations and rank equally in right of payment with all of our other existing and future senior unsecured indebtedness. The subsidiary guarantees are senior unsecured obligations of the Guarantors and rank equally in right of payment with all of the existing and future senior unsecured indebtedness of our Non-Guarantors. The 2024 Notes are effectively junior to all of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness.

2020 Notes

On July 16, 2014, the Company used proceeds from the Company's initial public offering to redeem $210 million in aggregate principal amount of its 8% 2020 Notes and $263 million in aggregate principal amount of its 7% 2020 Notes. In connection with the partial redemption of the 8% 2020 Notes and 7% 2020 Notes, the Company was required to pay a pre-payment premium of $17 million and $18 million, respectively, and accrued interest of $7 million and $8 million, respectively. Additionally, in connection with the partial redemption of the 2020 Notes and the repayment of the then-existing term loan facility, the Company recorded a loss on extinguishment of debt of $65 million in the year ended December 31, 2014, which includes the pre-payment premiums on the 8% 2020 Notes and 7% 2020 Notes of $17 million and $18 million, respectively, and the write-off of $30 million of debt issuance costs.

On February 17, 2015, the Company redeemed $190 million in aggregate principal amount of its 8% 2020 Notes at a redemption price of 106.0% of the principal amount using available cash. In connection with the partial redemption, the Company recorded a loss on extinguishment of debt of $13 million in the year ended December 31, 2015, which includes a pre-payment premium of $11 million and the write-off of $2 million of debt issuance costs.

On April 1, 2015, the Company used the net proceeds from additional borrowings under the Old Term Loan Facility, together with cash on hand, to redeem the remaining outstanding $200 million in aggregate principal amount of its 8% 2020 Notes at a redemption price of 106.0% of the principal amount. In connection with the redemption, the Company recorded a loss on extinguishment of debt of $14 million in the year ended December 31, 2015, which includes a pre-payment premium of $12 million and the write-off of $2 million of debt issuance costs.

On August 17, 2015, the Company used the net proceeds from additional borrowings under the Old Term Loan Facility, together with cash on hand, to redeem the remaining outstanding $488 million in aggregate principal amount of the 7% 2020 Notes at a redemption price of 105.25% of the principal amount. In connection with the redemption, the Company recorded a loss on extinguishment of debt of $31 million in the year ended December 31, 2015, which includes a pre-payment premium of $25 million and the write-off of $6 million of debt issuance costs.

Other

The agreements governing the Term Loan Facility and the Revolving Credit Facility contain certain covenants that, among other things, limit or restrict the incurrence of additional indebtedness, liens, sales of assets, certain payments (including dividends) and transactions with affiliates, subject to certain exceptions. The Company was in compliance with the covenants under these agreements at December 31, 2016.

As of December 31, 2016, future scheduled long-term debt payments are $59 million, $154 million, $43 million, $38 million and $23 million for the years ended December 31, 2017, 2018, 2019, 2020 and 2021, respectively. Certain of the Company's assets, including vehicles, equipment and a call center facility, are leased under capital leases with $88 million in remaining lease obligations as of December 31, 2016. The long-term debt payments above include future capital lease payments of approximately $27 million in 2017, $21 million in 2018, $18 million in 2019, $14 million in 2020, and $6 million in 2021.

Note 13. 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 consolidated statements of financial position. As of December 31, 2016 and 2015, the Company's investments consisted primarily of treasury bills ("Debt securities") and common equity securities ("Equity securities"). The amortized cost, fair value and gross unrealized gains and losses of the Company's short- and long-term investments in Debt and Equity securities are as follows:

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities, December 31, 2016:				
Debt securities	$ 27	$ —	$ —	$ 27
Equity securities	15	1	—	17
Total securities	$ 43	$ 1	$ —	$ 44
Available-for-sale securities, December 31, 2015:				
Debt securities	$ 60	$ 1	$ —	$ 60
Equity securities	18	3	—	21
Total securities	$ 78	$ 4	$ (1)	$ 81

There were no unrealized losses which had been in a loss position for more than one year as of December 31, 2016 and 2015. The aggregate fair value of the investments with unrealized losses was $24 million and $23 million as of December 31, 2016 and 2015, respectively.

Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income in the period they are realized. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes. The table below summarizes proceeds, gross realized gains and gross realized losses resulting from sales of available-for-sale securities. There were no impairment charges due to other than temporary declines in the value of certain investments for the years ended December 31, 2016, 2015, and 2014.

	Year Ended December 31,		
(In millions)	**2016**	**2015**	**2014**
Proceeds from sale of securities	$ 42	$ 22	$ 43
Gross realized gains, pre-tax	4	7	5
Gross realized gains, net of tax	2	4	3
Gross realized losses, pre-tax	—	—	(1)
Gross realized losses, net of tax	—	—	(1)

Note 14. Comprehensive Income (Loss)

Comprehensive income (loss), which primarily includes net income (loss), unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translation gain (loss) is disclosed in the consolidated statements of operations and comprehensive income (loss) and the consolidated statements of shareholders' equity.

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

(In millions)	**Unrealized (Losses) Gains on Derivatives**	**Unrealized Gains on Available -for-Sale Securities**	**Foreign Currency Translation Loss**	**Total**
Balance as of December 31, 2014	$ (6)	$ 6	$ (8)	$ (8)
Other comprehensive (loss) income before reclassifications:				
Pre-tax amount	(13)	1	(8)	(21)
Tax (benefit) provision	(5)	—	—	(5)
After-tax amount	(9)	1	(8)	(16)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	7	(4)	—	3
Net current period other comprehensive loss	(2)	(3)	(8)	(13)
Balance as of December 31, 2015	$ (7)	$ 2	$ (15)	$ (21)
Other comprehensive income before reclassifications:				
Pre-tax amount	20	1	—	21
Tax provision	8	1	—	9
After-tax amount	13	—	—	13
Amounts reclassified from accumulated other comprehensive income (loss)(1)	7	(2)	—	5
Net current period other comprehensive income (loss)	20	(2)	—	18
Balance as of December 31, 2016	$ 12	$ 1	$ (15)	$ (3)

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

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

(In millions)	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) As of December 31, 2016	2015	2014	Consolidated Statements of Operations and Comprehensive Income (Loss) Location
(Losses) gains on derivatives:				
Fuel swap contracts	$ (4)	$ (5)	$ (1)	Cost of services rendered and products sold
Interest rate swap contracts	(7)	(6)	(1)	Interest expense
Net losses on derivatives	(11)	(11)	(2)	
Impact of income taxes	4	4	1	Provision for income taxes
Total reclassifications related to derivatives	$ (7)	$ (7)	$ (1)	
Gains on available-for-sale securities	$ 3	$ 7	$ 4	Interest and net investment income
Impact of income taxes	(1)	(3)	(2)	Provision for income taxes
Total reclassifications related to securities	$ 2	$ 4	$ 3	
Total reclassifications for the period	$ (5)	$ (3)	$ 1	

Note 15. Supplemental Cash Flow Information

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

(In millions)	Year Ended December 31, 2016	2015	2014
Cash paid for or (received from):			
Interest expense[(1)]	$ 134	$ 178	$ 220
Interest and dividend income	(2)	(3)	(3)
Income taxes, net of refunds	71	44	12

(1) For the year ended December 31, 2016, excludes $10 million paid in connection with the termination of interest rate swap agreements.

As of December 31, 2016, Cash and cash equivalents of $291 million and Restricted cash of $95 million as presented on the consolidated statements of financial position represent the amounts comprising Cash and cash equivalents and restricted cash of $386 presented on the consolidated statements of cash flows. There were no restricted cash balances as of December 31, 2015 and 2014.

The Company acquired $61 million, $27 million and $17 million of property and equipment through capital leases and other non-cash financing transactions in the years ended December 31, 2016, 2015 and 2014, respectively, which have been excluded from the consolidated statements of cash flows as non-cash investing and financing activities.

In the years ended December 31, 2016, 2015 and 2014, the Company converted certain company-owned Merry Maids branches to franchises for a total purchase price of $9 million, $17 million and $2 million, respectively. In the years ended December 31, 2016, and 2015, the Company received cash of $6 million and $13 million, respectively, and provided financing of $2 million and $4 million, respectively. In the year ended December 31, 2014, the Company provided financing of $2 million. These financed amounts have been excluded from the consolidated statements of cash flows as non-cash investing activities.

Note 16. Capital Stock

The Company is authorized to issue 2,000,000,000 shares of common stock. As of December 31, 2016, there were 144,339,338 shares of common stock issued and 135,030,283 shares of common stock outstanding. The Company has no other classes of equity securities issued or outstanding.

Note 17. Stock-Based Compensation

In connection with the Company's initial public offering, the Company's board of directors and stockholders have adopted the Omnibus Incentive Plan. Prior to the Company's initial public offering, the Company's board of directors and stockholders had adopted the MSIP. Upon adoption of the Omnibus Incentive Plan, the Company froze the MSIP and will make no further grants thereunder. However, awards previously granted under the MSIP are unaffected by the termination of the MSIP. The Omnibus Incentive Plan provides for awards in the form of stock options, stock purchase rights, restricted stock, RSUs, performance shares, performance units, stock appreciation rights, dividend equivalents, DSUs and other stock-based awards. The MSIP provided for the sale of shares and DSUs of the Company's stock to the Company's executives, officers and other employees and to the Company's directors as well as the grant of RSUs, performance-based RSUs and options to purchase the Company's shares to those individuals. DSUs represent a right to receive a share of common stock in the future. The Company's Compensation Committee selects the Company's executive officers, employees and directors eligible to participate in the MSIP and the Omnibus Incentive Plan and determines the specific number of shares to be offered or options to be granted to an individual.

On February 24, 2015, the Company's board of directors approved and recommended for approval by the Company's stockholders the Employee Stock Purchase Plan, which became effective for offering periods commencing July 1, 2015. The Employee Stock Purchase Plan is intended to qualify for the favorable tax treatment under the Code. Under the plan, eligible employees of the Company may purchase common stock, subject to Internal Revenue Service limits, during pre-specified offering periods at a discount established by the Company not to exceed ten percent of the then-current fair market value. On April 27, 2015, the Company's stockholders approved the Employee Stock Purchase Plan with a maximum of one million shares of common stock authorized for sale under the plan. Under the Employee Stock Purchase Plan, the Company sold 70,063 shares in 2016 and 34,302 shares in 2015.

A maximum of 16,396,667 shares of the Company's stock is authorized for issuance under the MSIP, the Omnibus Incentive Plan and the Employee Stock Purchase Plan, of which, as of December 31, 2016, 7,706,972 shares remain available for future grants. The Company currently intends to satisfy any need for the Company's shares of common stock associated with the settlement of DSUs, vesting of RSUs, exercise of options or purchase of shares issued under the Omnibus Incentive Plan, MSIP or Employee Stock Purchase Plan through new shares available for issuance or any shares repurchased, forfeited or surrendered from participants in the MSIP and the Omnibus Incentive Plan.

All option grants under the Omnibus Incentive Plan and the MSIP have been, and the Company expects that all future option grants will be, non-qualified options with a per-share exercise price no less than the fair market value of one share of the Company's stock on the grant date. Any stock options granted will generally have a term of ten years and vesting will be subject to an employee's continued employment. The Company's Compensation Committee may accelerate the vesting of an option at any time. In addition, vesting of options will be accelerated if the Company experiences a change in control (as defined in the Omnibus Incentive Plan and the MSIP) unless options with substantially equivalent terms and economic value are substituted for existing options in place of accelerated vesting. Vesting of options granted under the Omnibus Incentive Plan and the MSIP will also be accelerated in the event of an employee's death or disability (as defined in the Omnibus Incentive Plan and the MSIP). Upon termination for cause (as defined in the Omnibus Incentive Plan and the MSIP), all options held by an employee are immediately cancelled. Following a termination without cause, vested options will generally remain exercisable through the earlier of the expiration of their term or three months following termination of employment (one year in the case of death, disability or retirement at normal retirement age). Unless sooner terminated by the Company's board of directors, the Omnibus Incentive Plan will remain in effect until June 26, 2024.

In 2016, 2015 and 2014, the Company completed various equity offerings to certain of the Company's executives, officers and employees pursuant to the MSIP and Omnibus Incentive Plan. The shares sold and options granted in connection with these equity offerings are subject to and governed by the terms of the MSIP and Omnibus Incentive Plan. In connection with these offerings, the Company sold a total of 245,996 shares of common stock in 2014 at a weighted-average purchase price of $12.00 per share in 2014. No shares of common stock were sold in 2016 and 2015.

Stock Options

The Company granted the Company's executives, officers and employees options to purchase 684,329; 411,506; and 1,222,831 shares of the Company's common stock in 2016, 2015 and 2014, respectively, at a weighted-average exercise price of $39.54 per share for options issued in 2016, $32.70 per share for options issued in 2015 and $12.91 per share for options issued in 2014. These options are subject to and governed by the terms of the MSIP and Omnibus Incentive Plan. The per share purchase price and exercise price was based on the determination by the Company's Compensation Committee of the fair market value of the Company's common stock as of the purchase/grant dates. All options granted to date generally will vest in four equal annual installments, subject to an employee's continued employment. The four-year vesting period is the requisite service period over which compensation cost will be recognized on a straight-line basis for all grants. All options issued are accounted for as equity-classified awards.

The value of each option award was estimated on the grant date using the Black-Scholes option valuation model that incorporates the assumptions noted in the following table. For options granted in 2016 and 2015, the expected volatility was based on historical and implied volatilities of the Company's publicly traded stock. For options granted in 2014, the expected volatility was based on the historical and implied volatilities of the publicly traded stock of a group of companies comparable to the Company. The expected life represents the period of time that options granted are expected to be outstanding and was calculated using the simplified method as outlined by the SEC in Staff Accounting Bulletins No. 107 and 110 as the Company does not have sufficient historical exercise to provide a reasonable basis upon which to estimate expected life due to the limited period of time the Company's equity shares have been publicly traded. The risk-free interest rates were based on the U.S. Treasury securities with terms similar to the expected lives of the options as of the grant dates.

	Year Ended December 31,		
Assumption	**2016**	**2015**	**2014**
Expected volatility	32.3 %	34.1 %	49.6 %
Expected dividend yield	0.0 %	0.0 %	0.0 %
Expected life (in years)	6.3	6.3	6.3
Risk-free interest rate	1.25% - 1.46%	1.50% - 1.83%	1.86 %

The weighted-average grant-date fair value of the options granted during 2016, 2015 and 2014 was $13.58, $11.91 and $6.18 per option, respectively. During the year ended December 31, 2016, the Company applied a forfeiture assumption of 17.42 percent per annum in the recognition of the expense related to these options, with the exception of the options held by the Company's CEO for which the Company has applied a forfeiture rate of zero. The total intrinsic value of stock options exercised during the years ended December 31, 2016, 2015 and 2014, was $20 million, $25 million and $10 million, respectively. The total fair value of stock options vested during the years ended December 31, 2016, 2015 and 2014, was $6 million, $5 million and $4 million, respectively.

A summary of option activity under the MSIP and Omnibus Incentive Plan as of December 31, 2016 and changes during the year then ended is presented below:

	Stock Options	Weighted Avg. Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Avg. Remaining Contractual Term (in years)
Total outstanding, December 31, 2015	3,668,055	$ 14.16	$ 92	7.22
Granted to employees	684,329	$ 39.54		
Exercised	(818,511)	$ 12.77		
Forfeited	(376,354)	$ 22.90		
Expired	(2,175)	$ 32.14		
Total outstanding, December 31, 2016	3,155,344	$ 18.96	$ 60	6.97
Total exercisable, December 31, 2016	1,550,740	$ 12.59	$ 39	5.90

RSUs

The Company granted the Company's executives, officers and employees 267,739; 304,680; and 99,622 RSUs in 2016, 2015 and 2014, respectively, with weighted-average grant date fair values of $39.15 per unit for 2016, $32.55 per unit for 2015 and $17.52 per unit for 2014, which was equivalent to the then current fair value of the Company's common stock at the grant date. All RSUs outstanding as of December 31, 2016 will vest in three equal annual installments, subject to an employee's continued employment. Upon vesting, each RSU will be converted into one share of the Company's common stock. The total fair value of RSUs vested during the years ended December 31, 2016, 2015 and 2014, was $10 million, $7 million and $5 million, respectively.

A summary of RSU activity under the MSIP and the Omnibus Incentive Plan as of December 31, 2016 and changes during the year then ended is presented below:

	RSUs	Weighted Avg. Grant Date Fair Value
Total outstanding, December 31, 2015	499,966	$ 23.99
Granted to employees	267,739	$ 39.15
Vested	(257,602)	$ 18.78
Forfeited	(70,969)	$ 28.10
Total outstanding, December 31, 2016	439,134	$ 35.63

Performance Shares

The Company granted the Company's executives 131,352 performance shares in 2016 with a weighted–average grant date fair value of $39.59 per share, which was equivalent to the then current fair value of the Company's common stock at the grant date. The performance shares vest at the end of a three-year period based on the achievement of a cumulative adjusted EPS target established at the grant date and subject to an executive's continued employment. As the performance shares contain a performance condition, stock-based compensation expense, net of estimated forfeitures, is recorded over the requisite service period based on the number of awards expected to vest. No performance shares were granted in 2015 and 2014.

A summary of performance share activity under the Omnibus Incentive Plan as of December 31, 2016 and changes during the year then ended is presented below:

	Performance Shares	Weighted Avg. Grant Date Fair Value
Total outstanding, December 31, 2015	—	$ —
Granted to executives	131,352	$ 39.59
Forfeited	(21,471)	$ 39.59
Total outstanding, December 31, 2016	109,881	$ 39.59

Stock-based compensation expense

During the years ended December 31, 2016, 2015 and 2014, the Company recognized stock-based compensation expense of $13 million ($8 million, net of tax), $10 million ($6 million, net of tax) and $8 million ($5 million, net of tax), respectively. These charges are recorded within Selling and administrative expenses in the consolidated statements of operations and comprehensive income. Additionally, during the year ended December 31, 2016, the Company recognized $3 million of stock-based compensation expense due to the modification of non-vested stock options and RSUs as part of the severance agreement with the former president of Terminix, which has been included in Restructuring charges in the consolidated statements of operations and comprehensive income. There were no award modifications in 2015 and 2014.

As of December 31, 2016, there was $24 million of total unrecognized compensation costs related to non-vested stock options, RSUs and performance shares granted under the MSIP and Omnibus Incentive Plan. These remaining costs are expected to be recognized over a weighted-average period of 2.16 years.

TruGreen Spin-Off

In connection with the TruGreen Spin-off, on January 14, 2014, the Company distributed all of New TruGreen's common stock to the Company's stockholders. Following the distribution, the Company's employees held equity incentive awards covering shares of New TruGreen common stock as well as equity incentive awards covering shares of the Company's common stock, and employees who transferred to New TruGreen held equity incentive awards covering shares of the Company's common stock as well as equity incentive awards covering shares of New TruGreen common stock.

To align the interests of the Company's continuing employees and the interests of New TruGreen's employees with their respective employers, on February 14, 2014, the Company and New TruGreen extended offers to each other's employees to allow them to tender their equity awards covering shares of their non-employing entity to the respective issuer and subsequently to apply the proceeds of any such tendered equity awards to subscribe for equity awards in their respective employers at the then-current fair market value ($12.00, in the case of the Company's common stock, and $3.75, in the case of New TruGreen common stock). As a result of this program, on March 18, 2014, the Company accepted tenders of 199,075 shares of the Company's common stock and DSUs from New TruGreen employees and issued 237,762 shares of the Company's common stock and DSUs to the Company's continuing employees. Additionally, 63,663 RSUs were converted under this program.

In connection with the TruGreen Spin-off, the Company adjusted the exercise price of options held by the Company's employees to reflect the fair market value of its common stock after giving effect to the TruGreen Spin-off by multiplying the exercise price of such options immediately prior to the TruGreen Spin-off by a fraction, the numerator of which was the fair market value of a share of its common stock immediately following the TruGreen Spin-off ($12.00 per share) and the denominator of which was the fair market value of a share of its common stock immediately prior to the TruGreen Spin-off ($15.75 per share), or the "Option Conversion Ratio."

To allow the Company's employees to retain the intrinsic value of their stock options prior to the TruGreen Spin-off, the Company also adjusted the number of shares underlying the options of such employees. The number of shares underlying the options was adjusted by dividing the number of shares underlying the options held by each employee by the Option Conversion Ratio. The Company refers to these adjustments collectively as the "Option Conversion." The change in the number of shares underlying options and the adjustment of the exercise price pursuant to the Option Conversion represent modifications to the Company's share based compensation awards. As a result of the Option Conversion the Company compared the fair value of the awards following the TruGreen Spin-off with the fair value of the original awards. The comparison did not yield incremental value. Accordingly, the Company did not record any incremental compensation expense as a result of the Option Conversion.

Note 18. Fair Value Measurements

The period-end carrying amounts of cash and cash equivalents, receivables, restricted cash, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The period-end carrying amounts of long-term notes receivable approximate fair value as the effective interest rates for these instruments are comparable to period-end market rates. The period-end carrying amounts of short- and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net of tax as a component of accumulated other comprehensive income (loss) on the consolidated statements of financial position, or, for certain unrealized losses, reported in interest and net investment income in the consolidated statements of operations and comprehensive income (loss) if the decline in value is other than temporary. The carrying amount of total debt was $2,831 million and $2,752 million and the estimated fair value was $2,930 million and $2,813 million as of December 31, 2016 and December 31, 2015, respectively. The fair value of the Company's debt is estimated based on available market prices for the same or similar instruments which are considered significant other observable inputs (Level 2) within the fair value hierarchy. The fair values presented reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report are based on information available to the Company as of December 31, 2016 and 2015.

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. The Company regularly reviews the forward price curves obtained from third-party market data providers and related changes in fair value for reasonableness utilizing information available to the Company from other published sources.

The Company has not changed its valuation techniques for measuring the fair value of any financial assets and liabilities during the year. Transfers between levels, if any, are recognized at the end of the reporting period. There were no significant transfers between levels during each of the years ended December 31, 2016 and 2015.

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

			Estimated Fair Value Measurements		
(In millions)	**Statement of Financial Position Location**	**Carrying Value**	**Quoted Prices In Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
As of December 31, 2016:					
Financial Assets:					
Deferred compensation trust	Long-term marketable securities	$ 8	$ 8	$ —	$ —
Investments in marketable securities	Marketable securities and Long-term marketable securities	36	33	3	—
Fuel swap contracts	Prepaid expenses and other assets and Other assets	5	—	—	5
Interest rate swap contracts	Other assets	27	—	27	—
Total financial assets		$ 75	$ 40	$ 30	$ 5
Financial Liabilities:					
Interest rate swap contracts	Other accrued liabilities and Other long-term obligations	4	—	4	—
Total financial liabilities		$ 4	$ —	$ 4	$ —
As of December 31, 2015:					
Financial Assets:					
Deferred compensation trust	Long-term marketable securities	$ 8	$ 8	$ —	$ —
Investments in marketable securities	Marketable securities and Long-term marketable securities	73	38	35	—
Total financial assets		$ 81	$ 46	$ 35	$ —
Financial Liabilities:					
Fuel swap contracts	Other accrued liabilities	$ 4	$ —	$ —	$ 4
Interest rate swap contracts	Other long-term obligations	8	—	8	—
Total financial liabilities		$ 12	$ —	$ 8	$ 4

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

(In millions)	Fuel Swap Contract Assets (Liabilities)	Location of Loss included in Earnings
Balance as of December 31, 2014	$ (6)	
Total (losses) gains (realized and unrealized)		
Included in earnings	(5)	Cost of services rendered and products sold
Included in other comprehensive income	2	
Settlements	5	
Balance as of December 31, 2015	(4)	
Total (losses) gains (realized and unrealized)		
Included in earnings	(4)	Cost of services rendered and products sold
Included in other comprehensive income	8	
Settlements	4	
Balance as of December 31, 2016	$ 5	

The following tables present information relating to the significant unobservable inputs of the Company's Level 3 financial instruments:

	Fair Value (in millions)	Valuation Technique	Unobservable Input	Range	Weighted Average
As of December 31, 2016:					
Fuel swap contracts	$ 5	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	$2.31 - $2.85	$ 2.55
As of December 31, 2015:					
Fuel swap contracts	$ (4)	Discounted Cash Flows	Forward Unleaded Price per Gallon(1)	$1.91 - $2.55	$ 2.22

(1) Forward prices per gallon were derived from third-party market data providers. A decrease in the forward price would result in a decrease in the fair value of the fuel swap contracts.

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. The Company has also historically 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 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 income (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 consolidated statements of cash flows.

Ineffective portions of derivative instruments designated in accordance with accounting standards as cash flow hedge relationships were insignificant during the 12 months ended December 31, 2016. As of December 31, 2016, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $33 million, maturing through 2018. 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 December 31, 2016, the Company had posted $3 million in letters of credit as collateral under its fuel hedging program, which were issued under the Revolving Credit Facility.

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 income (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. See Note 14 to the consolidated financial statements for the effective portion of the gain or loss on derivative instruments recorded in accumulated other comprehensive income (loss) and for the amounts reclassified out of accumulated other comprehensive income (loss) and into 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 income (loss) expected to be recognized in earnings is a loss of $3 million, net of tax, as of December 31, 2016. The amounts that are ultimately reclassified into earnings will be based on actual fuel prices and interest rates at the time the positions are settled and may differ materially from the amount noted above.

Note 19. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. The dilutive effect of stock options, RSUs and performance shares are reflected in diluted net income per share by applying the treasury stock method.

A reconciliation of the amounts included in the computation of basic earnings per share from continuing operations and diluted earnings per share from continuing operations is as follows:

	Year Ended December 31,		
(In millions, except per share data)	**2016**	**2015**	**2014**
Income from continuing operations	$ 155	$ 162	$ 43
Weighted-average common shares outstanding	135.3	135.0	112.8
Effect of dilutive securities:			
RSUs	0.2	0.2	0.1
Stock options[(1)]	1.8	1.4	0.8
Weighted-average common shares outstanding - assuming dilution	137.3	136.6	113.8
Basic earnings per share from continuing operations	$ 1.15	$ 1.20	$ 0.38
Diluted earnings per share from continuing operations	$ 1.13	$ 1.19	$ 0.38

(1) Options to purchase 0.9 million, 0.3 million, and 0.1 million shares for the years ended December 31, 2016, 2015 and 2014, respectively, were not included in the diluted earnings per share calculation because their effect would have been anti-dilutive.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
ServiceMaster Global Holdings, Inc.
Memphis, Tennessee

We have audited the internal control over financial reporting of ServiceMaster Global Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework* (*2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2016 of the Company and our report dated February 24, 2017 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of two new accounting standards.

/s/ Deloitte & Touche LLP
Memphis, Tennessee
February 24, 2017

Quarterly Operating Results (Unaudited)

Quarterly operating results for the last two years are shown in the table below. As discussed in the "Advertising" section in the Significant Accounting Policies, on an interim basis, certain advertising costs are deferred and recognized approximately in proportion to revenue over the year and are not deferred beyond the calendar year-end. Full year results are not affected.

	2016				
(in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating Revenue	$ 608	$ 747	$ 758	$ 633	$ 2,746
Gross Profit	284	368	358	288	1,298
Income from Continuing Operations(1)	39	16	70	31	155
Loss from Discontinued Operations, net of income taxes	—	—	—	—	(1)
Net Income(1)	39	16	70	31	155
Basic earnings per share:					
Income from Continuing Operations	0.29	0.11	0.52	0.23	1.15
Loss from Discontinued Operations, net of income taxes	—	—	—	—	—
Net Income	0.28	0.12	0.52	0.23	1.14
Diluted earnings per share:					
Income from Continuing Operations	0.28	0.11	0.51	0.23	1.13
Loss from Discontinued Operations, net of income taxes	—	—	—	—	—
Net Income	0.28	0.11	0.51	0.23	1.13

	2015				
(in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Operating Revenue	$ 571	$ 716	$ 706	$ 601	$ 2,594
Gross Profit	268	351	338	261	1,219
Income from Continuing Operations(1)	28	67	50	17	162
Loss from Discontinued Operations, net of income taxes	—	—	(1)	—	(2)
Net Income(1)	28	67	49	17	160
Basic earnings (loss) per share:					
Income from Continuing Operations	0.21	0.50	0.37	0.13	1.20
Loss from Discontinued Operations, net of income taxes	—	—	(0.01)	—	(0.01)
Net Income	0.21	0.49	0.37	0.12	1.19
Diluted earnings (loss) per share:					
Income from Continuing Operations	0.21	0.49	0.37	0.12	1.19
Loss from Discontinued Operations, net of income taxes	—	—	(0.01)	—	(0.01)
Net Income	0.20	0.49	0.36	0.12	1.17

(1) The results include restructuring charges primarily related to a branch optimization project and executive severance at Terminix, a project to consolidate the stand-alone operations of Home Security of America, Inc. with those of American Home Shield, an initiative to enhance capabilities and reduce costs in the Company's headquarters functions, and costs related to the relocation of the Company's headquarters. The table below summarizes the pre-tax and after-tax restructuring charges, by quarter, for 2016 and 2015.

	2016				
(in millions)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
Pre-tax	$ 1	$ 4	$ 8	$ 4	$ 17
After-tax	$ 1	$ 3	$ 5	$ 2	$ 11

	2015				
(in millions)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
Pre-tax	$ 2	$ —	$ 2	$ 1	$ 5
After-tax	$ 1	$ —	$ 1	$ 1	$ 3

The results for the second and fourth quarters of 2016 include charges of $1 million ($1 million, net of tax) and $1 million ($0 million, net of tax), respectively, related to the 401(k) Plan. The results for the fourth quarter of 2015 include a charge of $23 million ($14 million, net of tax) related to the 401(k) Plan.

The results for the first, second and third quarters of 2016 include charges of $3 million ($3 million, net of tax), $88 million ($54 million, net of tax) and $1 million ($1 million, net of tax), respectively, for fumigation related matters. The results for the fourth quarter of 2015 include a charge of $9 million ($9 million, net of tax) for fumigation related matters.

The results for the second quarter of 2016 includes a charge of $23 million ($15 million, net of tax) related to an insurance reserve adjustment.

The results for the first quarter of 2016 includes a gain of $1 million ($0 million, net of tax) associated with the branch conversions. The results for the first, second, third and fourth quarters of 2015 include gains of $1 million ($1 million, net of tax), $2 million ($1 million, net of tax), $3 million ($2 million, net of tax) and $2 million ($1 million, net of tax), respectively, associated with the branch conversions.

The results for the fourth quarter of 2016 includes a loss on extinguishment of debt of $32 million ($20 million, net of tax) related to the repayment of the Old Credit Facilities. The results for the first, second and third quarters of 2015 include a loss on extinguishment of debt of $13 million ($9 million, net of tax), $14 million ($9 million, net of tax) and $31 million ($20 million, net of tax), respectively, related to the redemption of the 2020 Notes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company's CEO, Robert J. Gillette, and Senior Vice President and CFO, Alan J. M. Haughie, have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K as required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act. Messrs. Gillette and Haughie have concluded that both the design and operation of the Company's disclosure controls and procedures were effective as of December 31, 2016.

Changes in internal control over financial reporting

No changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act, occurred during the fourth quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed, under the supervision and with the participation of the Company's CEO, Robert J. Gillette, and Senior Vice President and CFO, Alan J.M. Haughie, the effectiveness of its internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this assessment, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 and has expressed an unqualified opinion in their report which is included herein.

ITEM 9B. OTHER INFORMATION

As previously announced, Alan Haughie, who has been serving as our Chief Financial Officer through February 24, 2017, will retire March 15, 2017. Effective as of February 25, 2017, Anthony (Tony) DiLucente will assume the role of Chief Financial Officer.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item for the Company will be set forth in Company's Proxy Statement for the 2017 Annual Meeting of Stockholders, which information is hereby incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item for the Company will be set forth in Company's Proxy Statement for the 2017 Annual Meeting of Stockholders, which information is hereby incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item for the Company will be set forth in Company's Proxy Statement for the 2017 Annual Meeting of Stockholders, which information is hereby incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item for the Company will be set forth in Company's Proxy Statement for the 2017 Annual Meeting of Stockholders, which information is hereby incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item for the Company will be set forth in Company's Proxy Statement for the 2017 Annual Meeting of Stockholders, which information is hereby incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a). Financial Statements, Schedules and Exhibits.

1. *Financial Statements*

2. *Financial Statements Schedules*

The following information is filed as part of this Annual Report on Form 10-K and should be read in conjunction with the financial statements contained in Item 8 of this Annual Report on Form 10-K:

The exhibits filed with this report are listed on the Exhibit Index. Entries marked by the symbol # next to the exhibit's number identify management compensatory plans, contracts or arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, ServiceMaster Global Holdings, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SERVICEMASTER GLOBAL HOLDINGS, INC.

Date: February 24, 2017	By:	/s/ ROBERT J. GILLETTE
		Name: Robert J. Gillette
		Title: *Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

Date: February 24, 2017	By:	/s/ MARK E. TOMKINS
		Name: Mark E. Tomkins
		Title: *Director, Chairman of the Board*
Date: February 24, 2017	By:	/s/ ROBERT J. GILLETTE
		Name: Robert J. Gillette
		Title: *Chief Executive Officer and Director (Principal Executive Officer)*
Date: February 24, 2017	By:	/s/ ALAN J. M. HAUGHIE
		Name: Alan J. M. Haughie
		Title: *Senior Vice President and Chief Financial Officer (Principal Financial Officer)*
Date: February 24, 2017	By:	/s/ JOHN P. MULLEN
		Name: John P. Mullen
		Title: *Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)*
Date: February 24, 2017	By:	/s/ PETER L. CELLA
		Name: Peter L. Cella
		Title: *Director*
Date: February 24, 2017	By:	/s/ JOHN B. CORNESS
		Name: John B. Corness
		Title: *Director*
Date: February 24, 2017	By:	/s/ JERRI DEVARD
		Name: Jerri L. DeVard
		Title: *Director*
Date: February 24, 2017	By:	/s/ RICHARD P. FOX
		Name: Richard P. Fox
		Title: *Director*
Date: February 24, 2017	By:	/s/ LAURIE ANN GOLDMAN
		Name: Laurie Ann Goldman
		Title: Director
Date: February 24, 2017	By:	/s/ STEPHAN J. SEDITA
		Name: Stephan J. Sedita
		Title: Director

SCHEDULE I

SERVICEMASTER GLOBAL HOLDINGS, INC. (PARENT COMPANY ONLY)

Condensed Statements of Income
(In millions)

	Year ended December 31,		
	2016	2015	2014
Revenue	$ —	$ —	$ —
Selling and administrative expenses	—	—	1
Loss from Continuing Operations before Income Taxes	—	—	(2)
Benefit for income taxes	—	(1)	(1)
Income (Loss) from Continuing Operations	—	1	(1)
Equity in earnings of subsidiaries (net of tax)	155	160	(56)
Net Income (Loss)	$ 155	$ 160	$ (57)
Total Comprehensive Income (Loss)	$ 173	$ 147	$ (70)

SERVICEMASTER GLOBAL HOLDINGS, INC. (PARENT COMPANY ONLY)

Condensed Balance Sheets
(In millions)

	As of December 31,	
	2016	2015
Assets:		
Current Assets:		
Cash and cash equivalents	$ 5	$ 14
Receivables	—	1
Total Current Assets	5	15
Other Assets:		
Investments in and advances to subsidiaries	741	552
Total Assets	$ 747	$ 568
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accrued liabilities:		
Payroll and related expenses	$ —	$ 1
Other	—	22
Total Current Liabilities	—	23
Other Long-Term Liabilities:		
Intercompany payable	60	—
Shareholders' Equity	686	545
Total Liabilities and Shareholders' Equity	$ 747	$ 568

SERVICEMASTER GLOBAL HOLDINGS, INC. (PARENT COMPANY ONLY)

Condensed Statements of Cash Flows
(In millions)

	Year ended December 31, 2016	2015	2014
Cash and Cash Equivalents at Beginning of Period	$ 14	$ 21	$ 8
Net Cash Used for Operating Activities from Continuing Operations	(22)	(3)	—
Cash Flows from Financing Activities from Continuing Operations:			
Borrowings of debt	—	—	2
Payments of debt	—	—	(16)
Contribution to ServiceMaster Company, LLC	—	(20)	(646)
Net intercompany advances	60	—	—
Repurchase of common stock and RSU vesting	(60)	—	(6)
Issuance of common stock	13	16	679
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	13	(5)	13
Cash (Decrease) Increase During the Period	(9)	(7)	13
Cash and Cash Equivalents at End of Period	$ 5	$ 14	$ 21

Notes to Condensed Parent Company Only Financial Statements

1. Basis of Presentation

The condensed financial statements of ServiceMaster Global Holdings, Inc. ("Parent Company") are required as a result of the restricted net assets of the Parent Company's consolidated subsidiaries exceeding 25% of the Parent Company's consolidated net assets as of December 31, 2016. All consolidated subsidiaries of the Parent Company are wholly owned. The primary source of income for the Parent Company is equity in its subsidiaries' earnings.

Pursuant to rules and regulations of the SEC, the unconsolidated condensed financial statements of the Parent Company do not reflect all of the information and notes normally included with financial statements prepared in accordance with GAAP. Therefore, these condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in this Annual Report on Form 10-K.

The Parent Company has accounted for its subsidiaries under the equity method in the unconsolidated condensed financial statements.

2. Commitments and Contingencies

The Parent Company and its subsidiaries are parties to environmental and other legal matters. For further discussion of commitments, guarantees and contingencies, see Note 9 to the consolidated financial statements of ServiceMaster Global Holdings, Inc. included in this Annual Report on Form 10-K.

3. Long-Term Debt

On April 19, 2013, the Parent Company entered into a revolving promissory note with The ServiceMaster Company, LLC with a maximum borrowing capacity of $25 million that was scheduled to mature on April 18, 2018. Amounts outstanding under this agreement bore interest at the rate of five percent per annum. On July 1, 2014, the Parent Company used a portion of the proceeds from the initial public offering to repay this inter-company loan. As a result of this repayment, the Parent Company did not have a balance outstanding under this note as of December 31, 2015 and 2016.

SCHEDULE II
SERVICEMASTER GLOBAL HOLDINGS, INC.
Valuation and Qualifying Accounts
(In millions)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions(1)	Balance at End of Period
As of and for the year ending December 31, 2016:				
Continuing Operations—				
Allowance for doubtful accounts				
Accounts receivable	$ 21	$ 39	$ 39	$ 21
Notes receivable	2	—	1	2
Income tax valuation allowance	7	2	2	7
As of and for the year ending December 31, 2015:				
Continuing Operations—				
Allowance for doubtful accounts				
Accounts receivable	$ 22	$ 35	$ 36	$ 21
Notes receivable	3	—	1	2
Income tax valuation allowance	7	1	2	7
As of and for the year ending December 31, 2014:				
Continuing Operations—				
Allowance for doubtful accounts				
Accounts receivable	$ 22	$ 34	$ 34	$ 22
Notes receivable	4	—	1	3
Income tax valuation allowance	7	1	1	7

(1) Deductions in the allowance for doubtful accounts for accounts and notes receivable reflect write-offs of uncollectible accounts. Deductions for the income tax valuation allowance in 2016, 2015 and 2014 are primarily attributable to the reduction of net operating loss carryforwards and other deferred tax assets related to the uncertainty of future taxable income in certain jurisdictions.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Separation and Distribution Agreement, dated as of January 14, 2014, by and among ServiceMaster Global Holdings, Inc., The ServiceMaster Company, TruGreen Holding Corporation and TruGreen Limited Partnership, is incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of The ServiceMaster Company, LLC, filed January 17, 2014.
2.2	Employee Matters Agreement, dated as of January 14, 2014, by and among ServiceMaster Global Holdings, Inc., The ServiceMaster Company, LLC, TruGreen Limited Partnership and TruGreen Holding Corporation, is incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K of The ServiceMaster Company, LLC, filed January 17, 2014.
2.3	Tax Matters Agreement, dated as of January 14, 2014, by and among ServiceMaster Global Holdings, Inc., The ServiceMaster Company, LLC, TruGreen Holding Corporation and TruGreen Limited Partnership, is incorporated by reference to Exhibit 2.4 to the Current Report on Form 8-K of The ServiceMaster Company, LLC, filed January 17, 2014.
2.4	Transition Services Agreement, dated as of January 14, 2014, by and between The ServiceMaster Company, LLC and TruGreen Limited Partnership, is incorporated by reference to Exhibit 2.5 to the Current Report on Form 8-K of The ServiceMaster Company, LLC, filed January 17, 2014.
3.1	Second Amended and Restated Certificate of Incorporation of ServiceMaster Global Holdings, Inc., is incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-8 of ServiceMaster Global Holdings, Inc., filed July 1, 2014.
3.2	Third Amended and Restated By-Laws of ServiceMaster Global Holdings, Inc., is incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 of ServiceMaster Global Holdings, Inc., filed October 28, 2016.
4.1	Indenture, dated as of August 15, 1997, between The ServiceMaster Company (as successor to ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership) and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 of The ServiceMaster Company, filed August 6, 1997.
4.2	First Supplemental Indenture dated as of August 15, 1997 between The ServiceMaster Company (as successor to ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership) and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K for the year ended December 31, 1997 of The ServiceMaster Company, filed March 27, 1998.
4.3	Second Supplemental Indenture dated as of January 1, 1998 between The ServiceMaster Company and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 2 to the Current Report on Form 8-K of The ServiceMaster Company, filed February 26, 1998.
4.4	Third Supplemental Indenture dated as of March 2, 1998 between The ServiceMaster Company and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of the ServiceMaster Company, filed February 27, 1998.
4.5	Fourth Supplemental Indenture dated as of August 10, 1999 between The ServiceMaster Company and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 3 to the Current Report on Form 8-K filed of The ServiceMaster Company, filed August 16, 1999.

4.6 Fifth Supplemental Indenture, dated as of January 14, 2014, among The ServiceMaster Company, LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to Harris Trust and Savings Bank), as Trustee is incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of The ServiceMaster Company, LLC, filed January 17, 2014.

4.7 Form of 7.45% Note due August 14, 2027 is incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-3 of The ServiceMaster Company, filed August 6, 1997.

4.8 Form of 7.10% Note due March 1, 2018 is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of the ServiceMaster Company, filed February 27, 1998.

4.9 Form of 7.25% Note due March 1, 2038 is incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of the ServiceMaster Company, filed February 27, 1998.

4.10 Indenture, dated as of November 8, 2016, among The ServiceMaster Company, LLC, the Subsidiary Guarantors named therein and Wilmington Trust, National Association, as Trustee, is incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc., filed November 10, 2016.

4.11 First Supplemental Indenture, dated as of November 8, 2016, among The ServiceMaster Company, LLC, the Subsidiary Guarantors named therein and Wilmington Trust, National Association, as Trustee, is incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc., filed November 10, 2016.

4.12 Form of 5.125% Senior Note maturing in 2024 is, included in and, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc., filed November 10, 2016.

4.13 Form of Common Stock Certificate is incorporated by reference to Exhibit 4.18 to the Registration Statement on Form S-1 of ServiceMaster Global Holdings, Inc., filed June 19, 2014.

10.1 Credit Agreement, dated as of July 1, 2014, among The ServiceMaster Company, LLC, the several banks and other financial institutions from time to time party thereto, JPMorgan Chase Bank, as administrative agent and collateral agent for the lenders party thereto, and the other parties thereto, is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc. and the ServiceMaster Company, LLC filed July 2, 2014.

10.2 First Term Loan Amendment, dated as of April 1, 2015, to the Credit Agreement, dated as of July 1, 2014, among The ServiceMaster Company, LLC and the incremental term lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent for the lenders and the other parties party thereto is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 of ServiceMaster Global Holdings, Inc. and the ServiceMaster Company, LLC, filed May 4, 2015.

10.3 Second Amendment, dated as of August 17, 2015, to the Credit Agreement, dated as of July 1, 2014, among The ServiceMaster Company, LLC and the incremental term lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent for the lenders and the other parties party thereto is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc., and The ServiceMaster Company, LLC, filed August 17, 2015.

10.4 Third Amendment, dated as of November 8, 2016, to the Credit Agreement, dated as of July 1, 2014, among The ServiceMaster Company, LLC, JPMorgan Chase Bank N.A., as administrative agent, the lenders and other financial institutions party thereto and certain Subsidiaries named therein is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc., filed November 10, 2016.

10.5 Guarantee and Collateral Agreement, dated as of July 1, 2014 among The ServiceMaster Company, LLC, the Guarantors named therein, in favor of JPMorgan Chase Bank, as administrative agent and collateral agent for the banks and other financial institutions from time to time parties to the Credit Agreement, is incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc. and the ServiceMaster Company, LLC filed July 2, 2014.

10.6#	Employment Agreement, dated as of June 14, 2013, by and between Robert J. Gillette and ServiceMaster Global Holdings, Inc. is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of The ServiceMaster Company, filed June 18, 2013.
10.7#	Amendment No. 1 to Employment Agreement, dated as of August 13, 2013, by and between Robert J. Gillette and ServiceMaster Global Holdings, Inc. is incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 of The ServiceMaster Company, filed August 14, 2013.
10.8#	Amendment No. 2 to Employment Agreement, dated as of February 28, 2014, by and between Robert J. Gillette and ServiceMaster Global Holdings, Inc. is incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K for the year ended December 31, 2013 of The ServiceMaster Company, LLC, filed March 5, 2014.
10.9#	Severance Agreement, dated as of August 26, 2013, by and between Alan J. M. Haughie and The ServiceMaster Company is incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of The ServiceMaster Company, filed August 29, 2013.
10.10#	Amended and Restated ServiceMaster Global Holdings, Inc. Stock Incentive Plan, as amended as of October 25, 2012 (the "MSIP"), is incorporated by reference to Exhibit 10 to the Current Report on Form 8-K of The ServiceMaster Company, filed October 26, 2012.
10.11#	Form of Employee Stock Option Agreement under the MSIP is incorporated by reference to Exhibit 10.32 to the Annual Report on Form 10-K for the year ended December 31, 2007 of The ServiceMaster Company, filed March 28, 2008.
10.12#	Form of Employee Deferred Share Unit Agreement under the MSIP is incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K for the year ended December 31, 2007 of The ServiceMaster Company, filed March 28, 2008.
10.13#	Form of Employee Restricted Stock Unit Agreement under the MSIP is incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 of The ServiceMaster Company, filed November 15, 2010.
10.14#	Form of Employee Restricted Stock Unit Agreement for Robert J. Gillette is incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of The ServiceMaster Company, filed June 18, 2013.
10.15#	Form of Employee Stock Option Agreement for Robert J. Gillette is incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of The ServiceMaster Company, filed June 18, 2013.
10.16	Form of Director Indemnification Agreement is incorporated by reference to Exhibit 10.71 to the Registration Statement on Form S-1 of ServiceMaster Global Holdings, Inc., filed June 19, 2014.
10.17*	Schedule of Signatories to a Director Indemnification Agreement.
10.18#	ServiceMaster Deferred Compensation Plan, amended and restated as of October 28, 2016, is incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 of ServiceMaster Global Holdings, Inc., filed October 28, 2016.
10.19	ServiceMaster Global Holdings, Inc. Directors' Deferred Compensation Plan is incorporated by reference to Exhibit 10.79 to the Registration Statement on Form S-1 of ServiceMaster Global Holdings, Inc., filed June 16, 2014.

10.20# ServiceMaster Global Holdings, Inc. Executive Annual Bonus Plan is incorporated by reference to Annex A to the definitive Proxy Statement on Schedule 14A of ServiceMaster Global Holdings, Inc., filed March 20, 2015 (the "2015 Proxy Statement").

10.21# Amended and Restated ServiceMaster Global Holdings, Inc. 2014 Omnibus Incentive Plan (the "Omnibus Plan") is incorporated by reference to Annex B to the 2015 Proxy Statement.

10.22# ServiceMaster Global Holdings, Inc. Employee Stock Purchase Plan is incorporated by reference to Annex C to the 2015 Proxy Statement.

10.23# Form of Employee Stock Option Agreement under the Omnibus Plan for awards granted between July 1, 2014 and February 23, 2015 is incorporated by reference to Exhibit 10.77 to the Registration Statement on Form S-1 of ServiceMaster Global Holdings, Inc., filed June 16, 2014.

10.24# Form of Employee Stock Option Agreement under the Omnibus Plan for awards granted between February 24, 2015 and February 21, 2016 is incorporated by reference to Exhibit 10.70 to the Annual Report on Form 10-K for the year ended December 31, 2014 of ServiceMaster Global Holdings, Inc. and the ServiceMaster Company, LLC, filed March 2, 2015.

10.25# Form of Employee Stock Option Agreement under the Omnibus Plan for awards granted on or after February 22, 2016 is incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 of ServiceMaster Global Holdings, Inc., filed May 5, 2016.

10.26# Form of Employee Restricted Stock Unit Agreement under the Omnibus Plan for awards granted between July 1, 2014 and February 23, 2015 is incorporated by reference to Exhibit 10.78 to the Registration Statement on Form S-1 of ServiceMaster Global Holdings, Inc., filed June 16, 2014.

10.27# Form of Employee Restricted Stock Unit Agreement under the Omnibus Plan for awards granted between February 24, 2015 and February 21, 2016 is incorporated by reference to Exhibit 10.71 to the Annual Report on Form 10-K for the year ended December 31, 2014 of ServiceMaster Global Holdings, Inc. and the ServiceMaster Company, LLC, filed March 2, 2015.

10.28# Form of Employee Restricted Stock Unit Agreement under the Omnibus Plan for awards granted on or after February 22, 2016 is incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 of ServiceMaster Global Holdings, Inc., filed May 5, 2016.

10.29# Form of Performance Share Agreement under the Omnibus Plan for awards granted on February 22, 2016 is incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 of ServiceMaster Global Holdings, Inc., filed May 5, 2016.

10.30#* Form of Performance Share Agreement under the Omnibus Plan for awards granted on or after February 20, 2017.

10.31 Form of Director Restricted Stock Agreement under the Omnibus Plan is incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 of ServiceMaster Global Holdings, Inc., filed May 5, 2016.

10.32# Separation and Consulting Agreement with Mark J. Barry, dated March 24, 2016, is incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 of ServiceMaster Global Holdings, Inc., filed May 5, 2016.

10.33#* Employment Offer Letter dated December 14, 2016, between the Company and Anthony DiLucente related to his appointment as incoming Chief Financial Officer of the Company.

10.34 Plea Agreement entered into on January 20, 2017 by The Terminix International Company Limited Partnership and Terminix International USVI, LLC is incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of ServiceMaster Global Holdings, Inc., filed January 23, 2017.

12* Statement regarding Computation of Ratio of Earnings to Fixed Charges as of December 31, 2016.

21* List of Subsidiaries as of December 31, 2016.

23* Consent of Deloitte & Touche LLP.

31.1* Certification of Chief Executive Officer of ServiceMaster Global Holdings, Inc. Pursuant to Rule 13a — 14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of Chief Financial Officer of ServiceMaster Global Holdings, Inc. Pursuant to Rule 13a — 14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certification of Chief Executive Officer of ServiceMaster Global Holdings, Inc. Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2* Certification of Chief Financial Officer of ServiceMaster Global Holdings, Inc. Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Extension Presentation Linkbase

# Denotes management compensatory plans, contracts or arrangements.

* Filed herewith.

Exhibit 12

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges is as follows:

	Years Ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
Ratio of Earnings to Fixed Charges	2.58	2.62	1.38	1.35	(a)

(a) For purposes of the ratio calculation, the deficiency in our earnings to achieve a one-to-one ratio of earnings to fixed charges for the year ended December 31, 2012 was $26 million. For purposes of calculating our ratio of earnings to fixed charges for the year ended December 31, 2012, fixed charges were $245 million.

Exhibit 31.1

CERTIFICATIONS

I, Robert J. Gillette, certify that:

1. I have reviewed this Annual Report on Form 10-K of ServiceMaster Global Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2017

/s/ Robert J. Gillette
Robert J. Gillette
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Alan J. M. Haughie, certify that:

1. I have reviewed this Annual Report on Form 10-K of ServiceMaster Global Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 24, 2017

/s/ Alan J. M. Haughie
Alan J. M. Haughie
Senior Vice President and Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer

Pursuant to Section 1350 of Chapter 63 of Title 18 of The United States Code

I, Robert J. Gillette, the Chief Executive Officer of ServiceMaster Global Holdings, Inc., certify that (i) the Annual Report on Form 10-K for the year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ServiceMaster Global Holdings, Inc.

/s/ Robert J. Gillette
Robert J. Gillette
February 24, 2017

Exhibit 32.2

Certification of Chief Financial Officer

Pursuant to Section 1350 of Chapter 63 of Title 18 of The United States Code

I, Alan J. M. Haughie, the Senior Vice President and Chief Financial Officer of ServiceMaster Global Holdings, Inc., certify that (i) the Annual Report on Form 10-K for the year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ServiceMaster Global Holdings, Inc.

/s/ Alan J. M. Haughie
Alan J. M. Haughie
February 24, 2017

Stockholder & SEC Information

Stockholder Information

Corporate Offices
860 Ridge Lake Blvd.
Memphis, TN 38120
901 597 1400

Corporate Website
servicemaster.com

Annual Meeting Details
April 25, 2017, 1 p.m. (US-MST)
Hyatt Regency Scottsdale Resort &
Spa at Gainey Ranch
7500 East Doubletree Ranch Road
Scottsdale, AZ 85258

Investor Relations
James E. Shields
Vice President, Investor Relations
860 Ridge Lake Blvd.
Memphis, TN 38120
901 597 6839

Transfer Agent
Computershare
Trust Company N.A.
211 Quality Circle, Suite 210
College Station, TX 77845
877 373 6374
computershare.com

Common Stock
Ticker Symbol - SERV
Listed New York Stock Exchange

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
Memphis, TN

SEC Reports

ServiceMaster maintains a website at **www.servicemaster.com**, which 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 change as soon as reasonably practicable following the time that they are filed with or furnished to the Securities and Exchange Commission. Copies can also be obtained at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549. In addition, the Securities and Exchange Commission maintains a website at **www.sec.gov**, from which interested persons can also access our reports electronically.

ServiceMaster

Corporate Headquarters

860 Ridge Lake Boulevard
Memphis, TN 38120

servicemaster.com
@ServiceMaster
facebook.com/ServiceMaster
linkedin.com/company/ServiceMaster