Ellington Financial LLC
Form SC 13G
February 14, 2011

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. _)*

Ellington Financial LLC

(Name of Issuer)

Common Stock

(Title of Class of Securities)

288522303

(CUSIP Number)

December 31, 2010

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[ ] Rule 13d-1(c)

[ ] Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 (the "Act") or otherwise subject to the liabilities of that section of the Act, but shall be subject to all other provisions of the Act (however, see the Notes.)

CUSIP No. 288522303

1. NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Wellington Management Company, LLP
04-2683227

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) [ ]
(b) [ ]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Massachusetts

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5. SOLE VOTING POWER	0
	6. SHARED VOTING POWER	1,350,301
	7. SOLE DISPOSITIVE POWER	0
	8. SHARED DISPOSITIVE POWER	1,350,301

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,350,301

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES

[ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

8.19%

12. TYPE OF REPORTING PERSON

IA

Item 1.

(a) Name of Issuer
Ellington Financial LLC

(b) Address of Issuer's Principal Executive Offices
53 Forest Avenue
Old Greenwich, CT 06870

Item 2.

(a) Name of Person Filing
Wellington Management Company, LLP ("Wellington Management")

(b) Address of Principal Business Office or, if None, Residence
280 Congress Street
Boston, MA 02210

(c) Citizenship
Massachusetts

(d) Title of Class of Securities
Common Stock

(e) CUSIP Number
288522303

Item 3. If This Statement is Filed Pursuant to Rule 13d-1(b), or 13d-2(b) or (c), Check Whether the Person Filing is a:

(a) [ ] Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o).

(b) [ ] Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) [ ] Insurance Company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) [ ] Investment Company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e) [X] An investment adviser in accordance with Rule 240.13d-1(b)(1)(ii)(E);

(f) [ ] An employee benefit plan or endowment fund in accordance with Rule 240.13d-1(b)(1)(ii)(F);

(g) [ ] A parent holding company or control person in accordance with Rule 240.13d-1(b)(1)(ii)(G);

(h) [ ] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) [ ] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) [ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(J).

If this statement is filed pursuant to Rule 13d-1(c), check this box [ ]

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount Beneficially Owned:

Wellington Management, in its capacity as investment adviser, may be deemed to beneficially own 1,350,301 shares of the Issuer which are held of record by clients of Wellington Management.

(b) Percent of Class:

8.19%

(c) Number of shares as to which such person has:

(i)	sole power to vote or to direct the vote	0
(ii)	shared power to vote or to direct the vote	1,350,301
(iii)	sole power to dispose or to direct the disposition of	0
(iv)	shared power to dispose or to direct the disposition of	1,350,301

Item 5. Ownership of Five Percent or Less of Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following: [ ]

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

The securities as to which this Schedule is filed by Wellington Management, in its capacity as investment adviser, are owned of record by clients of Wellington Management. Those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. No such client is known to have such right or power with respect to more than five percent of this class of securities, except as follows:

Not Applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.

Not Applicable.

Item 8. Identification and Classification of Members of the Group.

Not Applicable.

Item 9. Notice of Dissolution of Group.

Not Applicable.

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

By: /s/ Robert J. Toner

Name: Robert J. Toner

Title: Vice President

Date: February 14, 2011

on. ServiceMaster financed 50% of the purchase price of this second debenture with a 5.50% full recourse loan due May 10, 2011. Each debenture becomes convertible into 20,000 shares of ServiceMaster common stock on December 31 on each of the years 2001 through 2005. Note 14: The business of the Company is conducted through five operating segments: TruGreen, Terminix, American Home Shield, ARS/AMS and Other Operations. Due to the Company's sale of its Management Services business unit and its exit from other businesses in 2001, certain operations have become more significant for segment reporting purposes. As a result, the Company has expanded its business segment reporting which will allow for better ongoing visibility into the components of the business. The companies that previously were reported in the Home Maintenance & Improvement segment have been further broken out into American Home Shield and the combination of ARS/AMS. The franchise operations, ServiceMaster Clean and Merry Maids, formerly in the Home Maintenance & Improvement segment, are reported in the Other Operations segment. In accordance with Statement of Financial Accounting Standards No. 131, the Company's reportable segments are strategic business units that offer different services. The TruGreen segment provides residential and commercial lawn care and landscaping services through the TruGreen ChemLawn and TruGreen LandCare companies. As a result of the decision in the fourth quarter of 2001 to exit the LandCare Construction business, the results of the construction operations are now included in discontinued operations for all periods. The Terminix segment provides termite and pest control services to residential and commercial U.S. customers. The American Home Shield segment provides home warranties to consumers that cover heating, ventilation, air conditioning (HVAC), plumbing and certain appliances. This segment also includes home inspection services provided by AmeriSpec. The American Residential Services, (ARS) and American Mechanical Services (AMS) segment provides HVAC and plumbing services provided under the ARS, AMS and Rescue Rooter brand names. The Other Operations segment includes the franchise operations of ServiceMaster Clean and Merry Maids, which provide disaster restoration and cleaning services as well as the Company's headquarters operations which provides various technology, marketing, finance and other support services to the business units. Segment information is presented below. As discussed in Note 2 in the Notes to the Condensed Consolidated Financial Statements, the information for 2002 and 2001 has been restated. SFAS 142, "Goodwill and Other Intangible Assets", eliminates the amortization of goodwill and intangible assets with indefinite lives beginning in 2002. The table below also presents "Proforma" information for 2001 which eliminates amortization expense related to goodwill and intangible assets with indefinite lives, so that these periods are presented on a comparable basis to the 2002 information. 14 (In thousands) Three Months Three Months Three Months Ended June 30, Ended June 30, Ended June 30, 2002 2001 2001 Reported Reported Proforma --

Operating Revenue: TruGreen $434,279 $430,065 Terminix 256,652 231,633 American Home Shield 116,440 100,027 ARS/AMS 192,079 224,173 Other Operations 35,487 34,136 -- Total Operating Revenue $1,034,937 $1,020,034 ==

Operating Income: TruGreen $67,920 $61,912 $68,507 Terminix 44,289 33,279 38,715 American Home Shield 17,834 10,949 11,559 ARS/AMS 10,191 13,352 15,672 Other Operations (5,558) (3,561) (2,901) -- Total Operating Income $134,676 $115,931 $131,552 ==

As of As of June 30, 2002 Dec. 31, 2001 -- Identifiable Assets: TruGreen $1,148,644 $1,082,135 Terminix 846,789 823,333 American Home Shield 356,344 323,229 ARS/AMS 505,736 519,026 Other Operations (and discontinued businesses) 613,872 873,522 -- Total Identifiable Assets $3,471,385 $3,621,245 ==

Six Months Six Months Six Months Ended June 30, Ended June 30, Ended June 30, 2002 2001 2001 Reported Reported Proforma -- Operating Revenue: TruGreen $663,422 $659,820 Terminix 476,925 428,421 American Home Shield 202,356 173,189 ARS/AMS 357,170 415,345 Other Operations 69,327 66,120 -- Total Operating Revenue $1,769,200 $1,742,895 ==

Operating Income: TruGreen $74,444 $61,454 $74,644 Terminix 82,225 63,204 73,022 American Home Shield 21,189 12,076 13,295 ARS/AMS 7,305 18,621 23,160 Other Operations (10,791) (5,095) (3,411) -- Total Operating Income $174,372 $150,260 $180,710 ==

15 The following table summarizes the previously amortized goodwill and trade names by segment that, beginning on January 1, 2002 are no longer amortized. June 30, December 31, 2002 2001 ----------------- ----------------- TruGreen $911,183 $910,573 Terminix 708,722 705,608 American Home Shield 72,085 72,085 ARS/AMS 347,967 347,863 Other Operations 108,385 106,599 ----------------- ----------------- Total $2,148,342 $2,142,728 ================= ================= 16 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RESULTS OF OPERATIONS SECOND QUARTER 2002 COMPARED TO SECOND QUARTER 2001 CONSOLIDATED REVIEW The Company has restated its financial statements for 2001 as well as the previously reported 2002 quarterly results. See Note 2 of the Notes to the Condensed Consolidated Financial Statements for the description of the restatement and the financial statement impact. This Management Discussion and Analysis reflects the impacts of the restatement. Revenue for the second quarter was $1.03 billion, one percent above 2001, and operating income was $135 million. The Company reported income from continuing operations in 2002 of $71 million, income from discontinued operations of $.3 million, and a $9 million extraordinary loss from the early extinguishment of debt. Net income was $63 million in 2002 and $54 million in 2001 and diluted earnings per share were $.20 in 2002 and $.18 in 2001. Diluted earnings per share from continuing operations were $.23 in 2002 compared with $.16 in 2001. As discussed further in Note 4 of the Notes to the Condensed Consolidated Financial Statements, Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", requires that beginning in 2002, goodwill and trade names no longer be amortized. SFAS 142 does not permit the restatement of the 2001 financial information to reflect the impact of SFAS 142. The diluted earnings per share equivalent of reduced amortization expense under SFAS 142 is $.03 ($16 million pretax) for the second quarter of 2001. Second quarter operating income in 2002 was $135 million compared to $116 million in 2001. The 2001 figure includes $16 million of amortization expense that has been eliminated under SFAS 142. Operating margins after adjusting for the amortization expense eliminated under SFAS 142 increased to 13.0

percent of revenue in 2002 from 12.9 percent in 2001. The increase in operating income reflects continued strong performance at American Home Shield, solid performance from Terminix and the TruGreen lawn care operations, partially offset by lower volume in the heating, ventilation and air conditioning (HVAC) and plumbing businesses of ARS and AMS, increased workers compensation claims at TruGreen LandCare, as well as increased expenditures related to Company-wide operational initiatives and overhead support. Cost of services rendered and products sold decreased slightly for the quarter and decreased as a percentage of revenue to 65.7 percent in 2002 from 66.8 percent in 2001. This decrease reflects a change in mix of the business as TruGreen ChemLawn, Terminix, and American Home Shield increased in size in relationship to the overall business of the Company. These businesses generally operate at higher gross margin levels than the rest of the business, but also incur somewhat higher selling and administrative expenses as a percentage of revenue. Selling and administrative expenses increased six percent and increased as a percentage of revenue to 21.0 percent from 20.1 percent in 2001. The increase in selling and administrative expenses reflects the change in business mix discussed above, as well as enterprise-wide initiatives to measure customer and employee satisfaction, improved marketing techniques and expenditures on the Six Sigma programs. In the second quarter of 2002, the Company completed two non-recurring transactions. The ownership interest in five assisted living facilities was sold during the quarter, and a gain of $3.6 million was realized. In addition, a key executive signed a termination and severance agreement in the quarter. The Company recorded a $3.2 million charge relating to this agreement. Cash payments will be made over a three-year period. Interest expense decreased from the prior year, primarily due to reduced debt levels as a portion of the proceeds received from sales of the Management Services and certain European pest control businesses were used to pay down debt. Interest and investment income decreased primarily reflecting a reduced 17 level of investment gains realized on the American Home Shield investment portfolio. Minority interest and other expense decreased primarily due to losses incurred in 2001 relating to the sale of accounts receivables under the Company's securitization program. The tax provision in 2002 reflects a lower effective tax rate than 2001 based on benefits received through the consolidation for tax purposes of the ServiceMaster Home Service Center. As a result of the Company's acquisition of the minority interest, it was able to reorganize the subsidiary in 2002 and utilize prior year net operating losses of this subsidiary operation. OTHER DEVELOPMENTS New distribution channels for the Company's services continue to be explored. In July 2002, the Company announced that it had entered into an agreement to provide Yahoo! consumers the ability to schedule and purchase ServiceMaster home services through the newly created Home Service Center on Yahoo! Real Estate. Also in August, the Home Service Center (a subsidiary of the Company) partnered with Sears, Roebuck and Company to allow customers to tap into the network of Sears parts and repair services. In July 2002, the Company and the Home Depot announced that they had concluded their joint home services pilot program. The two companies will, however, continue to explore ways to expand existing relationships for installation and other services on a local basis. SEGMENT REVIEW SEGMENT RESULTS FOR 2002 REFLECT THE ELIMINATION OF GOODWILL AND TRADE NAME AMORTIZATION REQUIRED UNDER SFAS 142. THEREFORE, FOR COMPARATIVE PURPOSES, 2001 RESULTS HAVE BEEN PRESENTED ON A PROFORMA BASIS AS IF SFAS 142 HAD BEEN IN EFFECT FOR 2001 THEREBY EXCLUDING THE AMORTIZATION EXPENSE AFFECTED BY THE NEW ACCOUNTING STANDARD. (SEE THE BUSINESS SEGMENT REPORTING IN NOTE 14 IN THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS). MANAGEMENTS DISCUSSION AND ANALYSIS FOCUSES ON THE 2002 REPORTED AND THE 2001 PROFORMA AMOUNTS. The TruGreen segment includes lawn care operations performed under the TruGreen ChemLawn brand name and landscape maintenance services provided under the TruGreen LandCare brand name. This segment's results for both 2002 and 2001 exclude the discontinued TruGreen LandCare Construction business. The TruGreen segment reported revenue of $434 million, one percent above 2001. Operating income decreased one percent to $68 million from $69 million (proforma) in 2001, primarily reflecting solid growth in the lawn care operations, offset by increased workers compensation claims (approximately $5 million) in the landscape operations. Revenue in the lawn care business improved two percent over 2001, reflecting growth in customer counts from increased sales and improved retention rates. The sales growth has been supported by the deployment of more sophisticated marketing tools and by reaching customers more effectively through broader distribution channels. The higher level of full program customers has also increased the sale of ancillary services in the quarter. Operating income margins in the lawn care operations improved as a result of revenue growth and increased leverage of fixed costs. The landscape maintenance operations experienced a decline in revenue for the quarter. Although volume was down, the base of business consists of more profitable contracts with a stronger customer base and improved pricing. Operating income margins in the landscaping operations declined primarily reflecting increased workers compensation claims, partially offset by lower material costs. This business is focusing on specific operating initiatives including hiring a senior sales leader, expanding and developing its sales force, continuing to focus on labor efficiency programs, and improving the results of the bottom quartile of its branches. The Terminix segment, which includes the domestic termite and pest control services, reported an 11 percent increase in revenue to $257 million from $232 million in 2001 and operating income growth of 14 percent to $44 million from $39 million (proforma) in 2001. Revenue growth was supported by the 2001 acquisition of Sears Termite & Pest Control as well as new sales and improved customer retention in both the termite and pest control business. Operating income margins improved over the prior year reflecting the beneficial impact of acquisitions and improved labor efficiency, offset in part by costs for quality improvement initiatives and direct marketing expenditures. The segment has produced steady 18 improvement in customer retention rates which reflects the increased emphasis on training and customer service processes in the branches. The American Home Shield segment, which provides home warranties to consumers that cover HVAC, plumbing and other appliances, reported a 16 percent increase in revenue to $116 million from $100 million in 2001. This increase in revenue reflected strong growth in the real estate and third party channels as well as improved customer renewal rates. Operating income increased 54 percent to $18 million from $12 million (proforma) in 2001. Operating income margins improved reflecting both lower service costs per claim and a decrease in the incidence of claims. The ARS/AMS segment provides direct HVAC and plumbing services under the American Residential Services (ARS), Rescue Rooter, and American Mechanical Services (AMS) (for commercial accounts) brand names. The segment reported revenue of $192 million, a decrease of 14% from $224 million in 2001. Operating income decreased to $10 million from $16 million (proforma) in 2001. A decline in call volume for air conditioning and plumbing repairs and reduced construction activity continued to affect the industry and resulted in the decline in revenue and profit. A comprehensive rebuilding of marketing and sales strategies is underway to counteract the impact of the decrease in demand, and in the second quarter, the Company hired a chief marketing officer for the ARS operations. The Other Operations segment includes the Company's ServiceMaster Clean, Merry Maids, and international operations as well as its headquarters functions. Reported segment revenue of $35 million in 2002 compared with $34 million in 2001, primarily reflecting growth in the ServiceMaster Clean and Merry Maids businesses. The operations achieved revenue and profit growth, primarily driven by a strong growth in disaster restoration and increased franchise sales at ServiceMaster Clean and the beneficial impact of acquisitions at Merry Maids. This segment reported an operating loss of $6 million in 2002 compared with a loss of $3 million (proforma) in 2001, reflecting increased expenditures in the headquarters organization for Six Sigma and other enterprise-wide initiatives to support purchasing efficiencies, marketing programs and technology projects. RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2002 AS COMPARED TO JUNE 30, 2001 CONSOLIDATED REVIEW Revenue for the six months in 2002 increased two percent to $1.8 billion and operating income was $174 million. The Company reported income from continuing operations in 2002 of $83 million and a $9 million extraordinary loss from the early extinguishment of debt. Net income was $74 million in 2002 and $66 million in 2001 and diluted earnings per share were $.24 in 2002 and $.22 in 2001. Diluted earnings per share from continuing operations were $.27 in 2002 compared with $.17 in 2001. As discussed in the three-month comparison, the diluted earnings per share equivalent of reduced amortization expense under SFAS 142 are $.07 ($30 million pretax) for the six months of 2001. Six month operating income in 2002 was $174 million compared to $150 million in 2001. The 2001 figure includes $30 million of amortization expense that has been eliminated under SFAS 142. Operating margins after adjusting for the amortization expense eliminated under SFAS 142 decreased to 9.9 percent of revenue in 2002 from 10.4 percent in 2001. The decline in operating income reflects strong increases at American Home Shield and Terminix offset by reduced volume in the HVAC and plumbing businesses of ARS and AMS and increased expenditures related to Company-wide operational initiatives. Cost of services rendered and products sold decreased slightly for the six months and decreased as a percentage of revenue to 68.5 percent in 2002 from 69.5 percent in 2001. Selling and administrative expenses increased 10 percent and increased as a percentage of revenue to 21.4 percent in 2002 from 19.8 percent in 2001 The increase in selling and administrative expenses reflects strong growth in operations that have higher gross margin levels than the rest of the business, but also incur somewhat higher selling and administrative expenses as a percentage of revenue, as well as increase expenditures on initiatives to 19 measure customer and employee satisfaction, improved marketing techniques and expenditures in Six Sigma. Interest expense decreased from the prior year, primarily due to reduced debt levels as a portion of the proceeds received from the sales of the Management Services and certain European pest control businesses were used to pay down debt. Interest and investment income decreased primarily reflecting a reduced level of investment gains realized on the American Home Shield investment portfolio. Minority interest and other expense increased from the prior year primarily due to the elimination of minority interest income related to the ServiceMaster Home Service Center initiative that was recorded in 2001. In the first quarter of 2001 and until May 2001, the operating losses totaling $6.1 million of ServiceMaster Home Service Center had been offset through minority interest income (below the operating income line) because of investments in the venture made by Kleiner Perkins Caufield & Byers. In December 2001, the Company acquired the minority interest in the ServiceMaster Home Service Center held by Kleiner Perkins and management. The operating losses incurred in the first six months of 2002 from ServiceMaster Home Service Center have been included in the accompanying financial statements without an offset at minority interest income in the consolidated statements of income. The tax provision in 2002 reflects a lower effective tax rate than 2001 based on benefits received through the consolidation for tax purposes of the ServiceMaster Home Service Center. As a result of the Company's acquisition of the minority interest, it was able to reorganize the subsidiary in 2002 and utilize prior year net operating losses of this subsidiary operation. KEY PERFORMANCE INDICATORS The table below presents selected metrics related to customer counts and customer retention for the three stet businesses of the Company. These measures are presented on a rolling, twelve month basis in order to avoid seasonal anomalies. KEY PERFORMANCE INDICATORS As of June 30, 2002 2001 ------------ ------------- TRUGREEN - Growth in Full Program Contracts 1% -3% Customer Retention Rate 64.5% 62.4% TERMINIX - Growth in Pest Control Customers 12% 14% Pest Control Customer Retention Rate 77.5% 76.2% Growth in Termite Customers 8% 20% Termite Customer Retention Rate 90.1% 88.8% AMERICAN HOME SHIELD - Growth in Warranty Contracts 15% 11% Customer Retention Rate 53.2% 51.1% SEGMENT REVIEW SEGMENT RESULTS FOR 2002 REFLECT THE ELIMINATION OF GOODWILL AND TRADE NAME AMORTIZATION REQUIRED UNDER SFAS 142. THEREFORE, FOR COMPARATIVE PURPOSES, 2001 RESULTS HAVE BEEN PRESENTED ON A PROFORMA BASIS AS IF SFAS 142 HAD BEEN IN EFFECT FOR 2001 THEREBY EXCLUDING THE AMORTIZATION EXPENSE AFFECTED BY THE NEW ACCOUNTING STANDARD. (SEE THE BUSINESS SEGMENT REPORTING IN NOTE 14 IN THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS). MANAGEMENTS DISCUSSION AND ANALYSIS FOCUSES ON THE 2002 REPORTED AND THE 2001 PROFORMA AMOUNTS. The TruGreen segment reported revenue of $663 million, slightly above the prior year. Operating income of $74 million in 2002 was comparable to the 2001 proforma amount. Revenue in the lawn care business improved two percent over 2001. Customer contracts have increased one percent over the prior twelve 20 months compared with a three percent decline in the prior year period, reflecting the benefit of new marketing strategies as well as the impact of improved customer retention. In addition to telemarketing, which is the primary channel used by TruGreen ChemLawn to sell its services, the business has expanded expenditures in direct mail and television advertising leading to higher sales of new customers. Quality and other satisfaction initiatives have resulted in improving retention of existing customers. The customer retention rate improved 210 basis points to 64.5 percent compared to the same period last year. The retention rate continued to increase in the second quarter. Operating income margins in the lawn care operations increased reflecting improved labor productivity. Revenue in the landscaping operations declined reflecting a decrease in snow removal services due to mild winter weather and a slight decrease in its core maintenance business. Despite the decline in the maintenance business, the base of contracts is more profitable reflecting a stronger customer base and improved pricing. Operating income margins in the landscaping operations declined primarily reflecting the decreased volume of higher margin snow removal business and increased workers compensation claims. Management is highly focused on mid-season sales of enhanced services to support second half of the year growth expectations. The Terminix segment reported an 11 percent increase in revenue to $477 million from $428 million in 2001 and operating income growth of 13 percent to $82 million from $73 million (proforma) in 2001. Revenue growth was driven by the acquisition in 2001 of Sears Termite & Pest Control as well as solid internal growth. One area where the Company has begun to see challenges is from the decrease in profitable pest control customers from the Sears name in certain markets. New sales in these markets have not kept pace with cancellations. As a result, the Company expects to see a reduction in revenue growth in the fourth quarter. Terminix has continued to show favorable comparisons in both termite and pest control customer retention, reflecting increased focus on quality, training, and customer service processes in the branches. Operating income margins improved over 2001 reflecting the impact of the acquisitions, continuing migration to higher margin products, improved labor efficiencies and lower material costs. Terminix is in the process of rolling out a new operating system to support its field operations. This system is expected to be in all branches by 2004. The American Home Shield segment reported a 17 percent increase in revenue to $202 million from $173 million in 2001 and operating income growth of 59 percent to $21 million compared to $13 million (proforma) in 2001. Revenue growth reflected increases in all sales channels, complemented by improved customer retention. Operating income margins improved as the segment benefited from strong volume growth, lower service costs per claim and a decrease in the incidence of claims. The ARS/AMS segment reported a 14 percent decrease in revenue to $357 million from $415 million in 2001 and operating income of $7 million compared to $23 million (proforma) in 2001. A soft economic environment combined with mild weather led to lower demand for heating, air conditioning and plumbing repairs and replacement service. These operations also experienced lower construction activity in both the residential and commercial sectors. With new leadership in place, this business continues to focus on cost containment initiatives and is implementing significant changes to its sales and marketing programs. Other Operations revenue increased to $69 million from $66 million in 2001, primarily reflecting growth in the ServiceMaster Clean and Merry Maids businesses. These businesses achieved solid revenue and profit growth, supported by strong demand for disaster restoration services at ServiceMaster Clean and acquisitions at Merry Maids. This segment reported an operating loss of $11 million compared with a loss of $3 million (proforma) in 2001, reflecting increased expenditures on enterprise-wide initiatives including procurement, marketing, and technology. FINANCIAL CONDITION Net cash provided from operations of $143 million was $38 million higher than the first six months of 2001 before the impact of the Company's accounts receivable securitization program and tax refunds in 2001. Net cash provided from operations is 72 percent higher than earnings for the six months and represents a 36 percent increase over the $105 million that was reported last year. This increase was driven, in part, by a significant reduction in the use of working capital, primarily at TruGreen ChemLawn and American Home Shield as a result of better receivables, payables and inventory management. Management believes that funds generated from operations and other existing resources will continue to be adequate to satisfy ongoing working capital needs of the Company. 21 Cash and marketable securities totaled approximately $205 million at June 30, 2002. During the second quarter of 2002, the Company completed the last major phase of the debt reduction program announced in October 2001, when through a tender offer, the Company repurchased $218 million of its publicly traded debt. As a result the Company reduced its total outstanding debt level in the quarter to approximately $876 million. This represents a reduction in debt outstanding of approximately $1.1 billion over the last two years and the Company's lowest level since the first quarter of 1997. The debt repurchase allowed the Company the opportunity to strengthen its credit profile by focusing the majority of the repurchase on debt with shorter maturities. Approximately 60% of the Company's debt now matures beyond seven years and 40% beyond fifteen years. The Company's first public bond maturity is not due until 2005. The Company maintains a three-year revolving credit facility for $490 million, which will expire in December 2004. As of June 30, 2002 the Company had issued approximately $130 million of letters of credit under the facility and had unused commitments of approximately $360 million. The Company also has $550 million of senior unsecured debt and equity securities available for issuance under an effective shelf registration statement. In addition, the Company has an agreement to ultimately sell, on a revolving basis, certain receivables to unrelated third party purchasers. At June 30, 2002, there were no receivables outstanding that had been sold to third parties. The agreement is a 364-day facility that is renewable at the option of the purchasers. The Company may sell up to $65 million of its eligible receivables to these purchasers in the future and therefore has immediate access to cash proceeds from these sales. The amount of eligible receivables varies during the year based on seasonality of the business and will at times limit the amount available to the Company. The Company also maintains operating lease facilities with banks totaling $95 million that provide for the acquisition and development of properties to be leased by the Company. There are residual value guarantees of these properties up to 82 percent of the fair market value of the properties. At June 30, 2002, there was approximately $72 million funded under these facilities. Of the $95 million in facilities, $80 million expires in October 2004 and $15 million expires in January 2008. Approximately $15 million of these leases that involve constructed properties have been included on the balance sheet as assets with related debt as of June 30, 2002 and December 31, 2001. The majority of the Company's vehicle fleet is leased through operating leases. The lease terms are non-cancelable for the first twelve month term, then are month-to-month leases, cancelable at the Company's option. There are residual value guarantees (ranging from 70 percent to 87 percent depending on the agreement) on these vehicles, which historically have not resulted in significant net payments to the lessors. At June 30, 2002, there was approximately $265 million of residual value relating to the Company's fleet. The following table presents the Company's obligations and commitments: 2003 and 2005 and 2007 and (In millions) Total 2002 2004 2006 later years --- Debt balances $ 876 $ 21 $ 73 $ 169 $ 613 Non-cancelable operating leases (1) 253 30 93 62 68 ------ ------- ------- ------- ------- Total amount $1,129 $ 51 $ 166 $ 231 $ 681 (1) Includes lease payments and residual value guarantees on leased properties. There have been no material changes in the terms of the Company's financing agreements since December 31, 2001. As described in the Company's latest Annual Report to Shareholders, the Company is party to a number of debt agreements which require it to maintain certain financial and other covenants, including limitations on indebtedness and interest coverage ratio. In addition, under certain circumstances, the agreements may limit the Company's ability to pay dividends and repurchase shares of common stock. These limitations are not expected to be a factor in the Company's future dividend and share repurchase plans. Failure by the Company to maintain these covenants could result in the acceleration of the maturity of the debt. At June 30, 2002 the Company was in compliance with the covenants related to these debt agreements and based on its operating outlook for the remainder of 2002, expects to be able to maintain compliance in the future. The assets and liabilities relating to the discontinued companies have been classified in separate captions on the Condensed Consolidated Statements of Financial Position. In the first quarter, the Company made 22 approximately $70 million in tax payments relating to the sale of Management Services. There were other cash payments relating to the wind-down of the discontinued operations which were offset by cash collected on assets remaining from these operations. Assets of the discontinued operations have declined reflecting cash collections on receivables and the sale of fixed assets. The liabilities from discontinued operations have decreased reflecting cash outflows related to the wind-down of contracts, lease termination costs, workers' compensation payments and legal costs. Receivables and inventories increased from year-end levels, reflecting general business growth and increased seasonal activity. Prepaid expenses, deferred costs and other assets increased from year-end levels, reflecting the seasonality in the lawn care operations and increased volume of contracts written at Terminix and American Home Shield. The lawn care operations incur incremental selling expenses at the beginning of the year that directly relate to successful sales in which the revenues will be recognized in later quarters. This business also defers, on an interim basis, pre-season advertising costs and annual repairs and maintenance procedures that are performed in the first quarter. These costs are deferred and recognized in proportion to the contract revenue over the production season, and are not deferred beyond the calendar year-end. The Company also capitalizes sales commissions and other direct contract acquisition costs relating to termite and pest control contracts as well as home warranty contracts. Deferred revenue grew significantly reflecting increases in customer prepayments for lawn care services and strong growth in warranty contracts written at American Home Shield. Capital expenditures which include recurring capital needs and information technology projects are higher than prior year levels reflecting the payments of the residual value guarantees relating to leases for the five assisted living facilities sold in the quarter. See Note 7 for additional details. The Company has no material capital commitments at this time. Total shareholders' equity was $1.2 billion at June 30, 2002 and December 31, 2001, reflecting earnings which were offset by cash dividends. Cash dividends paid directly to shareholders totaled $60 million or $.20 per share for the six months ended June 30, 2002. In July 2002, the Company paid a third quarter cash dividend of $.105 per share and declared a fourth quarter cash dividend of $.105 per share payable on October 31, 2002. This quarterly dividend payment provides for an annual payment for 2002 of $.41 per share, a 2.5% increase over 2001. The Company approves its actual dividend payment on a quarterly basis and continually reviews its dividend policy, share repurchase program and other capital structure objectives. The Company has not undertaken material share repurchases during the first six months of 2002 or for the year ended 2001. Decisions relating to any future share repurchases will take various factors into consideration such as the Company's commitment to maintain investment grade credit ratings, general business conditions, and other strategic investment opportunities. FORWARD LOOKING STATEMENTS THE COMPANY'S FORM 10-Q/A FILING CONTAINS STATEMENTS CONCERNING FUTURE RESULTS AND OTHER MATTERS THAT MAY BE DEEMED TO BE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THE COMPANY INTENDS THAT THESE FORWARD-LOOKING STATEMENTS, WHICH LOOK FORWARD IN TIME AND INCLUDE EVERYTHING OTHER THAN HISTORICAL INFORMATION, BE SUBJECT TO THE SAFE HARBORS CREATED BY SUCH LEGISLATION. THE COMPANY NOTES THAT THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES THAT COULD AFFECT ITS RESULTS OF OPERATIONS, FINANCIAL

CONDITION OR CASH FLOWS. FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN A FORWARD-LOOKING STATEMENT INCLUDE THE FOLLOWING (AMONG OTHERS): EXTREME WEATHER CONDITIONS THAT AFFECT THE DEMAND FOR THE COMPANY'S SERVICES; COMPETITION IN THE MARKETS SERVED BY THE COMPANY; LABOR SHORTAGES OR INCREASES IN WAGE RATES; UNEXPECTED INCREASES IN OPERATING COSTS, SUCH AS HIGHER INSURANCE, HEALTH CARE OR FUEL PRICES; INCREASED GOVERNMENTAL REGULATION OF TELEMARKETING; GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES, ESPECIALLY AS THEY MAY AFFECT HOME SALES OR CONSUMER SPENDING LEVELS; TIME AND EXPENSES ASSOCIATED WITH INTEGRATING AND WINDING DOWN BUSINESSES; AND OTHER FACTORS DESCRIBED FROM TIME TO TIME IN DOCUMENTS FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION. 23 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The economy and its impact on discretionary consumer spending, labor wages, fuel costs, insurance costs and medical inflation rates could be significant to future operating earnings. The Company does not hold or issue financial instruments for trading or speculative purposes. 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 financial instrument transactions is not material to the Company's financial statements. The Company generally maintains the majority of its debt at fixed rates (over 95% of total debt at December 31, 2001 and June 30, 2002) and, therefore, its exposure to interest rate fluctuations is not significant to the Company's results of operations. The payments on the approximately $72 million of funding outstanding under the Company's real estate operating lease facilities as well as its cancelable vehicle fleet and equipment operating leases are tied to floating interest rates. However, the Company does not expect interest rate fluctuations to be significant to the Company's results of operations. The following table summarizes information about the Company's fixed rate debt instruments as of December 31, 2002 and presents the principal cash flows and related weighted-average interest rates by expected maturity dates. The fair value of the Company's fixed rate debt was approximately $880 million at December 31, 2002. Expected Maturity Date -------------------------------------- There- (In millions) 2003 2004 2005 2006 2007 After Total --------------------- -------- ------- ------- ------- ------- ------ ----- Fixed rate debt $31 $24 $151 $11 $59 $559 $835 Avg. Rate 4.2% 4.8% 8.2% 6.0% 6.7% 7.5% 7.2% --------------------- -------- ------- ------- ------- ------- ------ ----- 24 PART II. OTHER INFORMATION ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (a) The 2002 Annual Meeting of Shareholders was held on April 26, 2002. (b) The following persons were elected as Class of 2005 directors: Name Votes For Votes Withheld Broker Non-Votes ------------------ ------------------------ ---------------- Paul W. Berezny, Jr. 247,162,142 7,248,494 N/A Carlos H. Cantu 248,659,562 5,751,074 N/A Vincent C. Nelson 246,594,910 7,815,726 N/A Charles W. Stair 248,226,619 6,184,017 N/A Jonathan P. Ward 250,546,178 3,864,458 N/A No votes were cast for any other nominee for directors. The Class of 2003 continuing in office are: Herbert P. Hess, Michele M. Hunt, Dallen W. Peterson, and David K. Wessner. The Class of 2004 continuing in office are: Brian Griffiths, Sidney E. Harris, James D. McLennan, C. William Pollard and Donald G. Soderquist. No other matters were submitted to shareholders. ITEM 6(A): EXHIBITS Exhibit 18.1 Letter Re: Change in Accounting Principles Exhibit 99.1 Certification of Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Exhibit 99.2 Certification of Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code ITEM 6(B): REPORTS ON FORM 8-K A report on Form 8-K was filed on May 22, 2002 reporting under "Item 4. Changes in Registrant's Certifying Accountant." In this filing, the Company reported that on May 20, 2002 it had dismissed ArthurAndersen LLP as its independent accountants and, effective May 22, 2002, the Company engaged Deloitte & Touche LLP as its new independent accountants. A report on Form 8-K/A was filed on May 24, 2002 for the purpose of including a revised Exhibit 16.1 to the Form 8-K filed on May 22, 2002. A report on Form 8-K was filed on June 20, 2002 reporting under "Item 5. Other Events". The purpose of the report was to provide updated Key Performance Indicators that were included in the Company's first quarter earnings release. The Company discussed these metrics in an investors conference on June 20, 2002. 25 SIGNATURE Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. Date: May 14, 2003 THE SERVICEMASTER COMPANY (Registrant) By: /s/Steven C. Preston --- Steven C. Preston Executive Vice President and Chief Financial Officer 26 CERTIFICATION OF CHIEF

EXECUTIVE OFFICER I, Jonathan P. Ward, certify that: 1. I have reviewed this quarterly report on Form 10-Q/A of The ServiceMaster Company; 2. Based on my knowledge, this quarterly 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 quarterly report; and 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report. Date: May 13, 2003 /s/ Jonathan P. Ward --------------------- Jonathan P. Ward Chairman and Chief Executive Officer 27 CERTIFICATION OF CHIEF FINANCIAL OFFICER I, Steven C. Preston, certify that: 1. I have reviewed this quarterly report on Form 10-Q/A of The ServiceMaster Company; 2. Based on my knowledge, this quarterly 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 quarterly report; and 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report. Date: May 13, 2003 /s/ Steven C. Preston ---------------------- Steven C. Preston Executive Vice President and Chief Financial Officer 28