HomeStreet, Inc.
Form 4
July 13, 2015

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
INDIEK VICTOR H
(Last) (First) (Middle)
601 UNION STREET, SUITE 2000
(Street)
SEATTLE, WA 98101
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HomeStreet, Inc. [HMST]

3. Date of Earliest Transaction (Month/Day/Year)
07/09/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/09/2015		A		289 (1)	A	$ 0	6,796.567	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
INDIEK VICTOR H 601 UNION STREET, SUITE 2000 SEATTLE, WA 98101	X			

Signatures

/s/ Godfrey B. Evans, attorney in fact for Victor H. Indiek	07/13/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Stock issued based on Directors' compensation policy paid quarterly.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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97,294

91,396

Current portion of long-term debt

19,222

23,247

Total Current Liabilities

955,671

1,027,927

Long-Term Debt

638,928

781,841

Long-Term Liabilities:

Deferred taxes

113,300

88,100

Liabilities of businesses held pending sale and discontinued operations

	10,130	9,615
Other long-term obligations	**156,201**	141,184
Total Long-Term Liabilities	**279,631**	238,899

Minority Interest

100,000

100,000

Commitments and Contingencies (See Note)

Explanation of Responses:

Shareholders Equity:

Common stock $0.01 par value, authorized 1,000,000 shares; issued 321,338 and 318,559, respectively

3,213

3,186

Additional paid-in capital

1,117,388

1,083,057

Retained earnings

282,993

212,116

Accumulated other comprehensive income

7,197

10,804

Restricted stock (unearned compensation)

(14,438

)

(12,857

)

Treasury stock

(341,713

)

(304,771

)

Total Shareholders Equity	**1,054,640**	991,535
Total Liabilities and Shareholders Equity	**$ 3,028,870**	$ 3,140,202

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Shareholders Equity
(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Restricted Stock	Treasury Stock	Total Equity
Balance December 31, 2002	$ 3,160	$ 1,054,272	$ 355,893	$ (849)	$ (1,988)	$ (191,788)	$ 1,218,700
Net loss 2003			(224,687)				(224,687)
Other comprehensive income, net of tax:							
Net unrealized gain on securities, net of reclassification adjustment (1)				7,022			7,022
Foreign currency translation				1,759			1,759
Total comprehensive income (loss)			(224,687)	8,781			(215,906)
Shareholders dividends			(124,841)				(124,841)
Shares issued under options, grant plans, and other (2,700 shares)	13	7,368			(2,380)	19,144	24,145
Treasury shares purchased (8,084 shares)						(85,581)	(85,581)
Balance December 31, 2003	$ 3,173	$ 1,061,640	$ 6,365	$ 7,932	$ (4,368)	$ (258,225)	$ 816,517
Net income 2004			331,227				331,227
Other comprehensive income, net of tax:							
Net unrealized gain on securities, net of reclassification adjustment (1)				826			826
Foreign currency translation				2,046			2,046
Total comprehensive income			331,227	2,872			334,099
Shareholders dividends			(125,476)				(125,476)
Shares issued under options, grant plans, and other (2,711 shares)	13	21,273			(8,489)	13,937	26,734
Treasury shares purchased (5,353 shares)						(63,814)	(63,814)

Shares issued for acquisitions (297 shares)		144				3,331	3,475
Balance December 31, 2004	$ 3,186	$ 1,083,057	$ 212,116	$ 10,804	$ (12,857)	$ (304,771)	$ 991,535
Net income 2005			198,925				198,925
Other comprehensive income, net of tax:							
Net unrealized loss on securities, net of reclassification adjustment [(1)]				(2,188)			(2,188)
Foreign currency translation				(1,419)			(1,419)
Total comprehensive income (loss)			198,925	(3,607)			195,318
Shareholders dividends			(128,048)				(128,048)
Shares issued under options, grant plans, and other (4,076 shares)	27	34,277			(1,581)	13,516	46,239
Treasury shares purchased (3,791 shares)						(51,595)	(51,595)
Shares issued for acquisitions (88 shares)		54				1,137	1,191
Balance December 31, 2005	**$ 3,213**	**$ 1,117,388**	**$ 282,993**	**$ 7,197**	**$ (14,438)**	**$ (341,713)**	**$ 1,054,640**

[(1)] Disclosure of reclassification amounts (net of tax) relating to comprehensive income:

	2005	2004	2003
Unrealized holding gains arising in period	**$ 2,749**	$ 4,647	$ 9,335
Less: Gains realized	**(4,937)**	(3,821)	(2,313)
Net unrealized gains (losses) on securities	**$ (2,188)**	$ 826	$ 7,022

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows
(In thousands)

For years ended December 31,	2005	2004	2003
Cash and Cash Equivalents at January 1	**$ 256,626**	$ 228,161	$ 227,177
Cash Flows from Operating Activities:			
Net Income (Loss)	**198,925**	331,227	(224,687)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:			
(Income) loss from businesses held pending sale and discontinued operations	**(18,364)**	(14,604)	222,232
Non-cash reduction in continuing operations tax expense		(149,722)	
Non-cash charge for impaired assets and other items, net of tax			156,200
Depreciation expense	**44,313**	42,680	41,464
Amortization expense	**5,454**	6,006	5,875
Change in working capital, net of acquisitions:			
Change in tax accounts:			
Deferred income taxes	**60,941**	66,639	65,256
Resolution of income tax audits	**(86,356)**	25,000	
Receivables	**(29,439)**	(12,765)	(14,096)
Inventories and other current assets	**(3,743)**	4,692	3,519
Accounts payable	**36,741**	(3,436)	(6,778)
Deferred revenue	**1,540**	14,339	22,947
Accrued liabilities	**17,848**	51,285	(4,014)
Other, net	**14,848**	8,716	1,113
Net Cash Provided from Operating Activities	**242,708**	370,057	269,031
Cash Flows from Investing Activities:			
Property additions	**(41,771)**	(45,346)	(33,083)
Sale of equipment and other assets	**2,838**	6,606	10,498
Business acquisitions, net of cash acquired	**(33,719)**	(40,184)	(28,875)
Proceeds from business sales			21,106
Notes receivable, financial investments and securities	**(8,371)**	(45,580)	(23,499)
Net Cash Used for Investing Activities	**(81,023)**	(124,504)	(53,853)
Cash Flows from Financing Activities:			
Borrowings of debt	**730,287**	1,000	99,123
Payments of debt	**(894,102)**	(38,042)	(130,339)
Shareholders dividends	**(128,048)**	(125,476)	(124,841)
Purchase of ServiceMaster stock	**(52,324)**	(63,085)	(85,581)
Other, net	**29,518**	16,631	16,330
Net Cash Used for Financing Activities	**(314,669)**	(208,972)	(225,308)
Cash Flows from Businesses Held Pending Sale and Discontinued Operations:			
Cash provided from (used for) operating activities of businesses held pending sale and discontinued operations	**14,181**	(1,189)	16,662
Cash used for investing activities of businesses held pending sale and discontinued operations	**(3,315)**	(6,927)	(5,548)
	10,866	(8,116)	11,114

Net Cash Provided from (Used for) Businesses Held Pending Sale and Discontinued Operations			
Cash Increase (Decrease) During the Year	**(142,118)**	28,465	984
Cash and Cash Equivalents at December 31	**$ 114,508**	$ 256,626	$ 228,161

See accompanying Notes to the Consolidated Financial Statements.

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Notes To The Consolidated Financial Statements

Significant Accounting Policies

Summary: The consolidated financial statements include the accounts of ServiceMaster and its majority-owned subsidiary partnerships and corporations, collectively referred to as the Company. Intercompany transactions and balances have been eliminated. In 2005, the Company reported its gross debt borrowings and payments in the Consolidated Statements of Cash Flows. Historically, the Company netted debt borrowings and payments. The 2004 and 2003 information has been changed to conform to the 2005 presentation.

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions required under generally accepted accounting principles (GAAP) which may differ from actual results. The more significant areas requiring the use of management estimates relate to the allowance for receivables, accruals for self-insured retention limits related to medical, workers compensation, auto and general liability insurance claims, accruals for home warranty and termite damage claims, the possible outcomes of outstanding litigation, accruals for income tax liabilities as well as deferred tax accounts, the deferral and amortization of customer acquisition costs, useful lives for depreciation and amortization expense, and the valuation of tangible and intangible assets.

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 collectibility of the outstanding balances. As such, these factors may change over time causing the reserve 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 has self-insured retention limits and insured layers of excess insurance coverage above those limits. Accruals for self-insurance losses and warranty claims in the American Home Shield business are made based on the Company s claims experience and actuarial projections. 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. There are significant amortizable intangible assets for tax reporting purposes (not for financial reporting purposes) which arose as a result of the Company s reincorporation from partnership to corporate form in 1997. 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, results of tax authority reviews and statutory limitations.

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, the potential for market obsolescence and other industry and business data. An impairment loss would be recognized if and when the undiscounted future cash flows derived from the asset are less than its carrying amount. Changes in the estimated useful lives or in the asset values could cause the Company to adjust its book value or future expense accordingly.

The Company does not amortize its goodwill or indefinite-lived intangible assets. The Company tests these assets for impairment, at a minimum, on an annual basis (October 1st) by applying a fair-value based test. An impairment loss would be recorded if and when the Company determines that the expected present value of the future cash flows is less than the book value. As permitted under SFAS 142, the Company carries forward a reporting unit s valuation from the most recent valuation under the following conditions: the assets and liabilities of the reporting unit have not changed significantly since the most recent fair value calculation, the most recent fair value calculation resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin, and based on the facts and circumstances of events that have occurred since the last fair value determination, the likelihood that a current fair value calculation would result in an impairment would be remote.

Revenue: Revenue from lawn care, pest control, liquid and fumigation termite applications are recognized as the services are provided. Revenue from landscaping services are recognized as they are earned based upon monthly contract arrangements or when services are performed for non-contractual arrangements. The Company eradicates termites through the use of baiting stations, as well as through non-baiting methods (e.g., fumigation or liquid treatments). Termite services using baiting stations, as well as home warranty services, are frequently sold through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for warranty contracts) are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Revenue from trade name licensing arrangements is recognized when earned. Franchised revenue (which in the aggregate represents approximately three percent of consolidated revenue) consists principally of continuing monthly fees based upon the franchisee s customer level revenue. Monthly fee revenue is recognized when the related customer level revenue is reported by the franchisee and collectibility is assured. Franchised revenue also includes initial fees resulting from the sale of a franchise. These fees are fixed and are recognized as revenue when collectibility is assured and all material services or conditions relating to the sale have been substantially performed. Total franchise fee profits (excluding trade name licensing) comprised 10.5, 10.3 and 10.9 percent of consolidated operating income (excluding the impairment charge in 2003) before headquarter overhead in 2005, 2004 and 2003, respectively.

The Company had $433 million and $430 million of deferred revenue at December 31, 2005 and 2004, respectively, which consist primarily of payments received for annual contracts relating to home warranty, termite baiting, pest control and lawn care services. The revenue related to these services is recognized over the contractual period as the direct costs emerge, such as when the services are performed or claims are incurred.

Deferred Customer Acquisition Costs: Customer acquisition costs, which are incremental and direct costs of

Notes To The Consolidated Financial Statements

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.

Interim Reporting: TruGreen ChemLawn has significant seasonality in its business. In the winter and early spring, this business sells a series of lawn applications to customers which are rendered primarily in March through October (the production season). This business incurs incremental selling expenses at the beginning of the year that directly relate to successful sales for which the revenues are recognized in later quarters. On an interim basis, TruGreen ChemLawn defers these incremental selling expenses, 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 revenue over the production season, and are not deferred beyond the calendar year-end. Other business segments of the Company also defer, on an interim basis, advertising costs incurred early in the year. These costs are deferred and recognized approximately in proportion to revenue over the balance of the year, and are not deferred beyond the calendar year-end.

Advertising: As discussed in the Interim Reporting note above, certain pre-season advertising costs are deferred and recognized approximately in proportion to the revenue over the year. Certain other advertising costs are expensed when the advertising occurs. The cost of direct-response advertising at Terminix, consisting primarily of direct-mail promotions, is capitalized and amortized over its expected period of future benefits, which is the one-year contract life.

Inventory Valuation: Inventories are valued at the lower of cost (primarily on a weighted average cost basis) or market. The inventory primarily represents finished goods to be used on the customers premises or sold to franchisees.

Property and Equipment, Intangible Assets and Goodwill: Buildings and equipment used in the business are stated at cost and depreciated over their estimated useful lives using the straight-line method for financial reporting purposes. The estimated useful lives for building and improvements range from 10 to 40 years, while the estimated useful lives for equipment range from three to 10 years. Leasehold improvements relating to leased facilities are depreciated over the remaining life of the lease. Technology equipment as well as software and development have an estimated useful life of three to seven years. Intangible assets consist primarily of goodwill ($1.5 billion), trade names ($215 million) and other intangible assets ($15 million).

As required by SFAS 142, 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 an assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. As permitted under SFAS 142, the Company carries forward a reporting unit s valuation from the most recent valuation under the following conditions; the assets and liabilities of the reporting unit have not changed significantly since the most recent fair value calculation, the most recent fair value calculation resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin, and based on the facts and circumstances of events that have occurred since the last fair value determination, the likelihood that a current fair value calculation would result in an impairment would be remote. For the 2005 goodwill and trade name impairment review, the Company carried forward the valuations for all reporting units except ARS. A valuation analysis performed for ARS indicated no impairment.

As required by SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets , the Company s long-lived assets, including fixed assets and intangible assets (other than goodwill), are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Based on these reviews, when the undiscounted future cash flows derived from using the asset are less than the carrying amount of the asset, an impairment loss is recognized based on the asset s fair value, and the carrying amount of the asset is reduced accordingly.

Fair Value of Financial Instruments and Credit Risk: The carrying amounts of receivables, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term notes receivables approximate fair value as the effective interest rates for these instruments are comparable to market rates at year-end. The carrying amount of current and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net-of-tax as a component of accumulated comprehensive income (loss). The carrying amount of total debt is $658 million and $805 million and the estimated fair value is approximately $666 million and $875 million at December 31, 2005 and 2004, respectively. The estimated fair value of debt is based upon borrowing rates currently available to the Company for long-term borrowings with similar terms and maturities.

The Company does not hold or issue derivative 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 derivative financial instrument transactions is not material to the Company s consolidated financial statements.

In accordance with SFAS 133 Accounting for Derivative Instruments and Hedging Activities , the Company s interest rate swap agreements are classified as fair value hedges and, as such, gains and losses on the swaps as well as the gains and losses on the related hedged items are recognized in current earnings.

Derivative 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 and common equity securities. The Company periodically reviews its portfolio of investments to

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Notes To The Consolidated Financial Statements

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 it competes. Receivables 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 collectibility of receivables.

Income Taxes: The Company accounts for income taxes under SFAS 109, Accounting for Income Taxes. This Statement uses 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.

Earnings Per Share: Basic earnings per share is based on the weighted-average number of common shares outstanding during the year. The weighted average number of common shares used in the diluted earnings per share calculation include the incremental effect related to outstanding options and stock appreciation rights (SARS) whose market price is in excess of the grant price. Shares potentially issuable under convertible securities have been considered outstanding for purposes of the diluted earnings per share calculations. In computing diluted earnings per share, the after-tax interest expense related to convertible securities is added back to net income in the numerator, while the number of shares used in the denominator include the shares issuable upon conversion of the securities.

Stock-Based Compensation: Beginning in 2003, the Company has been accounting for employee stock options as compensation expense in accordance with SFAS 123, Accounting for Stock-Based Compensation. SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123 , provides alternative methods of transitioning to the fair-value based method of accounting for employee stock options as compensation expense. The Company is using the prospective method of SFAS 148 and is expensing the fair value of new employee option grants awarded subsequent to 2002.

Prior to 2003, the Company had accounted for employee share options under the intrinsic method of Accounting Principles Board Opinion 25. Compensation expense determined under the fair-value based method of SFAS 123 relating to newly issued awards as well as the unvested portion of the previously issued awards would have resulted in proforma reported net income and net earnings per share as follows:

(In thousands, except per share data)		**2005**		**2004**		**2003**
Net income (loss) as reported	$	198,925	$	331,227	$	(224,687)
Add back: Stock-based compensation expense included in reported net income, net of related tax effects		2,280		1,729		609
Deduct: Stock-based compensation expense determined under fair-value method, net of related tax effects		(5,742)		(6,346)		(6,179)
Proforma net income (loss)	$	195,463	$	326,610	$	(230,257)
Basic Earnings Per Share:						
As reported	$	0.68	$	1.14	$	(0.76)
Proforma		0.67		1.12		(0.78)
Diluted Earnings Per Share:						
As reported	$	0.67	$	1.11	$	(0.76)
Proforma		0.66		1.09		(0.78)

See the Shareholders Equity note to the Consolidated Financial Statements for a description of the assumptions used to compute the above stock based compensation expense.

Newly Issued Accounting Statements and Positions: In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment (SFAS 123(R)). This Statement replaces SFAS 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS 123(R) requires that stock options and share grants be recorded at fair value and this value is recognized as compensation expense over the vesting period. The Statement requires that compensation expense be recorded for newly issued awards as well as the unvested portion of previously issued awards that remain outstanding as of the effective date of this Statement. The provisions of this Statement become effective beginning with the Company s 2006 fiscal year (January 1, 2006). The Company had previously disclosed that it had expected to restate prior periods as if this Statement were in effect for all periods. As permitted by this Statement, the

Company will instead prospectively apply the provisions of this Statement effective January 1, 2006. The Company currently estimates that the adoption of this Statement will reduce earnings per share in 2006 by approximately $.01.

Recently Adopted Accounting Principles: The Company adopted the provisions of FASB Interpretation 47, Accounting for Conditional Asset Retirement Obligations (FIN 47), an interpretation of FASB Statement 143 Accounting for Asset Retirement Obligations (SFAS 143). FIN 47 clarifies that an entity is required to recognize a liability for a conditional asset retirement obligation when incurred if the fair value of the obligation can be reasonably estimated. This interpretation further clarified the term conditional asset retirement obligation , as used in SFAS 143, as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within control of the entity. FIN 47 is effective for companies no later than the end of their first fiscal year ending after December 15, 2005. The adoption of FIN 47 did not have a significant impact on the Company.

Notes To The Consolidated Financial Statements

Business Segment Reporting

The business of the Company is conducted through five operating segments: TruGreen ChemLawn, TruGreen LandCare, Terminix, American Home Shield and Other Operations. The Company intends to sell its American Residential Services (ARS) and American Mechanical Services (AMS) companies so it can concentrate resources on its main growth businesses. The Company has retained an investment banking firm to serve as its financial advisor in this process. The ARS/AMS operations provide heating, ventilation, air conditioning (HVAC), plumbing and electrical installation and repair services and were previously disclosed as the Company s ARS/AMS segment. Because the Company intends to sell these businesses, their operating results are reported within the financial statement caption businesses held pending sale and discontinued operations for all periods presented.

The Company has also expanded its business segment reporting to allow for better ongoing visibility into the components of the business. The companies that previously were reported within the TruGreen segment have been further broken out into the TruGreen ChemLawn segment and the TruGreen LandCare segment. TruGreen LandCare is an important part of the Company s continuing operations and presenting its results as a separate segment recognizes the importance of this business to the continued growth of the enterprise while also enhancing overall disclosure. All previously reported segment financial information reflects the aforementioned changes in segment reporting.

In accordance with Statement of Financial Accounting Standards 131, Disclosures About Segments of an Enterprise and Related Information , the Company s reportable segments are strategic business units that offer different services. The TruGreen ChemLawn segment provides residential and commercial lawn care services. The TruGreen LandCare segment provides landscaping services to commercial customers. The Terminix segment provides termite and pest control services to residential and commercial customers. The American Home Shield segment provides home warranties to consumers that cover HVAC, plumbing and other home systems and appliances. This segment also includes home inspection services provided by AmeriSpec. The Other Operations segment includes the franchised and company-owned operations of ServiceMaster Clean, Furniture Medic and Merry Maids, which provide disaster restoration, commercial cleaning, carpet and upholstery cleaning, furniture repair and maid services. This segment also includes the Company s headquarters operations, which provide various technology, marketing, finance, legal and other support services to the business units.

Information regarding the accounting policies used by the Company is described in the Significant Accounting Policies Note. The Company derives substantially all of its revenue from customers in the United States with less than two percent generated in foreign markets. Operating expenses of the business units consist primarily of direct costs. Identifiable assets are those used in carrying out the operations of the business unit and include intangible assets directly related to its operations.

Segment information for the years ended December 31, 2005, 2004, and 2003 is presented below.

Notes to the Consolidated Financial Statements

Business Segment Table

(In thousands)	2005	% Change	2004	% Change	2003
Operating Revenue:					
TruGreen ChemLawn	**$ 1,024,641**	**4%**	$ 980,816	8%	$ 908,351
TruGreen LandCare	**453,323**	**3**	438,833	0	439,049
Terminix	**1,056,285**	**6**	996,900	5	945,258
American Home Shield	**528,687**	**8**	487,395	8	450,264
Other Operations	**176,542**	**8**	164,124	8	152,106
Total Operating Revenue	**$ 3,239,478**	**6%**	$ 3,068,068	6%	$ 2,895,028
Operating Income (Loss):(1, 2)					
TruGreen ChemLawn	**$ 171,758**	**(2%)**	$ 175,666	9%	$ 161,767
TruGreen LandCare (2)	**4,317**	**N/M**	(4,482)	N/M	(195,784)
TruGreen LandCare without impairment charge (2)	***4,317***	***N/M***	*(4,482)*	*35%*	*(6,914)*
Terminix	**145,568**	**10**	132,827	1	131,044
American Home Shield	**70,959**	**(1)**	71,986	24	58,154
Other Operations	**(52,519)**	**(2)**	(51,689)	(16)	(44,526)
Total Operating Income	**$ 340,083**	**5%**	$ 324,308	N/M	$ 110,655
Capital Employed: (3)					
TruGreen ChemLawn	**$ 812,873**	**2%**	$ 795,254	2%	$ 777,880
TruGreen LandCare	**33,900**	**1**	33,720	(23)	43,532
Terminix	**652,230**	**3**	631,370	6	596,535
American Home Shield	**207,864**	**24**	168,223	25	134,372
American Home Shield without cash and marketable securities (3)	***(75,026)***	***16***	*(89,561)*	*(3)*	*(86,574)*
Other Operations	**105,923**	**(60)**	268,056	46	183,778
Total Capital Employed	**$ 1,812,790**	**(4%)**	$ 1,896,623	9%	$ 1,736,097
Identifiable Assets:					
TruGreen ChemLawn	**$ 885,153**	**2%**	$ 870,209	6%	$ 821,121
TruGreen LandCare	**92,694**	**6**	87,474	(4)	90,837
Terminix	**862,270**	**2**	843,272	3	822,407
American Home Shield	**530,486**	**12**	474,326	12	422,765
Other Operations	**658,267**	**(24)**	864,921	8	799,296
Total Identifiable Assets	**$ 3,028,870**	**(4%)**	$ 3,140,202	6%	$ 2,956,426
Depreciation & Amortization Expense:					
TruGreen ChemLawn	**$ 12,611**	**2%**	$ 12,383	21%	$ 10,263
TruGreen LandCare	**8,411**	**(17)**	10,163	(19)	12,501
Terminix	**11,778**	**3**	11,441	11	10,328
American Home Shield	**8,492**	**8**	7,860	15	6,829
Other Operations	**8,475**	**24**	6,839	(8)	7,418
Total Depreciation & Amortization Expense	**$ 49,767**	**2%**	$ 48,686	3%	$ 47,339

Capital Expenditures:							
TruGreen ChemLawn	$	**11,724**	**51%**	$	7,756	(5%)	$ 8,192
TruGreen LandCare		**3,659**	**(29)**		5,132	(15)	6,005
Terminix		**11,417**	**2**		11,202	117	5,169
American Home Shield		**5,343**	**(3)**		5,490	(17)	6,619
Other Operations		**9,628**	**(39)**		15,766	122	7,098
Total Capital Expenditures	$	**41,771**	**(8%)**	$	45,346	37%	$ 33,083

N/M = Not meaningful

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

(In thousands)	**2005**	**2004**	**2003**
Segment Operating Income	**$ 340,083**	$ 324,308	$ 110,655
Non-operating expense (income):			
Interest expense	**56,999**	60,708	65,255
Interest and investment income	**(19,832)**	(15,469)	(15,012)
Minority interest and other expense, net	**8,218**	8,225	8,151
Income from Continuing Operations before Income Taxes	**$ 294,698**	$ 270,844	$ 52,261

(2) In the third quarter of 2003, the Company recorded in continuing operations a non-cash, pre-tax impairment charge of $189 million related to the goodwill and intangible assets of its TruGreen LandCare operations. In order to facilitate comparisons of ongoing operating performance of continuing operations, the Company also has presented the TruGreen LandCare segment results after adjusting for the impact of the impairment charge.

(3) Capital employed is a non-U.S. GAAP measure that is defined as the segment s total assets less liabilities, exclusive of debt balances. The Company believes this information is useful to investors in helping them compute return on capital measures and therefore better understand the performance of the Company s business segments. The calculation of capital employed for the American Home Shield segment includes approximately $283 million, $258 million and $221 million of cash and marketable securities at December 31, 2005, 2004 and 2003, respectively. The investment income and realized gains/losses on these assets are reported below operating income in non-operating income/expense. In order to facilitate the comparison of return on invested capital for the American Home Shield segment, the Company has also presented capital employed for this segment excluding cash and marketable securities. The negative capital employed balances primarily result from deferred revenue and amounts payable to subcontractors. Presented below is a reconciliation of total segment capital employed to the most comparable U.S. GAAP measure.

(In thousands)	**2005**	**2004**	**2003**
Total Assets	**$ 3,028,870**	$ 3,140,202	$ 2,956,426
Less:			
Current liabilities, excluding current portion of long-term debt	**936,449**	1,004,680	784,459
Long-term liabilities	**279,631**	238,899	435,870
Total Capital Employed	**$ 1,812,790**	$ 1,896,623	$ 1,736,097

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The combined franchise operations of ServiceMaster Clean and Merry Maids comprised approximately 5% of the consolidated revenue in 2005, 2004, and 2003. These operations comprised approximately 11%, 11%, and 12% of consolidated operating income (excluding the 2003 impairment charge) before headquarter overhead for 2005, 2004, and 2003, respectively.

The following table summarizes the segment goodwill that is not amortized. See the Acquisitions note and the Goodwill and Intangible Assets note in the Notes to Consolidated Financial Statements for information relating to goodwill acquired and amounts impaired, respectively.

(In thousands)	2005	2004	2003
TruGreen ChemLawn	**$ 700,029**	$ 681,954	$ 652,534
Terminix	**661,166**	643,567	622,351
American Home Shield (1)	**85,526**	72,085	72,085
Other Operations	**101,349**	114,267	113,065
Total	**$ 1,548,070**	$ 1,511,873	$ 1,460,035

(1) In the second quarter of 2005, approximately $13 million of enterprise goodwill was reclassified to the American Home Shield segment from the Other Operations segment.

Goodwill and Intangible Assets

In accordance with SFAS 142, Goodwill and Other Intangible Assets , the Company discontinued the amortization of goodwill and indefinite lived intangible assets effective January 1, 2002. Goodwill and intangible assets that are not amortized are subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company completed its annual assessment of impairment as of October 1.

In the third quarter of 2003, the Company recorded a non-cash impairment charge associated with the goodwill and intangible assets at its TruGreen LandCare business unit. This charge, which is included in the results of continuing operations for 2003, totaled $189 million pre-tax, $156 million after-tax, and $0.53 per diluted share. The impairment charge reported in continuing operations included a portion of goodwill that was not deductible for tax purposes, resulting in a tax benefit of $33 million, or only approximately 17 percent of the pre-tax impairment charge of $189 million. Also in the third quarter of 2003, the Company recorded a non-cash impairment charge associated with the goodwill and intangible assets at its ARS and AMS operations. These businesses are now being held pending sale, accordingly, the financial results for the ARS and AMS operations, as well as the impairment charge related to these operations ($292 million pre-tax, $227 million after-tax), have been classified to the financial statement caption businesses held pending sale and discontinued operations for all periods.

In April 2004, TruGreen ChemLawn acquired the assets of Greenspace Limited, Canada s largest professional lawn care service company. Intangible assets recorded were less than $16 million. The balance of goodwill and intangible assets that were added during 2004 relate to tuck-in acquisitions completed by Terminix and TruGreen ChemLawn.

The increase in goodwill and intangible assets in 2005 relates to tuck-in acquisitions completed throughout the year by Terminix and TruGreen ChemLawn, as well as the acquisition of a distributorship by ServiceMaster Clean in the third quarter.

The table below summarizes the goodwill and intangible asset balances:

(In thousands)	2005	2004	2003
Goodwill (1)	**$ 1,548,070**	$ 1,511,873	$ 1,460,035
Trade names (1)	**215,493**	204,793	204,793
Other intangible assets	**49,981**	45,679	35,323
Accumulated amortization	**(35,131)**	(29,677)	(23,671)

Net other intangibles	**14,850**	16,002	11,652
Total	**$ 1,778,413**	$ 1,732,668	$ 1,676,480

(1) Not subject to amortization.

(2) Amortization expense of $5 million, $6 million and $6 million was recorded in 2005, 2004 and 2003, respectively. Annual amortization expense of $5 million in 2005 is expected to decline over the next five years.

Income Taxes

In January 2005, the Company reached a comprehensive agreement with the IRS regarding its examination of the Company s federal income taxes through the year 2002. As previously disclosed, the Company had not been audited by the IRS during the period in which it operated as a master limited partnership (1987 through 1997) or in subsequent years. Consequently, the examination covered numerous significant matters, including the tax consequences resulting from the Company s reincorporation in 1997, and the sale of its large Management Services segment in November 2001. Pursuant to the agreement, the Company paid taxes and interest (primarily in February 2005) to the IRS and various states in the amount of $131 million ($112 million of increased taxes and $19 million of interest). These payments represented only one part of a four part agreement with the IRS, which also included: tax savings of $25 million that were realized in 2004; a reduction of $45 million in the estimated tax payments made during the second half of 2005 and a deferred tax asset totaling $57 million that will be realized through 2016.

As a result of this agreement, certain deferred tax assets, primarily related to intangible assets, which had previously not been recorded due to uncertainties associated with the complexity of the matters under review and the extended period of time effectively covered by the IRS examination were recorded. This resulted in a non-cash reduction in the Company s 2004 income tax provision, thereby increasing 2004 consolidated net income by approximately $159 million ($150 million related to continuing operations and $9 million related to businesses held pending sale and discontinued operations).

In February 2006, the IRS concluded the 2003 and 2004 audits of the Company s tax returns. There were no material adjustments or payments resulting from these audits. In the first quarter of 2006, the IRS commenced the audit of the Company s tax return for 2005. As with any review of this

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Notes to the Consolidated Financial Statements

nature, the ultimate outcome of this IRS examination is not known at this time.

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:

	2005	2004	2003
Tax at U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State and local income taxes net of U.S. federal benefit	**3.3**	3.6	6.5
Adjustment relating to the IRS agreement		(55.3)	
Tax credits	**(1.0)**	(0.7)	(2.2)
Impairment of non-deductible goodwill			71.8
Other	**1.4**	0.5	(6.4)
Effective rate	**38.7%**	(16.9%)	104.7%

The effective tax rate for businesses held pending sale and discontinued operations was tax expense of 39.5% in 2005 and tax benefits of 72.7% and 21.0% in 2004 and 2003, respectively. In 2005, the difference between these rates and the federal statutory tax rate of 35% reflects state taxes, net of federal benefit, and permanent items.

Income tax expense from continuing operations is as follows:

(In thousands)

	2005		
	Current	**Deferred**	**Total**
U.S. federal	**$ 12,393**	**$ 87,813**	**$ 100,206**
State and local	**1,723**	**12,208**	**13,931**
	$ 14,116	**$ 100,021**	**$ 114,137**

	2004		
	Current	**Deferred**	**Total**
U.S. federal	$ 129,943	$ (155,901)	$ (25,958)
State and local	10,429	(30,250)	(19,821)
	$ 140,372	$ (186,151)	$ (45,779)

	2003		
	Current	**Deferred**	**Total**
U.S. federal	$ (35,646)	$ 84,767	$ 49,121
State and local	(4,060)	9,655	5,595

	$ (39,706)	$ 94,422	$ 54,716

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 net operating losses. Management believes that, based upon its history of profitable operations, it is probable that its deferred tax assets will be realized, primarily from the generation of future taxable income. The deferred tax liability is primarily attributable to the basis differences related to intangible assets. The Company records its deferred tax items based on the estimated value of the tax basis.

In 2002, the Company adopted SFAS 142 which eliminated the requirement to record in the financial statements amortization expense related to goodwill and intangible assets with indefinite lives. The Company is able to continue to amortize the intangible assets for tax purposes which will yield an average annual tax benefit of approximately $57 million through 2012. Subsequent to 2012, the benefit from the step-up in tax basis that resulted from reincorporation will be fully amortized. The Company estimates that the divestitures of ARS and AMS will result in a reduction of approximately $4 million in the average annual cash tax benefits, however, the cash tax benefits in the year of divestiture will increase such that the aggregate tax benefits are unchanged. Accounting standards require that the Company recognize deferred taxes relating to the differences between the financial reporting and tax basis of the assets. As the annual tax benefit from the amortization expense is realized, the deferred tax liability increases, reflecting the declining tax basis compared to the non-amortized book basis. Significant components of the Company s deferred tax balances are as follows:

(In thousands)	**2005**	**2004**
Deferred tax assets (liabilities):		
Current:		
Prepaid expenses	**$ (14,000)**	$ (11,300)
Receivables allowances	**12,750**	15,700
Accrued insurance expenses	**11,500**	22,900
Net operating loss and tax credit carryforwards	**2,800**	40,640
Other accrued expenses	**22,000**	40,840
Total current asset	**35,050**	108,780
Long-Term:		
Intangible assets (1)	**(146,200)**	(88,500)
Accrued insurance expenses	**6,000**	3,600
Net operating loss and tax credit carryforwards	**22,500**	10,100
Other long-term obligations	**4,400**	(13,300)
Total long-term liability	**(113,300)**	(88,100)
Net deferred tax asset (liability)	**$ (78,250)**	$ 20,680

(1) The deferred tax liability relates primarily to the difference in the tax versus book basis of intangible assets. The majority of this liability will not actually be paid until a business unit of the Company is sold.

At December 31, 2005, the Company had tax effected federal and state net operating loss carryforwards of approximately $21 million, expiring at various dates up to 2025. The Company also had federal and state tax credit carryforwards of approximately $4 million which expire at various dates up to 2024.

In 2005, cash paid for income taxes were $146 million, including a net payment of $86 million to the IRS and various states pursuant to the Company s agreement with the IRS. In 2004, total tax payments were $13 million. In 2003, the Company received net tax refunds of $1 million.

Acquisitions

Acquisitions have been accounted for using the purchase method and, accordingly, the results of operations of the acquired businesses have been included in the Company s 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.

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Notes to the Consolidated Financial Statements

Current Year

Throughout 2005, the Company completed several small tuck-in acquisitions, primarily in the pest control and lawn care businesses. Additionally, in the third quarter of 2005, ServiceMaster Clean acquired a distributorship. The net purchase price of the 2005 acquisitions was $51 million. The Company recorded goodwill of approximately $36 million and other intangible assets of $15 million related to the 2005 acquisitions. The impact of these acquisitions was not material to the Company s Consolidated Financial Statements.

In February 2006, the Company announced an agreement to acquire InStar Services Group, Inc. Instar is a leading direct provider of commercial disaster response and reconstruction services in the United States with 2005 revenues of approximately $130 million. Instar provides a continuum of services, from planning prior to an event, to emergency response following the event and continuing service through cleaning, recovery and reconstruction. The InStar acquisition is not significant to the Company s consolidated financial statements, therefore proforma financial information has not been presented.

Prior Years

During 2004, the Company acquired the assets of Greenspace Services Limited, Canada s largest professional lawn care service company. In addition, the Company acquired several small companies, primarily in the pest control and lawn care businesses. The net purchase price of the 2004 acquisitions was $59 million. The Company recorded goodwill of approximately $52 million and other intangible assets of $10 million related to the 2004 acquisitions.

During 2003, the Company acquired several small companies, primarily in the lawn care business. The net purchase price of these acquisitions was $38 million. The Company recorded goodwill of $38 million and other intangible assets of $4 million related to these acquisitions.

Cash Flow Information for Acquisitions

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

(In thousands)	**2005**	**2004**	**2003**
Purchase price	**$ 53,692**	$ 66,841	$ 44,667
Less liabilities assumed	**(2,425)**	(7,851)	(6,315)
Net purchase price	**$ 51,267**	$ 58,990	$ 38,352
Net cash paid for acquisitions	**$ 33,719**	$ 40,184	$ 28,875
Value of shares issued	**1,191**	3,475	
Seller financed debt	**16,357**	15,331	9,477
Payment for acquisitions	**$ 51,267**	$ 58,990	$ 38,352

Businesses Held Pending Sale and Discontinued Operations

Current Year

The Company intends to sell its American Residential Services (ARS) and American Mechanical Services (AMS) companies so it can concentrate resources on its main growth businesses. The Company has retained an investment banking firm to serve as its financial advisor in this process. The ARS/AMS operations provide heating, ventilation, air conditioning (HVAC), plumbing and electrical installation and repair services and were previously disclosed as the Company s ARS/AMS segment. Because the Company intends to sell these companies, the results of these operations are reported within the financial statement caption businesses held pending sale and discontinued operations for all periods.

2003 Dispositions

During the third quarter of 2003, the Company sold substantially all of the assets and related operational obligations of Trees, Inc., the utility line clearing operations of TruGreen LandCare, to an independent subsidiary of Asplundh Subsidiary Holdings, Inc., for approximately $20 million in cash. The impact of the sale was not material to the Company s Consolidated Financial Statements for 2003.

Financial Information for Businesses Held Pending Sale and Discontinued Operations

Reported Businesses held pending sale and discontinued operations for all periods presented include the operating results of the businesses sold, discontinued, and held for sale noted above. The operating results and financial position of businesses held pending sale and discontinued operations are as follows:

(In thousands, except per share data) **Operating Results:**	**2005**	**2004**	**2003**
Operating revenue	**$ 764,888**	$ 691,552	$ 738,615
ARS/AMS operating income	**11,695**	5,534	10,023
Headquarter support and insurance costs previously allocated to ARS/AMS	**10,294**	6,714	4,879
Favorable conclusion of certain obligations related to international pest control operations	**11,000**		
Impairment charge			(291,800)
Other discontinued operations	**(2,634)**	(3,793)	(4,482)
Provision (benefit) for income taxes [1]	**11,991**	(6,149)	(59,148)
Income (loss) from businesses held pending sale and discontinued operations	**$ 18,364**	$ 14,604	$ (222,232)
Diluted income (loss) from businesses held pending sale and discontinued operations	**$ 0.06**	$ 0.05	$ (0.75)

[1] 2004 includes a $9 million non-cash reduction in the tax provision of businesses held pending sale and discontinued operations related to a comprehensive agreement with the IRS regarding its examination of the Company s federal income taxes through the year 2002.

Financial Position:	**2005**	**2004**
Current assets	**$ 135,100**	$ 112,501
Long-term assets	**77,340**	80,397
Total assets	**$ 212,440**	$ 192,898
Current liabilities	**$ 97,294**	$ 91,396
Long-term liabilities	**10,130**	9,615
Total liabilities	**$ 107,424**	$ 101,011

The table below summarizes the activity during the twelve months ended December 31, 2005 for the remaining liabilities from the discontinued operations, with $11 million of the decrease during the year reflecting the favorable conclusion of certain obligations related to the previously sold international pest control operations. The remaining obligations primarily relate to long-term self-insurance claims. The Company believes that the remaining reserves continue to be adequate and reasonable.

Notes to the Consolidated Financial Statements

(In thousands)	Balance at Dec. 31, 2004	Cash Payments or Other	Income/ (Expense)	Balance at Dec. 31, 2005
Remaining liabilities of discontinued operations:				
LandCare Construction	$ 4,492	$ 2,365	$ (985)	$ 3,112
LandCare utility line clearing business	6,616	2,843	535	3,238
Certified Systems, Inc. and other	8,485	1,325	(2,526)	9,686
International Businesses (1)	11,000		11,000	

(1) The 2005 activity reflects the favorable conclusion of certain obligations related to the previously sold international pest control operations.

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 2005, 2004 and 2003 was $163 million, $147 million and $135 million, respectively. Future long-term non-cancelable operating lease payments are approximately $80 million in 2006, $64 million in 2007, $49 million in 2008, $37 million in 2009, $21 million in 2010, and $26 million in 2011 and thereafter.

The majority of the Company s fleet and some equipment are leased through operating leases. Lease terms are non-cancelable for the first twelve month term and 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 and equipment, which historically have not resulted in significant net payments to the lessors. There are no net payments reflected in the future minimum lease obligation as the leases are cancelable and there are no expected net payments due under the guarantees. At December 31, 2005 there was approximately $259 million of residual value guarantee relating to the Company s fleet and equipment leases. The fair value of the assets under the leases is expected to fully mitigate the Company s obligations under the agreements.

The Company maintains operating lease facilities with banks totaling $68 million which provide for the financing of branch properties to be leased by the Company. At December 31, 2005, approximately $68 million was funded under these facilities. Approximately $15 million of these leases have been included on the balance sheet as assets with related debt as of December 31, 2005. The balance of the funded amount is treated as operating leases. Approximately $15 million of the total facility expires in January 2008 and $53 million expires in September 2009. The Company has guaranteed the residual value of the properties under the leases up to 82 percent of the fair market value at the commencement of the lease. At December 31, 2005, the Company s residual value guarantee related to the leased assets totaled $56 million for which the Company has recorded the estimated fair value of this guarantee (approximately $0.9 million) in the Consolidated Statements of Financial Position.

In the normal course of business, the Company periodically enters into agreements that incorporate indemnification provisions. While the maximum amount 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 adverse effect on its Consolidated Financial Statements.

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 has self-insured retention limits and insured layers of excess insurance coverage above such self-insured retention limits. Accruals for self-insurance losses, termite damage claims in the Terminix business and warranty claims in the American Home Shield business are made based on the Company s claims experience and actuarial assumptions. In 2005, Terminix recorded a $10 million unfavorable correction in estimating prior years termite damage claim reserves. At December 31, 2005, these accruals totaled $211 million, with $93 million included in Self-insured claims and related expenses and $118 million included in Other long-term obligations in the accompanying Consolidated Statements of Financial Position. 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.

In the ordinary course of conducting its business activities, the Company becomes involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include general and commercial liability actions and a small number of environmental proceedings. The Company does not expect any of these proceedings to have a material adverse effect on its Consolidated Financial Statements.

Employee Benefit Plans

Discretionary contributions to qualified profit sharing and non-qualified deferred compensation plans were made in the amount of $9.9 million for 2005, $9.3 million for 2004 and $4.6 million for 2003. Under the Employee Share Purchase Plan, the Company contributed $.8 million in 2005, 2004 and 2003. These funds defrayed part of the cost of the shares purchased by employees.

Minority Interest Ownership and Related Parties

The Company continues to have minority investors in Terminix. This minority ownership reflects an interest issued to the prior owners of the Allied Bruce Terminix Companies in connection with the acquisition of that entity. At any time, the former owners may convert this equity security into eight million ServiceMaster common shares. The ServiceMaster shares are included in the shares used in the calculation of diluted earnings per share, when their inclusion has a dilutive impact. Subsequent to December 31, 2005, ServiceMaster has the ability to require conversion of the security into ServiceMaster common shares, provided the closing share price of ServiceMaster s common stock averages at least $15 per share for 40 consecutive trading days.

Notes to the Consolidated Financial Statements

Long-Term Debt

Long-term debt includes the following:

(In thousands)	2005	2004
8.45% maturing in 2005	$	$ 137,499
6.95% maturing in 2007	**49,225**	49,225
7.88% maturing in 2009	**179,000**	179,000
7.10% maturing in 2018	**79,473**	79,473
7.45% maturing in 2027	**195,000**	195,000
7.25% maturing in 2038	**82,650**	82,650
Other	**72,802**	82,241
Less current portion	**(19,222)**	(23,247)
Total long-term debt	**$ 638,928**	$ 781,841

The Company is party to a number of debt agreements which require it to maintain certain financial and other covenants, including limitations on indebtedness (debt cannot exceed 3.25 times earnings before interest, taxes, depreciation, and amortization (EBITDA)) and a minimum interest coverage ratio (EBITDA needs to exceed four times interest expense). 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 an inhibiting 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. Throughout 2005, the Company was in compliance with the covenants related to these debt agreements and, based on its operating outlook for 2006, expects to be able to maintain compliance in the future.

The Company does not have any debt agreements that contain put rights or provide for acceleration of maturity as a result of a change in credit rating. However, the Company has a number of debt agreements which contain standard ratings-based pricing grids where the interest rate payable under the agreement changes if and when the Company s credit rating changes. While the Company does not expect a negative change in credit ratings, the impact on interest expense resulting from any changes in credit ratings is not expected to be material to the Company.

Since August 1997, ServiceMaster has issued $1.1 billion of unsecured debt securities pursuant to registration statements filed with the Securities and Exchange Commission. As of December 31, 2005, ServiceMaster had $550 million of senior unsecured debt securities and equity interests available for issuance under an effective shelf registration statement.

The Company has a committed revolving bank credit facility for up to $500 million that expires in May 2010. The facility can be used for general Company purposes. As of December 31, 2005, the Company had issued approximately $142 million of letters of credit under the facility and had unused commitments of approximately $358 million. There were no borrowings outstanding at that date. At the Company s current credit ratings, the interest rate under the facility is LIBOR plus 75 basis points.

In December 2003 and January 2004, the Company entered into interest rate swap agreements with a total notional amount of $165 million. Under the terms of these agreements, the Company pays a floating rate of interest (based on a specified spread over six-month LIBOR) on the notional amount and the Company receives a fixed rate of interest at 7.88 percent on the notional amount. The impact of these swap transactions was to convert $165 million of the Company s debt from fixed rate at 7.88 percent to a variable rate based on LIBOR. In accordance with SFAS 133 Accounting for Derivative Instruments and Hedging Activities , the Company s interest rate swap agreements are classified as fair value hedges and, as such, gains and losses on the swaps as well as the gains and losses on the related hedged items are recognized in current earnings.

Cash interest payments were $57 million in 2005, $60 million in 2004 and $61 million in 2003. Future scheduled long-term debt payments are $19 million in 2006 (average rate of 5.7 percent), $61 million in 2007 (average rate of 7.1 percent), $27 million in 2008 (average rate of 6.2 percent), $184 million in 2009 (average rate of 8.1 percent) and $8 million in 2010 (average rate of 7.9 percent). In April 2005, $137 million of the Company s public debt matured and was paid. The Company s next significant debt maturity is not until 2007.

Cash and Marketable Securities

Cash, money market funds and certificates of deposits, with maturities of three months or less, are included in the Statements of Financial Position caption Cash and Cash Equivalents. Marketable securities are designated as available for sale and recorded at current market value, with unrealized gains and losses reported in a separate component of shareholders equity. As of December 31, 2005 and 2004, the Company s investments consist primarily of domestic publicly traded debt of $108 million and $109 million, respectively and common equity securities of $144 million and $131 million, respectively.

The aggregate market value of the Company s short-term and long-term investments in debt and equity securities was $252 million and $240 million and the aggregate cost basis was $246 million and $226 million at December 31, 2005 and 2004, respectively.

Interest and dividend income received on cash and marketable securities was $20 million, $15 million, and $13 million, in 2005, 2004, and 2003, 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 it competes. The unrealized gains in the investment portfolio were approximately $13 million and $16 million as of December 31, 2005 and 2004, respectively. Unrealized losses were approximately $7 million and $2 million as of December 31, 2005 and 2004, respectively. The portion of these unrealized losses older than one year at December 31 was less than $1 million for both 2005 and 2004. The aggregate fair value of the investments with unrealized losses totaled $133 million and $96 million at December 31, 2005 and 2004, respectively, and consist primarily of corporate bonds and common equity securities.

Receivable Sales

The Company has an agreement to provide for the ongoing revolving sale of a designated pool of accounts receivable of TruGreen ChemLawn and Terminix to a wholly-owned, bankruptcy-remote subsidiary, ServiceMaster Funding LLC.

Notes to the Consolidated Financial Statements

ServiceMaster Funding LLC has entered into an agreement to transfer, on a revolving basis, an undivided percentage ownership interest in a pool of accounts receivable to unrelated third party purchasers. ServiceMaster Funding LLC retains an undivided percentage interest in the pool of accounts receivable and bad debt losses for the entire pool are allocated first to this retained interest. During 2005, 2004 and 2003, there were no receivables sold to third parties under this agreement. However, the Company may sell its receivables in the future which would provide an alternative funding source. The agreement is a 364-day facility that is renewable at the option of the purchasers. The Company may sell up to $70 million of its receivables to these purchasers and therefore has immediate access to cash proceeds from these sales. The amount of the eligible receivables varies during the year based on seasonality of the business and will at times limit the amount available to the Company.

Comprehensive Income

Comprehensive income, which encompasses net income, unrealized gains on marketable securities, and the effect of foreign currency translation is disclosed in the Statements of Shareholders Equity.

Other Comprehensive Income

(In thousands)	2005	2004	2003
Net unrealized holding gains arising in period	**$ 4,582**	$ 7,745	$ 15,559
Tax expense	**1,833**	3,098	6,224
Net of tax amount	**$ 2,749**	$ 4,647	$ 9,335
Net gains realized	**$ 8,228**	$ 6,370	$ 3,855
Tax expense	**3,291**	2,549	1,542
Net of tax amount	**$ 4,937**	$ 3,821	$ 2,313

Accumulated comprehensive income included the following components as of December 31:

(In thousands)	2005	2004	2003
Net unrealized gains on securities, net of tax	**$ 4,624**	$ 6,812	$ 5,986
Foreign currency translation	**2,573**	3,992	1,946
Total	**$ 7,197**	$ 10,804	$ 7,932

Shareholders Equity

The Company has authorized one billion shares of common stock with par value of $.01. In February 2006, the Company announced the declaration of a cash dividend of $.11 per share payable on February 28, 2006 to shareholders of record on February 17, 2006.

The Company has an effective shelf registration statement to issue shares of common stock in connection with future, unidentified acquisitions. This registration statement allows the Company to issue registered shares much more efficiently when acquiring privately held companies. The Company plans to use the shares over time in connection with purchases of small acquisitions. There were approximately 4.3 million shares available for issuance under this registration statement at December 31, 2005.

As of December 31, 2005, there were 32 million Company shares available for issuance upon the exercise of employee stock options outstanding and future grants. Stock options are issued at a price not less than the fair market value on the grant date and expire within ten years of the grant date. Certain options may permit the holder to pay the option exercise price by tendering Company shares that have been owned by the holder without restriction for an extended period. Share grants and restricted stock awards carry a vesting period and are restricted as to the sale or transfer of the shares. Restricted stock awards are non-transferable and subject to forfeiture if the holder does not remain continuously employed by the Company during the vesting period, or if the restricted stock is subject to performance measures, if those performance measures are not attained. The Company includes the vested and unvested portions of the restricted stock awards in shares outstanding in the denominator of its earnings per share calculations.

In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment (SFAS 123(R)). SFAS 123(R) replaces SFAS 123, Accounting for Stock-Based Compensation (SFAS 123), and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS 123(R) requires that stock options and share grants be recorded at fair value and this value is recognized as compensation expense over the vesting period. The Statement requires that compensation expense be recorded for newly issued awards as well as the unvested portion of previously issued awards that remain outstanding as of the adoption of this Statement. The requirements of SFAS 123(R) become effective beginning with the Company s 2006 fiscal year (January 1, 2006). The Company had previously disclosed that it had expected to restate prior periods as if the Statement were in effect for all periods. As permitted by this Statement, the Company will instead prospectively apply the provisions of this Statement effective January 1, 2006.

In the first quarter of 2003, the Company adopted SFAS 123 and has been expensing the fair value of new employee option grants awarded subsequent to 2002 using the prospective method as described in SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123 .

Beginning in 2005, the fair value of each option award was estimated on the date of the grant using a lattice-based option valuation model. Prior to 2005, the Company used the Black-Scholes option pricing model. This change was made in order to provide a better estimate of fair value, as the lattice-based model reflects the impact of stock price changes on exercise behavior, and changes in volatility and interest rates.

Under the lattice-based model, expected volatilities are based on a term structure of implied volatilities from traded options on the Company s stock and historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The range of risk-free rates for periods within the contractual life of the options is based on the U.S. Treasury forward curve rate and uses a term structure.

Notes to the Consolidated Financial Statements

The lattice-based model used the following assumption for options awarded in 2005: range of expected volatility 27.66 percent to 47.56 percent; weighted-average volatility of 28.24 percent; expected life (in years) of 6; dividend yield of 3.41 percent; risk-free rate in the range of 2.98 percent to 4.65 percent; and the weighted-average risk-free rate of 4.06 percent.

For awards valued using the Black-Scholes option pricing model, the computation of fair value was based on the following weighted-average assumptions in 2004 and 2003: risk-free rates of 3.7 percent and 3.6 percent, respectively; dividend yields of 4.0 percent and 4.2 percent, respectively; share price volatility of 30.6 percent and 30.8 percent, respectively; and average expected lives of six to seven years. The Company has estimated the value of these options assuming a single weighted-average expected life for the entire award.

Options and grant transactions during the last three years are summarized below:

	Stock Options		Price Range (1)			Weighted Avg. Exercise Price	Share Grants/ Restricted Stock		Price Range	
Total exercisable, December 31, 2002	18,089,830	$	2.25	77.56	$	13.05				
Total outstanding, December 31, 2002	31,813,339	$	2.25	77.56	$	12.64	232,887	$	2.86	13.80
Transactions during 2003										
Granted to employees	2,432,674	$	8.40	11.21	$	9.91	364,419	$	9.50	11.97
Exercised or vested	(1,296,101)	$	6.44	11.50	$	7.70	(56,092)	$	2.86	13.80
Terminated or resigned	(1,240,146)	$	2.25	37.40	$	13.49	(3,514)	$		9.95
Total exercisable, December 31, 2003	20,346,581	$	6.44	77.56	$	13.16				
Total outstanding, December 31, 2003	31,709,766	$	6.44	77.56	$	12.60	537,700	$	3.03 - 13.80	
Transactions during 2004										
Granted to employees	2,049,680	$	8.63	13.06	$	10.79	988,309	$	10.73	12.86
Exercised or vested	(1,250,434)	$	6.44	11.50	$	8.20	(109,827)	$	3.03	13.80
Terminated or resigned	(545,085)	$	6.44	37.40	$	12.57	(16,491)	$	9.95	11.17
Total exercisable, December 31, 2004	22,573,344	$	8.40	77.56	$	13.26				
Total outstanding, December 31, 2004	31,963,927	$	8.40	77.56	$	12.66	1,399,691	$	3.82	13.80
Transactions during 2005										
Granted to employees	2,103,103	$	12.14	13.72	$	13.43	598,723	$	12.56	13.82
Exercised or vested	(2,385,142)	$	8.75	13.83	$	9.90	(270,695)	$	3.82	13.80
Terminated or resigned	(2,173,615)	$	8.75	37.40	$	12.26	(144,842)	$	9.95	13.42
Total exercisable, December 31, 2005	22,057,309	$	8.40	77.56	$	13.33				
Total outstanding, December 31, 2005	29,508,273	$	8.40	77.56	$	12.96	1,582,877	$	5.53	13.82

(1) The options priced at $77.56 are options assumed by the Company as a result of business acquisitions.

Options outstanding at December 31, 2005:

Range of Exercise Prices	Number Outstanding at 12/31/05	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number Exercisable at 12/31/05	Weighted Average Exercise Price
$8.40 10.78	11,290,694	4 Years	$ 10.00	7,869,386	$ 9.86
$10.80 15.94	12,351,967	4 Years	$ 12.50	8,322,311	$ 12.15
$16.12 22.33	5,522,211	3 Years	$ 18.18	5,522,211	$ 18.18
$27.20 77.56	343,401	1 Year	$ 43.25	343,401	$ 43.25
$8.40 77.56	29,508,273	3.9 Years	$ 12.96	22,057,309	$ 13.33

Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of shares outstanding for the period. The weighted average common shares for the diluted earnings per share calculation includes the incremental effect related to outstanding options and stock appreciation rights (SARS) whose market price is in excess of the grant price. Shares potentially issuable under convertible securities have been considered outstanding for purposes of the diluted earnings per share calculations. In computing diluted earnings per share, the after-tax interest expense related to convertible securities is added back to net income in the numerator, while the diluted shares in the denominator include the shares issuable upon conversion of the securities. Due to the losses incurred in 2003, the denominator does not include the effects of options as it would result in a less dilutive computation. As a result, 2003 diluted earnings per share are the same as basic earnings per share. Had the Company recognized income from continuing operations in 2003, incremental shares attributable to the assumed exercise of outstanding options would have increased diluted shares outstanding by 3.9 million shares. Shares potentially issuable under convertible securities have not been considered outstanding for 2005 and 2003 as their inclusion results in a less dilutive computation. Had the inclusion of convertible securities not resulted in a less dilutive computation in both 2005 and 2003, incremental shares attributable to the assumed conversion of the securities would have increased shares outstanding by 8.0 million shares and the after-tax interest expense related to the convertible securities that would have been added to net income in the numerator would have been $4.9 million and $4.8 million, respectively.

The following table reconciles both the numerator and the denominator of the basic earnings per share from continuing

Notes to the Consolidated Financial Statements

operations computation to the numerator and the denominator of the diluted earnings per share from continuing operations computation.

(In thousands, except per share data)

	For year ended 2005			For year ended 2004			For year ended 2003		
Continuing Operations:	**Income**	**Shares**	**EPS**	**Income**	**Shares**	**EPS**	**Loss**	**Shares**	**EPS**
Basic EPS	**$ 180,561**	**291,251**	**$ 0.62**	$ 316,623	290,514	$ 1.09	$ (2,455)	295,610	$ (0.01)
Effect of Dilutive Securities:									
Options & SARS		**5,556**			5,054				
Convertible securities				4,712	8,000				
Diluted EPS	**$ 180,561**	**296,807**	**$ 0.61**	$ 321,335	303,568	$ 1.06	$ (2,455)	295,610	$ (0.01)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The ServiceMaster Company

We have audited the accompanying consolidated statements of financial position of The ServiceMaster Company and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements 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 the ServiceMaster Company and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2006 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Chicago, Illinois
February 27, 2006

Quarterly Operating Results (Unaudited)

Quarterly operating results and related growth for the last three years in revenue, gross profit, income from continuing operations, income from businesses held pending sale and discontinued operations and earnings per share are shown in the table below. As discussed in the Interim Reporting section in the Significant Accounting Policies, for interim accounting purposes, TruGreen ChemLawn and other business segments of the Company incur pre-season advertising costs. In addition, TruGreen ChemLawn incurs costs related to annual repairs and maintenance procedures that are performed in the first quarter. These costs are deferred and recognized as expense in proportion to revenue over the balance of the year. Full year results are not affected.

(In thousands, except per share data)	2005	Chg	2004	Chg	2003
Continuing Operations:					
Operating Revenue:					
First Quarter	**$ 623,760**	3%	$ 602,907	7%	$ 560,910
Second Quarter	**970,627**	7	909,019	6	858,493
Third Quarter	**925,492**	6	872,770	4	836,725
Fourth Quarter	**719,599**	5	683,372	7	638,900
	$ 3,239,478	6%	$ 3,068,068	6%	$ 2,895,028
Gross Profit:					
First Quarter	**$ 209,889**	6%	$ 197,547	10%	$ 180,261
Second Quarter	**400,303**	9	367,430	5	350,058
Third Quarter	**362,573**	6	342,071	6	323,416
Fourth Quarter	**254,735**	5	241,800	19	203,701
	$ 1,227,500	7%	$ 1,148,848	9%	$ 1,057,436
Income (Loss) from Continuing Operations:(1)					
First Quarter	**$ 11,036**	(14%)	$ 12,761	178%	$ 4,592
Second Quarter	**75,391**	9	69,267	8	63,842
Third Quarter (3)	**70,172**	9	64,267	N/M	(93,719)
Fourth Quarter (2)	**23,962**	N/M	170,328	N/M	22,830
	$ 180,561	N/M	$ 316,623	N/M	$ (2,455)
Basic Earnings (Loss) Per Share:(1)					
First Quarter	**$ 0.04**	%	$ 0.04	100%	$ 0.02
Second Quarter	**0.26**	8	0.24	9	0.22
Third Quarter (3)	**0.24**	9	0.22	N/M	(0.32)
Fourth Quarter (2)	**0.08**	N/M	0.59	N/M	0.08
	$ 0.62	N/M	$ 1.09	N/M	$ (0.01)
Diluted Earnings (Loss) Per Share:(1)					
First Quarter	**$ 0.04**	%	$ 0.04	100%	$ 0.02
Second Quarter	**0.25**	9	0.23	10	0.21
Third Quarter (3)	**0.23**	5	0.22	N/M	(0.32)
Fourth Quarter (2)	**0.08**	N/M	0.56	N/M	0.08
	$ 0.61	N/M	$ 1.06	N/M	$ (0.01)

Businesses Held Pending Sale and Discontinued Operations:[1]

Income (Loss) from Businesses Held Pending Sale and Discontinued Operations:						
First Quarter	$ **(464)**	70%	$ (1,562)	N/M	$ 83
Second Quarter	**4,410**	291	1,129	(34%)	1,708
Third Quarter [3]	**11,415**	230	3,457	N/M	(224,247)
Fourth Quarter [2]	**3,003**	N/M	11,580	N/M	224
	$ **18,364**	N/M	$ 14,604	N/M	$ (222,232)
Diluted Earnings (Loss) Per Share:					
First Quarter	$	100%	$ (0.01)	N/M	$
Second Quarter	**0.01**	N/M		100%	0.01
Third Quarter [3]	**0.04**	300	0.01	N/M	(0.76)
Fourth Quarter [2]	**0.01**	N/M	0.04	N/M	
	$ **0.06**	N/M	$ 0.05	N/M	$ (0.75)

N/M = Not meaningful

(1) The Company intends to sell its American Residential Services (ARS) and American Mechanical Services (AMS) companies so that it can concentrate resources on its main growth businesses. These operations were previously disclosed as the Company s ARS/AMS segment. Because the Company intends to sell these companies, the results of these operations are classified within the financial statement caption businesses held pending sale and discontinued operations in all periods. See the Management Discussion and Analysis of Financial Position and Results of Operations for a discussion of the components of businesses held pending sale and discontinued operations.

(2) In January 2005, the Company announced that it had reached a comprehensive agreement with the Internal Revenue Service regarding its examination of the Company s federal income taxes through the year 2002. As a result of this agreement, the Company recorded a non-cash reduction in its fourth quarter and full year 2004 tax provision, thereby increasing net income by approximately $159 million. Approximately $150 million related to continuing operations ($.49 per diluted share) and $9 million related to businesses held pending sale and discontinued operations ($.03 per diluted share). See the Income Taxes note in the Notes to the Consolidated Financial Statements.

(3) In accordance with SFAS 142, the Company s goodwill and intangible assets that are not amortized are subject to at least an annual assessment for impairment by applying a fair-value based test. In the third quarter of 2003, the Company recorded a non-cash impairment charge associated with the goodwill and intangible assets at its TruGreen LandCare business unit. This charge, which is included in the results of continuing operations for 2003, totaled $189 million pre-tax, $156 million after-tax, and $.53 per diluted share. Also in the third quarter of 2003, the Company recorded a non-cash impairment charge associated with the goodwill and intangible assets at its American Residential Services (ARS) and American Mechanical Services (AMS) operations. The Company is currently holding these operations for sale, accordingly, the financial results for the ARS and AMS operations, as well as the impairment charge related to these operations ($292 million pre-tax, $227 million after-tax), are classified as businesses held pending sale and discontinued operations for all periods. See the Goodwill and Intangible Assets note in the Notes to Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Effectiveness of Disclosure Controls and Procedures. ServiceMaster s Chairman and Chief Executive Officer, Jonathan P. Ward, and ServiceMaster s President and Chief Financial Officer, Ernest J. Mrozek, have evaluated ServiceMaster s disclosure controls and procedures as of the end of the period covered by this Form 10-K. ServiceMaster s disclosure controls and procedures include a roll-up of financial and non-financial reporting that is consolidated in the principal executive office of ServiceMaster in Downers Grove, Illinois. The reporting process is designed to ensure that information required to be disclosed by ServiceMaster in the reports that it files with or submits to the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Messrs. Ward and Mrozek have concluded that both the design and operation of ServiceMaster s disclosure controls and procedures are effective.

See Management s Report on Internal Control over Financial Reporting in Item 8.

Changes in Internal Control over Financial Reporting. No change in ServiceMaster s internal control over financial reporting occurred during the fourth quarter of 2005 that has materially affected, or is reasonably likely to materially affect, ServiceMaster s internal control over financial reporting.

Management Certifications. In June 2005, the Company submitted to the New York Stock Exchange the Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual. The Company has also filed, as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2005, the certifications of its Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the heading Item 1 Election of Directors is incorporated by reference in this Form 10-K.

EXECUTIVE OFFICERS OF SERVICEMASTER

The names and ages of the executive officers of ServiceMaster as of February 28, 2006, together with certain biographical information, are as follows:

Name	Age	Present Positions	First Became an Officer
Jonathan P. Ward	51	Chairman and Chief Executive Officer	2001
Ernest J. Mrozek	52	President and Chief Financial Officer	1987
Steven C. Preston	45	Executive Vice President	1997
Richard A. Ascolese	52	President, TruGreen LandCare	1997
Steven B. Bono	53	Senior Vice President, Corporate Communications	2001
Scott J. Cromie	49	Group President and Chief Executive Officer, American Home Shield	1990
Mitchell T. Engel	53	Chief Marketing Officer	2002
Lisa V. Goettel	42	Senior Vice President, Human Resources	2002
James A. Goetz	48	Senior Vice President and Chief Information Officer	2000
Katrina L. Helmkamp	40	President, Terminix International	2005
Michael M. Isakson	52	President and Chief Operating Officer, ServiceMaster Clean & Furniture Medic	1992
Jim L. Kaput	45	Senior Vice President and General Counsel	2000
Dennis R. Sutton	51	President and Chief Operating Officer, TruGreen ChemLawn	1994

Mr. Ward is also a director of ServiceMaster. For biographical information with respect to Mr. Ward, see Item 1 Election of Directors in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

Ernest J. Mrozek is President and Chief Financial Officer. He served as President and Chief Operating Officer from April 2002 to January 2004. He served as President of ServiceMaster Consumer and Commercial Services from November 1998 to April 2002.

Steven C. Preston is Executive Vice President. He served as Executive Vice President and Chief Financial Officer from July 1998 to January 2004.

Richard A. Ascolese has served as President, TruGreen LandCare since September 2005. He served as Chief Operating Officer, TruGreen LandCare from November 2004 to September 2005. Mr. Ascolese served as Executive Vice President of American Home Shield from January 1997 to November 2004.

Steven B. Bono has served as Senior Vice President, Corporate Communications since July 2001. He was on sabbatical from May 2000 to July 2001.

Scott J. Cromie is Group President and Chief Executive Officer of American Home Shield. From October 1996 to February 2006 he served as President and Chief Operating Officer of American Home Shield.

Mitchell T. Engel is Chief Marketing Officer. He served as Principal of Engel Marketing Services from April 1998 to April 2002.

Lisa V. Goettel has served as Senior Vice President, Human Resources since December 2004. From June 2002 to December 2004, Ms. Goettel served as Vice President, Human Resources of The TruGreen Companies. She served as a human resources consultant from May 2001 to May 2002. Ms. Goettel served as Vice President, Human Resources of World Duty Free in Ridgefield, Connecticut from December 1996 to April 2001.

James A. Goetz is Senior Vice President and Chief Information Officer. He served as Chief Information Officer of The ServiceMaster Home Service Center L.L.C. from September 2000 to January 2002.

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Katrina L. Helmkamp has served as President, Terminix International since January 2005. She served as Vice President of Boston Consulting Group in Chicago, Illinois from January 1999 to December 2004.

Michael M. Isakson is President and Chief Operating Officer of ServiceMaster Clean and Furniture Medic. He served as President of ServiceMaster Clean from August 1995 to April 2001.

Jim L. Kaput has served as Senior Vice President and General Counsel of ServiceMaster since April 2000.

Dennis R. Sutton has served as President and Chief Operating Officer, TruGreen ChemLawn since July 2005. He served as Interim President and Chief Operating Officer, TruGreen ChemLawn from November 2004 to July 2005. Mr. Sutton served as Senior Vice President, TruGreen ChemLawn from July 2004 to November 2004. He served as Division Vice President, TruGreen ChemLawn from August 1994 to July 2004.

FINANCIAL CODE OF ETHICS

ServiceMaster has a Financial Code of Ethics which applies to ServiceMaster s Chief Executive Officer, Chief Financial Officer, Controller, Treasurer, Business Unit Chief Financial Officers or persons performing similar functions and other designated officers and employees. A copy of the Financial Code of Ethics is posted on ServiceMaster s website at http://www.svm.com under Corporate Governance and is available in print, at no charge, to any person who requests it by writing to the Corporate Secretary at the following address: The ServiceMaster Company, 3250 Lacey Road, Suite 600, Downers Grove, Illinois 60515.

AUDIT AND FINANCE COMMITTEE FINANCIAL EXPERT

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the heading Board and Committees of the Board is incorporated by reference in this Form 10-K.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the heading Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference in this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the headings Compensation of Directors, Executive Officer Compensation and Agreements with Officers and Directors is incorporated by reference in this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the headings Ownership of Our Common Stock and Equity Compensation Plan Information is incorporated by reference in this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the heading Certain Transactions and Relationships is incorporated by reference in this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders under the heading Item 3 Ratification of Selection of Independent Auditors is incorporated by reference in this Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Schedules and Exhibits.

1. *Financial Statements*

Report of Independent Registered Public Accounting Firm contained in Part II, Item 8 of this Form 10-K.

Consolidated Statements of Financial Position as of December 31, 2005 and 2004 contained in Part II, Item 8 of this Form 10-K.

Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003 contained in Part II, Item 8 of this Form 10-K.

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003 contained in Part II, Item 8 of this Form 10-K.

Consolidated Statements of Shareholders Equity for the years ended December 31, 2005, 2004 and 2003 contained in Part II, Item 8 of this Form 10-K.

Notes to the Consolidated Financial Statements contained in Part II, Item 8 of this Form 10-K.

2. *Financial Statements Schedules*

The following information is filed as part of this Form 10-K and should be read in conjunction with the financial statements contained in Part II, Item 8 of this Form 10-K:

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

3. *Exhibits*

The exhibits filed with this report are listed on pages 50-52 (the Exhibits Index). Entries marked by an asterisk next to the exhibit s number identify management contracts or compensatory plans, contracts or arrangements in which a director or any of ServiceMaster s executive officers to be identified in the summary compensation table included in ServiceMaster s Definitive Proxy Statement for the 2006 Annual Meeting of Shareholders participates or compensatory plans, contracts or arrangements adopted without approval of security holders pursuant to which ServiceMaster may award equity and in which any ServiceMaster employee currently participates.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

THE SERVICEMASTER COMPANY

Date: February 28, 2006

By /s/ JONATHAN P. WARD

Jonathan P. Ward
Chairman and 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 registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JONATHAN P. WARD Jonathan P. Ward	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2006
/s/ ERNEST J. MROZEK Ernest J. Mrozek	President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 28, 2006
/s/ LOUIS J. GIULIANO Louis J. Giuliano	Director	February 24, 2006
/s/ BRIAN GRIFFITHS Brian Griffiths	Director	February 24, 2006
/s/ SIDNEY E. HARRIS Sidney E. Harris	Director	February 24, 2006
/s/ ROBERTO R. HERENCIA Roberto R. Herencia	Director	February 24, 2006
/s/ BETTY JANE HESS Betty Jane Hess	Director	February 24, 2006
/s/ EILEEN A. KAMERICK Eileen A. Kamerick	Director	February 24, 2006
/s/ JAMES D. MCLENNAN James D. McLennan	Director	February 24, 2006
/s/ COLEMAN H. PETERSON	Director	February 24, 2006

Coleman H. Peterson		
/s/ DALLEN W. PETERSON	Director	February 24, 2006
Dallen W. Peterson		
/s/ J. PATRICK SPAINHOUR	Director	February 24, 2006
J. Patrick Spainhour		
/s/ DAVID K. WESSNER	Director	February 24, 2006
David K. Wessner		

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The ServiceMaster Company
Downers Grove, Illinois

We have audited the consolidated financial statements of The ServiceMaster Company and subsidiaries (the Company) as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, and the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, and have issued our reports thereon dated February 27, 2006; such consolidated financial statements and reports are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This schedule is the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
Chicago, Illinois
February 27, 2006

SCHEDULE II
THE SERVICEMASTER COMPANY
VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	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, 2005				
Continuing Operations -				
Allowance for doubtful accounts				
Accounts receivable	$ 19,526	$ 42,574	$ 45,644	$ 16,456
Notes receivable	2,213	307	1,274	1,246
Reserves related to strategic actions in the fourth quarter of 2001 [2]	6,795	1,250	700	7,345
Remaining liabilities from discontinued operations				
LandCare Construction	4,492	985	2,365	3,112
LandCare utility line clearing business	6,616	(535)	2,843	3,238
Certified Systems, Inc. and other	8,485	2,526	1,325	9,686
International businesses	11,000	(11,000)		
AS OF AND FOR THE YEAR ENDING DECEMBER 31, 2004				
Continuing Operations -				
Allowance for doubtful accounts				
Accounts receivable	$ 19,770	$ 42,133	$ 42,377	$ 19,526
Notes receivable	3,149	557	1,493	2,213
Reserves related to strategic actions in the fourth quarter of 2001 [2]	10,786	(2,319)	1,672	6,795
Remaining liabilities from discontinued operations				
LandCare Construction	7,152	2,021	4,681	4,492
LandCare utility line clearing business	9,011	1,283	3,678	6,616
Certified Systems, Inc. and other	11,307	176	2,998	8,485
International businesses	21,306	(9,151)	1,155	11,000
AS OF AND FOR THE YEAR ENDING DECEMBER 31, 2003				
Continuing Operations -				
Allowance for doubtful accounts				
Accounts receivable	$ 20,729	$ 36,950	$ 37,909	$ 19,770
Notes receivable	3,140	1,759	1,750	3,149
Reserves related to strategic actions in the fourth quarter of 2001 [2]	15,494	(1,300)	3,408	10,786
Remaining liabilities from discontinued operations				
LandCare Construction	13,974		6,822	7,152
LandCare utility line clearing business	6,393	2,803	185	9,011
Certified Systems, Inc. and other	15,155		3,848	11,307
International businesses	31,148	1,000	10,842	21,306
Other	636		636	

(1) Deductions in the allowance for doubtful accounts for accounts and notes receivable reflect write-offs of uncollectible accounts. Deductions for the remaining items reflect cash payments.

(2) Includes accruals for residual value guarantees on leased properties, severance for former executives and terminated employees and transaction and other costs.

Exhibit Index

Description of Index

3(i)	Amended and Restated Certificate of Incorporation, amended as of May 9, 2005, is incorporated by reference to Exhibit 3(i) to the registrant s Current Report on Form 8-K dated May 9, 2005 (File No. 1-14762) (the 2005 8-K).
3(ii)	Bylaws, amended as of May 9, 2005, are incorporated by reference to Exhibit 3(ii) to the 2005 8-K.
4.1	Shareholder Rights Agreement between The ServiceMaster Company and the Harris Trust and Savings Bank, as adopted on December 12, 1997, is incorporated by reference to Exhibit 3 to ServiceMaster Limited Partnership s Current Report on Form 8-K dated December 23, 1997 (File No. 1-09378).
4.2	First Amendment to Shareholders Rights Agreement between The ServiceMaster Company and Harris Trust and Savings Bank, is incorporated by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K dated February 24, 2005 (File No. 1-14762).
4.3	Indenture dated as of August 15, 1997 between The ServiceMaster Company and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.1 to the registrant s Registration Statement on Form S-3 (File No. 333-32167) (the 1997 S-3).
4.4	First Supplemental Indenture dated as of August 15, 1997 between The ServiceMaster Company and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.4 to the registrant s Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-14762) (the 1997 10-K).
4.5	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 registrant s Current Report on Form 8-K dated February 26, 1998 (File No. 1-14762).
4.6	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 registrant s Current Report on Form 8-K dated February 27, 1998 (File No. 1-14762) (the 1998 8-K).
4.7	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 registrant s Current Report on Form 8-K dated August 16, 1999 (File No. 1-14762) (the 1999 8-K).
4.8	Indenture dated as of November 18, 1999 between The ServiceMaster Company and the Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.16 to the registrant s Registration Statement on Form S-3 (File No. 333-91381), filed on November 19, 1999.
4.9	First Supplemental Indenture dated as of April 4, 2000 between The ServiceMaster Company and Harris Trust and Savings Bank, as trustee, is incorporated by reference to Exhibit 4.2 to the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (File No. 1-14762) (the 2000 10-Q).
4.10	Forms of 6.95% Note due August 14, 2007 and 7.45% Note due August 14, 2027 are incorporated by reference to Exhibit 4.2 to the 1997 S-3.
4.11	Form of 7.10% Note due March 1, 2018 is incorporated by reference to Exhibit 4.1 to the 1998 8-K.
4.12	Form of 7.25% Note due March 1, 2038 is incorporated by reference to Exhibit 4.2 to the 1998 8-K.
4.13	Form of 7.875% Note due August 15, 2009 is incorporated by reference to Exhibit 4 to the 1999 8-K.
4.14	Form of 7.875% Note due August 15, 2009 is incorporated by reference to Exhibit 5 to the 1999 8-K.
4.15	$500,000,000 Credit Agreement dated as of May 19, 2004 among The ServiceMaster Company, the lenders, JPMorgan Chase Bank and Bank of America, N.A. as syndication agents, SunTrust Bank, as administrative agent, and U.S. Bank and Wachovia Bank, N.A. as documentation agents is incorporated by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K dated September 20, 2004 (File No. 1-14762).

4.16	Amendment No. 1 dated as of May 6, 2005 to $500,000,000 Credit Agreement dated as of May 19, 2004 among The ServiceMaster Company, the lenders, JPMorgan Chase Bank, N.A. and Bank of America, N.A. as syndication agents, SunTrust Bank as administrative agent, and U.S. Bank National Association and Wachovia Bank, N.A. as documentation agents, is incorporated by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K dated May 12, 2005 (File No. 1-14762).
10.1*	Senior Executive Ownership Election Plan, as approved by the registrant s Board of Directors on December 10, 1999, is incorporated by reference to Exhibit 10.5 to the registrant s

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Exhibit Index

Description of Index

	Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-14762).
10.2*	10-Plus Plan, as amended September 3, 1991, is incorporated by reference to Exhibit 10.21 to the ServiceMaster Limited Partnership Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-09378) (the 1991 10-K).
10.3*	Form of Option Agreement for the 10-Plus Plan, as amended September 3, 1991, is incorporated by reference to Exhibit 10.22 to the 1991 10-K.
10.4*	1994 Non-Employee Directors Share Option Plan is incorporated by reference to Exhibit 4.2 to the ServiceMaster Limited Partnership Registration Statement on Form S-8 (File No. 33-55761), filed on October 4, 1994 (the 1994 S-8).
10.5*	Form of Option Agreement for the 1994 Non-Employee Director Share Option Plan is incorporated by reference to Exhibit 4.3 to the 1994 S-8.
10.6*	1997 Share Option Plan is incorporated by reference to Exhibit 10.28 to the ServiceMaster Limited Partnership Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-09378) (the 1996 10-K).
10.7*	Form of Option Agreement for the 1997 Share Option Plan is incorporated by reference to Exhibit 10.29 to the 1996 10-K.
10.8*	1998 Equity Incentive Plan is incorporated by reference to Exhibit 10.15 to the 1997 10-K.
10.9*	Form of Option Agreement for the 1998 Equity Incentive Plan (Non-Qualifying Stock Options) is incorporated by reference to Exhibit 10.20 to the 1997 10-K.
10.10*	Form of Option Agreement for the 1998 Equity Incentive Plan (Incentive Stock Options) is incorporated by reference to Exhibit 10.21 to the 1997 10-K.
10.11*	1998 Non-Employee Directors Discounted Stock Option Plan is incorporated by reference to Exhibit 10.21 to the 1997 10-K.
10.12*	1998 Long-Term Performance Award Plan is incorporated by reference to Exhibit 10.22 to the 1997 10-K.
10.13*	2000 Equity Incentive Plan is incorporated by reference to Exhibit 4.4 to the registrant s Registration Statement on Form S-8 (File No. 333-42680), filed on July 31, 2000 (the 2000 S-8).
10.14*	Form of Option Agreement for the 2000 Equity Incentive Plan is incorporated by reference to Exhibit 10.17 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-4762) (the 2001 10-K).
10.15*	Form of Restricted Stock Award Agreement for the 2000 Equity Incentive Plan is incorporated by reference to Exhibit 10.31 to the 2001 10-K.
10.16*	WeServeHomes.com 2000 Stock Option/Stock Issuance Plan is incorporated by reference to Exhibit 10.21 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-14762) (the 2000 10-K).
10.17*	Form of Stock Option Agreement for the WeServeHomes.com 2000 Stock Option/Stock Issuance Plan is incorporated by reference to Exhibit 10.22 to the 2000 10-K.
10.18*	Form of Stock Purchase Agreement for the WeServeHomes.com 2000 Stock Option/Stock Issuance Plan is incorporated by reference to Exhibit 10.23 to the 2000 10-K.
10.19*	2001 Directors Stock Plan, as amended and restated effective January 24, 2003, is incorporated by reference to Exhibit 10.20 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-14762) (the 2002 10-K).
10.20*	Form of Option Agreement for the 2001 Directors Stock Plan is incorporated by reference to Exhibit 4.4 to the registrant s Registration Statement on Form S-8 (File No. 333-65520), filed on July 20, 2001.
10.21*	

Corporate Performance Plan, formerly known as the 2001 Long-Term Performance Award Plan, as amended March 16, 2001, is incorporated by reference to Exhibit 10.2 to the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File No. 1-14762).

10.22*	Form of Change in Control Severance Agreement is incorporated by reference to Exhibit 10.30 to the 2001 10-K.
10.23*	ServiceMaster 2003 Equity Incentive Plan is incorporated by reference to Exhibit 4.6 to the registrant s Registration Statement on Form S-8 (File No. 333-106365), filed on June 23, 2003.
10.24*	Form of Stock Option Agreement for the ServiceMaster 2003 Equity Incentive Plan is incorporated by reference to Exhibit 10.24 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2003 (File 1-14762) (the 2003 10-K).
10.25*	Form of Restricted Stock Award Agreement for the ServiceMaster 2003 Equity Incentive Plan is incorporated by reference to Exhibit 10.25 to the 2003 10-K.

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10.26*	Form of Stock Appreciation Right Agreement for the ServiceMaster 2003 Equity Incentive Plan is incorporated by reference to Exhibit 10.26 to the 2003 10-K.
10.27*	2002 Directors Deferred Fees Plan, effective October 25, 2002, is incorporated by reference to Exhibit 10.35 to the 2002 10-K.
10.28*	ServiceMaster 2004 Employee Stock Purchase Plan is incorporated by reference to Exhibit 4.5 to the registrant s Registration Statement on Form S-8 (File No. 333-115972), filed on May 28, 2004.
10.29*	ServiceMaster Deferred Compensation Plan, as amended and restated effective January 1, 2005, is incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated December 14, 2005.
10.30*	Stock Option Agreement dated as of January 9, 2001 between The ServiceMaster Company and Jonathan P. Ward is incorporated by reference to Exhibit 10.20 to the 2000 10-K.
10.31*	Stock Option Agreement dated as of February 8, 2002 between The ServiceMaster Company and Jonathan P. Ward is incorporated by reference to Exhibit 10.32 to the 2003 10-K.
10.32*	Restricted Stock Unit Award Agreement dated as of December 18, 2003 between The ServiceMaster Company and Jonathan P. Ward is incorporated by reference to Exhibit 10.33 to the 2003 10-K.
10.33*	Employment Agreement dated as of April 1, 2002 between The ServiceMaster Company and Mitchell T. Engel is incorporated by reference to Exhibit 10.25 to the 2002 10-K.
10.34*	Employment Agreement dated as of January 1, 2004 between The ServiceMaster Company and Ernest J. Mrozek is incorporated by reference to Exhibit 10.38 to the 2003 10-K.
10.35*	Employment Agreement dated as of November 1, 2004 between The ServiceMaster Company and Jonathan P. Ward is incorporated by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated November 3, 2004 (File No. 1-14762) (the 2004 8-K).
10.36*	Restricted Stock Unit Award Agreement dated as of November 1, 2004 between The ServiceMaster Company and Jonathan P. Ward is incorporated by reference to Exhibit 10.2 to the 2004 8-K.
14	Financial Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act of 2002 is incorporated by reference to Exhibit 14 to the 2003 10-K.
21	Subsidiaries of the registrant.
23	Consent of Deloitte & Touche LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer 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 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.

* Indicates compensatory plan, contract or arrangement.

Filed herewith

Explanation of Responses: