

SECURITIES AND EXCHANGE COMMISSION

FORM S-1

General form of registration statement for all companies including face-amount certificate companies

Filing Date: **1999-03-26**
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([HTML Version](#) on [secdatabase.com](#))

FILER

SERVICEMASTER CO

CIK: **1052045** | IRS No.: **363858106** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **S-1** | Act: **33** | File No.: **333-75069** | Film No.: **99573413**
SIC: **8741** Management services

Mailing Address

*ONE SERVICEMASTER WAY
DOWNS GROVE IL 60515*

Business Address

*ONE SERVICEMASTER WAY
DOWNS GROVE IL 60515
6302711300*

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM S-1
 REGISTRATION STATEMENT
 Under

The Securities Act of 1933

The ServiceMaster Company
 (Exact name of registrant as specified in its charter)

8741
 (Primary Standard Industrial Classification Code No.)

Delaware One ServiceMaster Way 36-3858106
 (State or other Downers Grove, Illinois 60515 (I.R.S. Employer
 jurisdiction of (630) 271-1300 Identification No.)
 incorporation or (Address, including zip code,
 organization) and telephone number,
 including area code, of
 Registrant's principal executive offices)

Vernon T. Squires
 Senior Vice President and General Counsel
 The ServiceMaster Company
 One ServiceMaster Way

Downers Grove, Illinois 60515-1700, (630) 271-1300
 (Name, address, including zip code, and telephone number, including area code,
 of agent for service)

Copies of all communications, including communications sent to agent for
 service, should be sent to:

Robert H. Kinderman, Esq.
 Kirkland & Ellis
 200 East Randolph Drive
 Chicago, Illinois 60601, (312) 861-2000

Approximate date of commencement of proposed sale to the public: As soon as
 practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on
 a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
 1933, check the following box.

If this Form is filed to register additional securities for an offering
 pursuant to Rule 462(b) under the Securities Act, check the following box and
 list the Securities Act registration statement number of the earlier effective
 registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
 under the Securities Act, check the following box and list the Securities Act
 registration statement number of the earlier effective registration statement
 for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d)
 under the Securities Act, check the following box and list the Securities Act
 registration statement number of the earlier effective registration statement
 for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434,
 please check the following box.

CALCULATION OF REGISTRATION FEE (2) (3)

<TABLE> <CAPTION> <S>	<C>	<C>	<C>	<C>
Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$.01 per share, and related Preferred Stock Purchase Rights.....	8,625,000	\$19.56	\$168,726,563	\$46,906

</TABLE>
 (1) Reflects the average of the high and low prices on the New York Stock
 Exchange Composite Tape on March 22, 1999 pursuant to Rule 457(c) under the
 Securities Act of 1933, as amended.
 (2) The value attributable to the Preferred Stock Purchase Rights is reflected

in the value attributable to the Common Stock.
(3) Pursuant to Rule 429 under the Securities Act of 1993, as amended, includes 5,250,000 shares which were previously registered on Form S-1 by the Registrant (Registration No. 333-59659) and for which the Registrant previously paid a registration fee. Pursuant to Rule 429, the prospectus included in this Registration Statement is a combined prospectus that also related to the Form S-1 Registration Statement of the Registrant filed on July 23, 1998 (Registration No. 333-59659).

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 9(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

=====

SUBJECT TO COMPLETION, DATED MARCH 26, 1999

8,625,000 Shares
The ServiceMaster Company
Common Stock
(par value \$0.01 per share)

We may issue up to 8,625,000 shares of Common Stock from time to time in the future in connection with the acquisition of businesses.

This Prospectus may also be used under certain limited circumstances in connection with the resale of Common Stock that was originally issued pursuant to this Prospectus.

The Common Stock is listed on the New York Stock Exchange, Inc. under the symbol SVM. On March 22, 1999, the closing sale price of the Common Stock on the NYSE was \$19.56 per share.

This Prospectus provides you with detailed information about ServiceMaster. We encourage you to read this entire document carefully. In addition, you may obtain information about ServiceMaster from documents that we have filed with the Securities and Exchange Commission.

This Prospectus is dated March [__], 1999. You should be aware that the delivery of this Prospectus and the sale of Common Stock pursuant to this Prospectus will not in any way create an implication that the information contained in this Prospectus is accurate or complete at any time after March [__], 1999.

We are not making an offer of Common Stock in any state where the offer is not permitted.

Neither the SEC nor any state securities regulators have approved the Common Stock to be issued under this Prospectus or determined if this Prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

Prospectus dated March [__], 1999

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the public reference facilities of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Offices of the SEC at Seven World Trade Center, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>.

Our Common Stock is traded on the New York Stock Exchange, Inc. (the "NYSE") under the symbol SVM and you can inspect our reports and other information at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

ServiceMaster filed a Registration Statement on Form S-1 to register with the SEC the Common Stock offered by this Prospectus. As allowed by SEC rules, this Prospectus does not contain all the information you can find in the Registration Statement or the exhibits to the Registration Statement.

SUMMARY

This summary highlights selected information from this Prospectus and may not contain all of the information that is important to you. Unless otherwise indicated or the context otherwise requires, all references herein to the "Company" or "ServiceMaster" refer to The ServiceMaster Company, a Delaware corporation, and its subsidiaries and their respective predecessors. See "Reincorporation of the Predecessor Limited Partnership."

You should be aware that this summary may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Factors that could cause actual results to differ materially include, without limitation, those identified in "Special Note on Forward-Looking Statements" and elsewhere in this Prospectus. All references we make to numbers of shares of Common Stock, or options for shares of Common Stock, and all references we make to market and option prices per share, and income per share in this Prospectus have been adjusted to reflect all stock dividends and stock splits of the Company through the date of this Prospectus.

ServiceMaster

ServiceMaster, with operating revenue of approximately \$4.7 billion in 1998, is one of the largest providers of residential services to individual customers and supportive management services to businesses and institutions in the United States. In addition, we have operations in 41 countries around the world.

Our consumer services business ("ServiceMaster Consumer Services") provides services to over 10.5 million residential and commercial customers under eight market-leading brand names:

TruGreen-ChemLawn for lawn, tree and shrub care and commercial landscape and indoor plant maintenance;

Terminix for termite and pest control services;

American Home Shield and AmeriSpec for home system and appliance warranty contracts and home inspection services;

Rescue Rooter for plumbing and drain cleaning services and heating and air conditioning services;

ServiceMaster Residential/Commercial Services for heavy-duty residential and commercial cleaning and disaster restoration services;

Merry Maids for residential maid services; and

Furniture Medic for on-site furniture repair and restoration services.

Our management services business ("ServiceMaster Management Services") provides facilities management services to over 2,000 customers in the health care, education and business and industrial markets. These services include plant operations and maintenance, housekeeping, grounds and landscaping, clinical equipment management, food service, laundry and linen services, total facilities management and other services.

These services comprise the "ServiceMaster Quality Service Network" and may be accessed easily by calling a single toll-free telephone number: 1-800-WE SERVE.

The principal executive offices of ServiceMaster are located at One ServiceMaster Way, Downers Grove, Illinois 60515-1700 and its telephone number is (630) 271-1300. The Company maintains a website on the Internet at <http://www.ServiceMaster.com>. The website of the Company and the information contained therein are not a part of this Prospectus.

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Recent Developments

On November 2, 1998, ServiceMaster and LandCare USA, Inc. ("LandCare") announced approval by their boards of directors of a definitive agreement under which ServiceMaster would acquire Houston-based LandCare in a stock-for-stock merger. The LandCare shareholders approved the transaction at a special meeting held on March 18, 1999 and the transaction uses was closed on the same day. This acquisition will broaden the ability of ServiceMaster's TruGreen-ChemLawn subsidiary to integrate fully its traditional fertilizer and weed control services with landscape maintenance and installation, as well as indoor plantcare, for commercial customers.

On January 4, 1999, ServiceMaster announced the formation of a strategic venture with Texas Utilities Company for the ownership and operation of ServiceMaster's energy management business. The new venture, which is owned 85% by Texas Utilities and 15% by ServiceMaster, acquired all the assets of ServiceMaster Energy Management.

Also on January 4, 1999, ServiceMaster announced the completion of its strategic review of its home health care business and the decision to sell its direct operations of home health care agencies and certain support operations and to discontinue its outsourced operation of home health care agencies. ServiceMaster will continue to provide consulting services to hospitals and other providers of home health care.

On March 23, 1999, ServiceMaster announced that ServiceMaster and American Residential Services, Inc. ("ARS") had entered into a definitive agreement under which ServiceMaster will initiate a cash tender offer for all of the outstanding shares of common stock of American Residential Services, Inc. at a price of \$5.75 per share. The total acquisition cost is approximately \$92 million in cash and \$180 million of assumed indebtedness. Completion of the tender offer is subject to certain conditions, including the tender of at least 52% of the outstanding ARS shares. The offer and withdrawal rights are scheduled to expire on April 26, 1999 unless the offer is extended.

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SUMMARY FINANCIAL DATA

(In thousands, except for per share and percentage data) (1)

We are providing the following summary financial information about us for your benefit. This information is derived from our audited financial statements for each of the fiscal years shown below. The following information is only a summary and you should read it in connection with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Prospectus and our consolidated financial statements and notes beginning on page F-1 of this Prospectus.

<TABLE>
<CAPTION>

<S>	Year Ended December 31,				
	1998	1997	1996	1995	1994
<C>	<C>	<C>	<C>	<C>	<C>
Operating Results:	\$4,724,119	\$3,961,502	\$3,458,328	\$3,202,504	\$2,985,207
Operating revenue.....					
Cost of services rendered and products sold.....	3,679,612	3,058,160	2,681,008	2,499,700	2,356,435
Selling and administrative expenses.....	648,085	559,409	482,102	450,937	414,746
Operating income.....	396,422	343,933	295,218	251,867	214,026
Non-operating expense (income):					
Interest expense(2).....	92,945	76,447	38,298	35,855	31,543
Interest and investment income.....	(15,301)	(14,304)	(10,183)	(7,310)	(5,389)
Minority interest.....	--	7,511	14,706	45,715	45,234
Income before income taxes.....	318,778	274,279	252,397	177,607	142,638
Provision for income taxes (pro forma)	128,786	110,809	101,968	71,753	57,626

corporate form prior to 1998) (3).....	-----	-----	-----	-----	-----
Net income (pro forma corporate form prior to 1998).....	\$ 189,992	\$ 163,470	\$ 150,429	\$ 105,854	\$ 85,012
Basic net income per share (pro forma corporate form prior to 1998) (3) (6)....	\$ 0.66	\$ 0.57	\$ 0.47	\$ 0.41	\$ 0.33
Diluted net income per share (pro forma corporate form prior to 1998) (3) (6)....	\$ 0.64	\$ 0.55	\$ 0.46	\$ 0.39	\$ 0.32
Cash distributions per share.....	\$ 0.33	\$ 0.31	\$ 0.29	\$ 0.28	\$ 0.27
Partnership Information: (3)					
Income before income taxes.....		\$ 274,279	\$ 252,397	\$ 177,607	\$ 142,638
Provision for income taxes.....		10,203	7,257	5,588	2,755
One time tax benefit relating to change in tax status(4).....		65,000	--	--	--
Net income.....		\$ 329,076	\$ 245,140	\$ 172,019	\$ 139,883
Other Data:					
EBITDA(7).....	\$ 516,328	\$ 443,788	\$ 369,701	\$ 279,450	\$ 228,389
Net cash provided from operations (5)...	405,539	371,889	341,386	297,425	253,863
Property additions.....	75,297	46,232	42,952	44,624	32,202
Operating income margin.....	8.4%	8.7%	8.5%	7.9%	7.2%
Percent increase in pro forma diluted net income per share.....	16.4%	19.6%	17.9%	21.9%	18.5%
Financial Position at Period End:					
Working capital (5).....	\$ (83,495)	\$ 35,907	\$ 73,782	\$ 20,309	\$ 26,650
Total assets.....	2,914,851	2,475,224	1,846,841	1,649,890	1,230,839
Long-term debt.....	1,076,167	1,247,845	482,315	411,903	386,511
Shareholders' equity (2).....	956,486	524,438	796,767	746,660	307,266

</TABLE>

- (1) All per share data reflect the three-for-two share splits in 1996, 1997 and 1998.
- (2) In 1997, the Company incurred bank borrowings of approximately \$91 million to finance the cash portion of the acquisition of Barefoot, Inc. ("Barefoot") and approximately \$626 million to fund the repurchase of the 19 percent ownership interest in ServiceMaster held by Waste Management, Inc. ("WMX"). The increase in interest expense and the decrease in shareholders' equity (as well as the number of shares

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outstanding) in 1997 is primarily the result of such borrowings and stock repurchase. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- (3) The Company converted from partnership to corporate form on December 26, 1997. See "The Reincorporation." Prior to the Reincorporation (as defined), the partnership was not subject to federal or state income taxes since its taxable income was allocated to the Company's shareholders. As a result of the Reincorporation, the Company is a taxable entity and is responsible for such payments. Pro forma information is presented to compare the continuing results of operations as if the Company were a taxable corporation in the periods presented. The pro forma provision for income taxes has been calculated assuming that the Company's effective tax rate was approximately 40 percent of pre-tax earnings. The Company's historical net income per share as a partnership was as follows:

<TABLE>

<CAPTION>

	Before One-Time Tax Benefit (4)				Actual			
	1997	1996	1995	1994	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Basic.....	\$0.92	\$0.77	\$0.66	\$0.55	\$1.15	\$0.77	\$0.66	\$0.55
Diluted.....	\$0.89	\$0.75	\$0.64	\$0.53	\$1.10	\$0.75	\$0.64	\$0.53

</TABLE>

- (4) As a result of the Reincorporation, the Company recorded a deferred tax asset in 1997 that represents the tax effect of the difference between the book and tax basis of the Company's assets and liabilities. This resulted in the recognition of a deferred tax asset on the balance sheet and a corresponding \$65 million gain in the tax benefit line of the income statement. The actual economic benefit to the Company of the tax basis step-up significantly exceeds the amount of the gain and is expected to result in a reduction of annual cash tax payments exceeding \$25 million per year for 15 years following Reincorporation. See "The Reincorporation."
- (5) In the first year after reincorporation, the Company was able to defer the payment of its 1998 federal taxes until March 1999. Therefore the 1998 cash

flow is fairly comparable to 1997 when the Company was in partnership form and paid no taxes. The current liabilities include the 1998 tax payable amount.

- (6) Basic earnings per share are calculated based on 289,315 shares in 1998, 285,944 shares in 1997, 317,381 shares in 1996, 260,382 shares in 1995, and 255,650 shares in 1994 while diluted earnings per share are calculated based on 298,887 shares in 1998, 299,640 shares in 1997, 330,429 shares in 1996, 273,203 in 1995 and 266,892 shares in 1994. (Numbers are in thousands.)
- (7) Represents earnings before interest expense, taxes, depreciation and amortization ("EBITDA"). EBITDA is a commonly-used supplemental measurement of a company's ability to generate cash flow. Management believes that EBITDA is another measure which demonstrates the cash-generating abilities of the Company's businesses. However, EBITDA should not be considered an alternative to net income in measuring the Company's performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions or other sources and uses of cash which are disclosed in the Consolidated Statements of Cash Flows.

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REINCORPORATION OF THE PREDECESSOR LIMITED PARTNERSHIP

ServiceMaster began its operations in 1947 and the shares of the parent entity in the ServiceMaster enterprise have been publicly traded since 1962. At the end of 1986, the parent entity was converted from a publicly traded corporation to a publicly traded limited partnership (the "Parent Partnership") in order to enable most of the operations of the enterprise to be conducted free of federal corporate income tax. However, a year later, in 1987, Congress adopted legislation which effectively eliminated the benefits of operating in partnership form after December 31, 1997. Accordingly, on December 26, 1997, the Company succeeded to and became substituted for the Parent Partnership as the parent entity in the ServiceMaster enterprise in a reorganization (the "Reincorporation") in which all of the outstanding limited partnership interests in the Parent Partnership were converted to shares of Common Stock of the Company on a one-for-one basis. Soon thereafter, the Parent Partnership and its immediate subsidiary (The ServiceMaster Company Limited Partnership) were merged with and into the Company and the existence of the two partnerships was thereby terminated.

The Reincorporation transactions were not taxable events for either ServiceMaster or its shareholders. However, the Reincorporation did result in a tax benefit to the Company in the form of a step-up in the tax basis of certain of its assets. The basis step-up will be amortized against the Company's taxable income over the next 15 years and is expected to result in a reduction of annual cash tax payments exceeding \$25 million per year over this period.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Prospectus contains or incorporates by reference certain forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. Such forward-looking statements involve risks and uncertainties and include, but are not limited to, statements regarding future events and the Company's plans, goals and objectives. Such statements are generally accompanied by words such as "intend," "anticipate," "believe," "estimate," "expect" or similar statements. The Company's actual results may differ materially from such statements. Factors that could cause or contribute to such differences are set forth below as well as those factors discussed elsewhere in this Prospectus and in the documents incorporated herein by reference. Although the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking information should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. Furthermore, past performance in operations and share price is not necessarily predictive of future performance.

Seasonality and Impact of Weather Conditions. The Company's lawn care, landscaping and pest control businesses are highly seasonal in nature, with a significant portion of their net revenues occurring in the spring and summer months of each year. Adverse weather conditions could have a negative impact on the demand for the Company's lawn care, landscaping and pest control services.

Increased Competition. The service industries in which the Company operates are highly competitive with limited barriers to entry. The entry of new competitors into one or more of the markets served by the Company could impact the demand for the Company's services as well as impose additional pricing pressures.

Labor Shortages. Most of the services provided by the Company are highly

labor intensive. In the event of a labor shortage, the Company may experience difficulty in delivering its services in a high-quality manner and may be forced to increase wages in order to attract a sufficient number of employees, which could result in higher operating costs for the Company.

Continued Consolidation of the U.S. Hospital Market. In recent years, there has been an ongoing consolidation of hospitals in the health care market. This continued consolidation could adversely impact the level of

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demand for the Company's health care management services and the prices which the Company can charge for such services.

Ability to Continue Acquisition Strategy. The Company plans to continue to pursue opportunities to expand through acquisitions. The Company's ability to continue to make acquisitions at reasonable prices and to integrate the acquired businesses are important factors in the Company's future growth.

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SECURITIES COVERED BY THIS PROSPECTUS

This Prospectus covers shares of Common Stock that may be issued from time to time in the future by the Company on the completion of acquisitions of assets, businesses or securities, or on the payment of dividends on or conversion of shares of preferred stock or the conversion of or payment of interest on convertible notes issued in connection with such acquisitions of other businesses, properties or securities. The consideration offered by the Company in such acquisitions, in addition to the shares of Common Stock offered by this Prospectus, may include cash, debt or other securities (which may be convertible into shares of Common Stock covered by this Prospectus), or assumption by the Company of liabilities of the business, properties or securities being acquired or of their owners, or a combination thereof.

It is expected that the terms of acquisitions involving the issuance of the shares of Common Stock covered by this Prospectus will be determined by direct negotiations with the owners or controlling persons of the assets, businesses or securities to be acquired, and that the shares of Common Stock issued will be valued at prices reasonably related to the market price of the Common Stock either at or about the time an agreement is entered into concerning the terms of the acquisition or at or about the time the shares are delivered. No underwriting discounts or commissions will be paid, although finder fees and certain other fees may be paid in connection with certain acquisitions. Any person receiving such fees may be deemed to be an "underwriter" within the meaning of the 1933 Act, and any profit on the resale of shares of Common Stock purchased by them may be deemed to be underwriting commissions or discounts under the 1933 Act.

The Company may from time to time, in an effort to maintain an orderly market in the Common Stock or for other reasons, negotiate agreements with persons receiving Common Stock covered by this Prospectus that will limit the number of shares that may be sold by such persons at specified intervals. Such agreements may be more restrictive than restrictions on sales made pursuant to the exemption from registration requirements of the 1933 Act, including the requirements under Rule 144 or Rule 145(d), and certain persons party to such agreements may not otherwise be subject to such 1933 Act requirements. The Company anticipates that, in general, such negotiated agreements will be of limited duration and will permit the recipients of Common Stock issued in connection with acquisitions to sell up to a specified number of shares per business day or days.

With the consent of the Company, this Prospectus may also be used by persons who have received or will receive from the Company Common Stock covered by this Prospectus and who may wish to sell such stock under circumstances requiring or making desirable its use. This Prospectus may also be used, with the Company's consent, by pledgees, donees or assignees of such persons. The Company's consent to any such use may be conditioned upon the agreement by such persons not to offer more than a specified number of shares following supplements or amendments to this Prospectus, which the Company may agree to use its best efforts to prepare and file at certain intervals. The Company may require that any such offering be effected in an organized manner through securities dealers.

Sales by means of this Prospectus may be made from time to time privately at prices to be individually negotiated with the purchasers, or publicly through transactions in the over-the-counter market or on a securities exchange (which may involve block transactions), at prices reasonably related to market prices at or about the time of sale or at negotiated prices. Broker-dealers participating in such transactions may act as agent or as principal and, when acting as agent, may receive commissions from the purchasers as well as from the sellers (if also acting as agent for the purchasers). The Company may indemnify any broker-dealer participating in such transactions against certain

liabilities, including liabilities under the 1933 Act. Profits, commissions and discounts on sales by persons who may be deemed to be underwriters within the meaning of the 1933 Act may be deemed underwriting compensation under the 1933 Act.

Stockholders may also offer shares of stock covered by this Prospectus by means of prospectuses under other registration statements or pursuant to exemptions from the registration requirements of the 1933 Act, including sales which meet the requirements of Rule 144 or Rule 145(d) under the 1933 Act. Stockholders should seek the advice of their own counsel with respect to the legal requirements for such sales.

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SELECTED FINANCIAL DATA

(In thousands, except for per share and percentage data) (1)

We are providing the following summary financial information about us for your benefit. This information is derived from our audited financial statements for each of the fiscal years shown below. The following information is only a summary and you should read it in connection with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Prospectus and our consolidated financial statements and notes beginning on page F-1 of this Prospectus.

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("Barefoot") and approximately \$626 million to fund the repurchase of the 19 percent ownership interest in ServiceMaster held by Waste Management, Inc. ("WMX"). The increase in interest expense and the decrease in shareholders' equity (as well as the number of shares

outstanding) in 1997 is primarily the result of such borrowings and stock repurchase. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- (3) The Company converted from partnership to corporate form on December 26, 1997. See "The Reincorporation." Prior to the Reincorporation (as defined), the partnership was not subject to federal or state income taxes since its taxable income was allocated to the Company's shareholders. As a result of the Reincorporation, the Company is a taxable entity and is responsible for such payments. Pro forma information is presented to compare the continuing results of operations as if the Company were a taxable corporation in the periods presented. The pro forma provision for income taxes has been calculated assuming that the Company's effective tax rate was approximately 40 percent of pre-tax earnings. The Company's historical net income per share as a partnership was as follows:

<TABLE>
<CAPTION>

	Before One-Time Tax Benefit (4)				Actual			
	1997	1996	1995	1994	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Basic.....	\$0.92	\$0.77	\$0.66	\$0.55	\$1.15	\$0.77	\$0.66	\$0.55
Diluted.....	\$0.89	\$0.75	\$0.64	\$0.53	\$1.10	\$0.75	\$0.64	\$0.53

</TABLE>

- (4) As a result of the Reincorporation, the Company recorded a deferred tax asset in 1997 that represents the tax effect of the difference between the book and tax basis of the Company's assets and liabilities. This resulted in the recognition of a deferred tax asset on the balance sheet and a corresponding \$65 million gain in the tax benefit line of the income statement. The actual economic benefit to the Company of the tax basis step-up significantly exceeds the amount of the gain and is expected to result in a reduction of annual cash tax payments exceeding \$25 million per year for 15 years following Reincorporation. See "The Reincorporation."
- (5) In the first year after reincorporation, the Company was able to defer the payment of its 1998 federal taxes until March 1999. Therefore the 1998 cash flow is fairly comparable to 1997 when the Company was in partnership form and paid no taxes. The current liabilities include the 1998 tax payable amount.
- (6) Basic earnings per share are calculated based on 289,315 shares in 1998, 285,944 shares in 1997, 317,381 shares in 1996, 260,382 shares in 1995, and 255,650 shares in 1994 while diluted earnings per share are calculated based on 298,887 shares in 1998, 299,640 shares in 1997, 330,429 shares in 1996, 273,203 in 1995 and 266,892 shares in 1994. (Numbers are in thousands.)
- (7) Represents earnings before interest expense, taxes, depreciation and amortization ("EBITDA"). EBITDA is a commonly-used supplemental measurement of a company's ability to generate cash flow. Management believes that EBITDA is another measure which demonstrates the cash-generating abilities of the Company's businesses. However, EBITDA should not be considered an alternative to net income in measuring the Company's performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions or other sources and uses of cash which are disclosed in the Consolidated Statements of Cash Flows.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

(All share and per share data reflect the three-for-two share splits in August 1998, June 1997 and June 1996)

The terms "Company" and "ServiceMaster" refer to the operations of ServiceMaster Limited Partnership and The ServiceMaster Company, its successor corporation.

1998 Compared with 1997

Revenues increased 19 percent to \$4.7 billion through a combination of acquisitions and solid growth from base operations. Approximately eight percent of the revenue increase resulted from internal growth and small tuck-in acquisitions in existing service lines, primarily lawn care and pest control, with another six percent coming from platform acquisitions primarily in plumbing and landscaping. The remaining five percent of the revenue growth represented the acquisition of a professional employer organization in August 1997. The

professional employer organization has a significant impact on revenues and margins, because the entire employee payroll of the customer is recognized both as revenue and operating cost. As a result, the margins are low in this business and reduce the Company's consolidated operating margins. Operating income increased 15 percent to \$396 million, while margins decreased to 8.4 percent of revenue from 8.7 percent in 1997. Operating margins excluding the professional employer organization improved 10 basis points over last year, reflecting the continued strong growth of higher margin businesses, productivity improvements and the successful integration of acquisitions at Consumer Services.

Pro forma information is presented for 1997 and 1996 to compare the continuing results of operations as if the Company had been a taxable corporation in all years. On this basis, net income grew 16 percent to \$190 million. Basic and diluted earnings per share increased 16 percent to \$.66 and \$.64, respectively.

The Consumer Services business unit achieved a 23 percent increase in revenue, reflecting strong growth from both internal sources and acquisitions, including the Rescue Rooter plumbing business and commercial landscaping companies. Net income increased 27 percent, reflecting solid double-digit profit increases at all of the companies. TruGreen-ChemLawn reported strong growth in revenues and profits, reflecting base business growth and the entry into the commercial landscape market through the acquisition of several companies. The successful integration of acquisitions and other cost initiatives helped offset the effects of severe summer weather conditions in many regions of the country. Terminix achieved strong double-digit growth in revenues and profits, resulting from excellent increases in termite completions and renewals and improved margins. Higher customer retention levels and efficiency improvements contributed to the increased margins. American Home Shield continued to experience exceptional momentum with very strong double-digit increases in warranty contracts written due to excellent growth in real estate and direct-to-consumer sales, as well as strong renewal growth. This volume increase was partially affected by increased service orders relating to expensive air conditioning repairs due to the extreme heat experienced in many parts of the country. The franchise operations, ServiceMaster Residential/Commercial and Merry Maids, achieved solid revenue increases and higher margins, reflecting improvements in company-owned operations and cost controls. The Rescue Rooter operations reported very good results, reflecting improved marketing efforts, productivity improvements and effective cost controls.

The traditional Management Services business achieved a seven percent revenue increase as a result of acquisitions and modest growth in the base business. Profits increased significantly due to a \$38 million pretax gain relating to the formation of a strategic venture between ServiceMaster and Texas Utilities Company. The new venture has acquired all the assets of ServiceMaster Energy Management and will be owned 85 percent by Texas Utilities and 15 percent by ServiceMaster. This new business combination will provide the Company with an expanded ability to provide comprehensive energy solutions to customers. Excluding this gain, profits were one percent below the prior year level as increases in the Business & Industry and Education markets were offset by reduced profitability in the Healthcare market. The traditional Healthcare market reported a slight decline in revenues with lower profits than last year as a result of continued industry pressures and additional investments in the business compared with the prior year. The Company achieved significant revenue and profit increases in the Business & Industry market, reflecting the successful integration of acquisitions and increased sales in the base business. The Education market reported strong growth in profits due to

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better customer retention and the favorable effect of eliminating costs incurred last year related to unwinding a large contract.

Other operations includes primarily Diversified Health Services, which provides services and products to the long-term care market and Employer Services, the professional employer organization. Revenues increased significantly as the 1998 results include a full year of the professional employer organization that was acquired in August 1997. Operating income was down significantly from the prior year, reflecting a large charge related primarily to the home health care operations and operational losses. In late 1998, the Company completed a strategic review of its Home Health Care business and concluded that, without significant investment to make home health care one of its core businesses, it could not profitably provide high quality service in the future and continue to satisfy all the changes and the requirements of new governmental reimbursement programs. The Company plans to sell its direct operations of home health care agencies and certain support operations. In addition, the Company is discontinuing its outsourced management contracts of home health care agencies, but will continue to provide consulting services to hospitals and other providers of home health care. The Company incurred and established reserves of approximately \$32 million (pre-tax) relating to home health care, which included a write-down for the impairment of assets and costs relating to exiting customer arrangements. An additional \$6 million pretax charge was recorded that was specifically designated for other Diversified Health Services reserve needs. In addition to these charges and losses in home

health care, the decrease in operating income reflects margin reductions in other Diversified Health Services operations and the non-recurrence of transaction gains recognized in the prior year.

On a consolidated basis, cost of services rendered and products sold increased 20 percent and increased as a percentage of revenue to 77.9 percent in 1998 from 77.2 percent in 1997. The addition of Employer Services had an impact on the overall increase in costs as this business line carries a lower gross margin level than the rest of the enterprise. Excluding Employer Services, cost of services rendered and products sold decreased 10 basis points, as a percentage of revenue. This reflects the changing mix of the enterprise as Consumer Services increased in size relative to the overall business of the Company. The Consumer Services unit operates at a higher gross profit margin than the Management Services business unit, but incurs relatively higher levels of selling and administrative costs.

Consolidated selling and administrative expenses increased 16 percent over the prior year, and as a percentage of revenue, decreased from 14.1 percent in 1997 to 13.7 percent in 1998.

Interest expense increased over the prior year, reflecting increased debt levels in the first quarter associated with the 1997 repurchase of shares previously held by Waste Management, Inc. The impact of larger seasonal borrowings, primarily due to acquisitions and higher interest rates associated with the refinancing of floating-rate bank debt with longer term, fixed-rate debt, was partially offset by proceeds from the May 1998 equity offering.

Interest and investment income increased over the prior year levels due to growth in the investment portfolio at American Home Shield, as well as gains realized on sales of marketable securities.

Minority interest expense decreased as the General Partners' interests in the parent entities were eliminated upon reincorporation.

1997 Compared with 1996

Revenues increased 15 percent to \$4 billion, reflecting the effect of acquisitions and growth from base operations. Operating income increased 17 percent to \$344 million, while margins increased to 8.7 percent of revenue from 8.5 percent in 1996, reflecting the continued strong growth of higher margin businesses, productivity improvements, and the integration of the acquired Barefoot operations. These improvements were offset in part by the impact of the acquired professional employer organization, which has significantly lower margins than the rest of the Company's businesses. Operating income margins would have improved 50 basis points excluding this acquisition.

Pro forma information is presented which compares the continuing results of operations as if the Company had been a taxable corporation in 1997 and 1996. On this basis, net income grew nine percent to \$163 million. Basic earnings per share increased 21 percent to \$.57 and diluted earnings per share were up 20 percent to \$.55. Earnings per share grew at a higher rate than net income due to the transaction with Waste Management, Inc. (WMX) in which the Company

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repurchased WMX's 19 percent ownership interest in ServiceMaster (61.1 million shares) for \$626 million on April 1, 1997. This transaction increased interest expense significantly and reduced shares outstanding.

Historical partnership net income, which did not include a provision for corporate taxes, was \$329 million, including a one-time tax gain of \$65 million realized upon reincorporation. The resulting historical basic and diluted earnings per share were \$1.15 and \$1.10, respectively. This gain represented the difference between the tax and book basis of the enterprise's assets and liabilities, which was recognized as a result of the reincorporation. Partnership net income excluding this gain increased eight percent to \$264 million. On this basis, basic and diluted earnings per share were \$.92 and \$.89, reflecting increases of 19 percent.

The Consumer Services business unit achieved a 14 percent increase in revenue and a 21 percent increase in pro forma net income, reflecting the successful integration of the Barefoot business (which was acquired in February 1997), combined with good growth from base operations and other acquisitions. The TruGreen-ChemLawn operations achieved strong double-digit growth in revenues and profits, reflecting the Barefoot acquisition, increases in the customer base, improved branch efficiencies, strong sales of ancillary products and favorable weather conditions throughout most of the year. Terminix achieved solid growth in revenue and profits for the year. Strong growth in renewals and productivity improvements offset the effects of adverse weather conditions on termite operations and increased termite remediation costs. American Home Shield achieved very strong double-digit increases in both revenues and profits, with excellent increases in contract renewals and direct-to-consumer sales. This is consistent with an overall strategy to expand channels of distribution in this business, which have historically been concentrated in the residential resale

market. ServiceMaster Residential/Commercial and Merry Maids reported modest profit growth and solid revenue growth for the year, reflecting the conversion of certain franchises and distributors to company-owned operations.

The traditional Management Services business segment achieved five percent growth in revenue, reflecting the Premier Manufacturing Support Services (Premier) acquisition completed in 1996 and, to a lesser degree, growth in the base business. The base business growth resulted from improvements in Healthcare and Business & Industry, offset by reductions in Education. Pro forma net income was up three percent compared with the prior year. Despite continuing competitive pressures and industry consolidation in the acute care market, the Company achieved solid revenue increases and improved customer retention in the Healthcare market. Reported profits in this market were comparable to the prior year. Within the acute care sector, good growth was realized from sales of the IntegratedService product, which provides comprehensive service solutions to clients. The Company achieved significant revenue and profit increases in the Business & Industry market, largely as a result of the successful integration of the Premier acquisition and modest growth in the base business. In the Education market, revenues and profits declined due to the discontinuation of certain large accounts and margin pressures in certain accounts.

Revenues in other operations increased significantly, reflecting the August 1997 acquisition of Certified Systems, Inc. (CSI) which added approximately \$155 million in revenue and minimal profits after acquisition-related costs. CSI is a professional employer organization that provides clients with administrative processing of payroll, workers' compensation insurance, health insurance, unemployment insurance, and other employee benefit plans. Other operations primarily include CSI and Diversified Health Services. Pro forma net income reflects the additional interest expense incurred at the parent level relating to the WMX share repurchase.

On a consolidated basis, cost of services rendered and products sold increased 14 percent and decreased slightly as a percentage of revenue to 77.2 percent in 1997 from 77.5 percent in 1996. This reflects the changing mix of the enterprise as Consumer Services increased in size relative to the overall business of the Company. The Consumer Services unit operates at a higher gross profit margin than the Management Services business unit, but incurs relatively higher levels of selling and administrative costs. However, much of this reduction in cost of goods sold was offset by the acquisition of CSI, which operates at significantly lower gross margins than the Company's other businesses. Without CSI, cost of goods sold would have been 76.5 percent of revenue in 1997.

Consolidated selling and administrative expenses increased 16 percent over the prior year, and as a percentage of revenue, increased from 13.9 percent in 1996 to 14.1 percent in 1997, reflecting the changing business mix of the Company described above.

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Interest expense increased over the prior year primarily due to increased debt levels associated with the repurchase of shares previously held by WMX and acquisitions.

Interest and investment income increased over the prior year due to growth in, and strong returns from, the investment portfolio at American Home Shield, as well as a gain associated with the sale of an interest in an international joint venture.

Minority interest expense decreased due to the repurchase of minority ownership interests in subsidiary entities.

1998 Financial Position

The Company reported a nine percent increase in cash flows from operations to \$406 million and a two percent increase in free operating cash flows (defined as cash flows from operations less net property additions) to \$337 million. Cash flows grew at a lower rate than net income, primarily due to the acceleration of customer prepayments at TruGreen-ChemLawn into 1997, the full year funding of preseason investments for Barefoot, and the timing of interest payments. Free operating cash flow represents the cash available for enhancing shareholder value (e.g., acquisitions, dividends and share repurchases) after financing the growth of existing business units. The Company's free operating cash flows have consistently exceeded recurring net income as a result of relatively low working capital and fixed asset requirements, combined with the effects of noncash charges for depreciation and amortization.

In the first year following reincorporation, the Company was able to defer the payment of its federal taxes until March 1999. At that time the Company will pay its 1998 obligation and will begin making estimated payments for its 1999 liability. Reported cash from operations reflects the deferral of this 1998 tax payment which is approximately \$83 million. Since the Company is able to defer its 1998 tax payment, the cash flow is fairly comparable to last year when the

Company was in partnership form and paid no federal taxes. As a result of the reincorporation, the Company also recognized a step-up in the tax basis of its assets, which is being amortized against taxable income. The step-up resulted in a reduction of the Company's cash tax payments in excess of \$25 million per annum for the current year and for the ensuing 14 years.

Cash and marketable securities totaled approximately \$120 million at December 31, 1998. Debt levels decreased, reflecting the use of proceeds from the May 1998 equity offering to pay down debt, as well as strong cash from operations partially offset by acquisitions, capital spending and distributions. The Company is a party to a number of long-term debt agreements which require it to comply with certain financial covenants, including limitations on indebtedness, restricted payments, fixed charge coverage ratios and net worth. The Company is in compliance with the covenants related to these debt agreements. In addition, the Company had \$700 million of unused commitment on its revolving bank facility at December 31, 1998. Management believes that funds generated from operations and other existing financial resources will continue to be adequate to satisfy the ongoing operating needs of the Company.

During the year, the Company filed a Form S-3 registration statement and 21.2 million Company shares were sold at \$19.17 per share. This included approximately 11.4 million of newly-issued shares from the Company and 9.8 million shares sold by existing shareholders. The net proceeds to the Company after the underwriting discount and offering expenses were approximately \$209 million and were used to reduce outstanding debt under existing bank credit facilities, thereby reducing interest expense and increasing the Company's financial flexibility.

ServiceMaster also filed a Form S-1 shelf registration statement to issue up to 5.3 million shares of common stock in connection with future unidentified acquisitions. As of December 31, 1998, approximately 3.5 million shares had been issued with 1.8 million shares remaining available for future acquisitions.

In February 1998, the Company also completed a \$300 million senior unsecured dual-tranche debt offering. The offering consisted of \$150 million at 7.10 percent due March 1, 2018 and \$150 million at 7.25 percent due March 1, 2038. The net proceeds were used to refinance borrowings under bank credit facilities, reducing the Company's exposure to short-term interest rate fluctuations.

The Company completed a number of acquisitions in 1998, which included primarily lawn care, commercial landscape and pest control companies. Three of the largest transactions were Rescue Industries, Inc.,

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National Britannia and Ruppert Landscape Company. Rescue Industries, Inc., which operates under the trade name Rescue Rooter, was acquired in January 1998 and is one of the largest companies in America specializing in plumbing and drain cleaning services. The October 1998 acquisition of National Britannia, the third largest pest control company in the United Kingdom, further strengthens the company's ability to grow its Terminix business in Europe and continues the strategy of the enterprise to expand internationally. Ruppert Landscape Company was purchased in August 1998 and represents one of the Mid-Atlantic's largest commercial landscape companies.

In March 1999, the Company is expected to complete the acquisition of LandCare USA, Inc. (LandCare) in a stock-for-stock merger. The acquisition of LandCare, one of the nation's leading commercial landscape companies, will significantly broaden the Company's landscape initiative and will provide TruGreen-ChemLawn the opportunity to fully integrate its traditional fertilizer and weed control services with landscape maintenance and installation.

Accounts receivable increased, reflecting general business growth and acquisitions. Property and equipment increased primarily due to investments in computer systems and technology upgrades throughout the enterprise as well as general business growth. The Company does not have any material capital commitments at this time. The increase in intangible assets reflects the above mentioned acquisitions as well as various commercial landscape companies and other smaller companies.

Accounts payable and other accrued liabilities increased due to general business growth and the effects of acquisitions. As previously discussed, there is a significant current liability relating to the income taxes payable on 1998 earnings. Deferred revenues increased primarily as a result of strong growth in warranty contracts written at American Home Shield.

Total shareholders' equity increased to \$956 million in 1998 from \$524 million at December 31, 1997, reflecting the May 1998 equity offering, strong growth in earnings and shares issued for acquisitions, partially offset by shareholder distributions. The Company continues to repurchase shares in the open market or in privately negotiated transactions pursuant to the authorization previously granted by the Board of Directors.

At year end, the aggregate market value of the Company's outstanding shares exceeded \$6.5 billion. ServiceMaster shareholders have experienced compounded total returns exceeding 20 percent annually over the last three-, 10- and 20-year periods.

Cash distributions paid directly to shareholders totaled \$96 million, or \$.33 per share, a six percent per share increase over the prior year. The total amount of cash distributions, including payments made to the shareholders' trust described below, decreased 52 percent from the prior year, reflecting a substantial reduction in payments to the shareholders' trust, partially offset by the six percent increase in direct shareholder distributions.

The shareholders' trust was established for the benefit of Partnership shareholders. Each year, the trust was allocated a portion of the Partnership's taxable income and received cash payments in amounts sufficient to pay its income tax obligations resulting from this income allocation. Cash distributions made to the trust in 1997 totaled \$65 million. The trust was terminated upon reincorporation and had no residual resources. In 1998, it received approximately \$20 million in tax refunds relating to its final 1997 tax return.

Several years ago, the Company adopted a pattern of annual increases in dividends to shareholders for the remaining term of the Partnership. In corporate form, the Company has increased, and expects to continue to increase, its dividend payment each year. The timing and amount of future dividend increases will be at the discretion of the Board of Directors and will depend on, among other things, the Company's corporate finance objectives and cash requirements. The Company has announced its intended cash dividends for 1999 of \$.36 per share.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a commonly-used supplemental measurement of a company's ability to generate cash flow and is used by many of the Company's investors and lenders. Management believes that EBITDA is another measure which demonstrates the exceptional cash-generating abilities of the Company's businesses. EBITDA in 1998 of \$516 million has grown 16 percent, comparable to the growth in net income. EBITDA should not be considered an alternative to net income in measuring the Company's performance, or be

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used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions or other sources and uses of cash which are disclosed in the Consolidated Statements of Cash Flows.

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BUSINESS

The Company; Principal Business Groups

ServiceMaster is a holding company whose shares of common stock are traded on the NYSE. Through its subsidiaries, the Company is engaged in providing a variety of specialty services to homeowners and commercial facilities and supportive management services in several markets, including the healthcare market, the education market and certain segments of the business and industry market.

The Company is organized into two principal operating groups: ServiceMaster Consumer Services and ServiceMaster Management Services. The Company also has a third operating group: ServiceMaster Employer Services. Each of these operating groups is headed by a limited partnership or a corporation which has its own group of operating subsidiaries. The parent companies for the principal operating groups are ServiceMaster Consumer Services Limited Partnership, which was formed in the summer of 1990, and ServiceMaster Management Services Limited Partnership, which was formed in December 1991. The parent companies for the principal operating groups are wholly owned by the Company. All subsidiaries of the operating group parent companies are wholly owned, except for Rescue Rooter L.L.C., a subsidiary of ServiceMaster Consumer Services in which senior Rescue Rooter management have acquired equity interests of not more than 10 percent in total and which are subject to certain put and call rights.

Trademarks and Service Marks; Franchises

The Company's trademarks and service marks are important for all elements of the Company's business, although such marks are particularly important in the advertising and franchising activities conducted by the operating subsidiaries of ServiceMaster Consumer Services L.P. Such marks are registered and are renewed at each registration expiration date.

Within ServiceMaster Consumer Services, franchises are important for the TruGreen-ChemLawn, Terminix, ServiceMaster Residential/Commercial, Merry Maids, AmeriSpec and Furniture Medic businesses. Nevertheless, revenues and profits derived from franchise-related activities constitute less than 10% of the revenue and profits of the consolidated ServiceMaster enterprise. Franchise agreements made in the course of these businesses are generally for a term of five years. ServiceMaster's renewal history is that most of the franchise agreements which expire in any given year are renewed.

ServiceMaster Consumer Services

ServiceMaster Consumer Services provides specialty services to homeowners and commercial facilities through eight companies: TruGreen L.P. ("TruGreen-ChemLawn"); The Terminix International Company L.P. ("Terminix"); ServiceMaster Residential/Commercial Services L.P. ("Res/Com"); Merry Maids L.P. ("Merry Maids"); American Home Shield Corporation ("American Home Shield" or "AHS"); AmeriSpec, Inc. ("AmeriSpec"); Furniture Medic L.P. ("Furniture Medic"); and Rescue Rooter L.L.C. ("Rescue Rooter"). Rescue Rooter was acquired by ServiceMaster Consumer Services on January 1, 1998. The services provided by these companies include: lawn care, tree and shrub services, landscaping and indoor plant maintenance services under the "TruGreen", "ChemLawn" and "Barefoot" service marks; termite and pest control services under the "Terminix" service mark; residential and commercial cleaning and disaster restoration services under the "ServiceMaster" service mark; domestic housekeeping services under the "Merry Maids" service mark; home systems and appliance warranty contracts under the "American Home Shield" service mark; home inspection services under the "AmeriSpec" service mark; on-site furniture repair and restoration under the "Furniture Medic" service mark; and plumbing and drain cleaning services under the "Rescue Rooter" service mark.

The services provided by the eight Consumer Services companies are part of the ServiceMaster "Quality Service Network" and are accessed by calling a single toll-free telephone number: 1-800-WE SERVE. ServiceMaster

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focuses on establishing relationships to provide one or more of these services on a repetitive basis to customers. Since 1986, the number of customers served by ServiceMaster Consumer Services has increased from fewer than one million domestic customers to more than 10.5 million worldwide customers.

Oversight responsibility for the ServiceMaster Consumer Services businesses which are conducted in foreign markets is in the appropriate subsidiary of ServiceMaster Consumer Services L.P.

TruGreen-ChemLawn. TruGreen-ChemLawn is a wholly-owned subsidiary of ServiceMaster Consumer Services L.P. As of December 31, 1998, TruGreen-ChemLawn had 289 company-owned branches and 103 franchised branches. With over 3 million residential and commercial customers, TruGreen-ChemLawn is the leading provider of lawn care services in the United States and a leading provider of commercial landscaping services. TruGreen-ChemLawn provides lawn, tree and shrub care services in Egypt, Japan, Saudi Arabia, and Turkey through licensing arrangements and in Canada through a subsidiary. TruGreen-ChemLawn also provides interior plantscape services to commercial customers. The TruGreen-ChemLawn businesses are seasonal in nature. On March 18, 1999, ServiceMaster completed the acquisition of LandCare USA, Inc., a leading provider of commercial landscaping services and tree services (including line clearing and tree care). ServiceMaster thereafter combined the LandCare USA business with the commercial landscaping business of TruGreen-ChemLawn.

Terminix. Terminix is a wholly-owned subsidiary of ServiceMaster Consumer Services L.P. With over 2.5 million residential and commercial customers, Terminix, through its company-owned branches and through franchisees, is the leading provider of termite and pest control services in the United States. As of December 31, 1998, Terminix was providing these services through 256 company-owned branches in 40 states and through 240 franchised branches in 28 states. Terminix also manages the following European pest control companies, all of which are subsidiaries of TMX-Europe B.V., a wholly-owned subsidiary of the Company: Terminix Peter Cox Ltd., a leading pest control and wood preservation company in the United Kingdom and Ireland; Terminix Protekta B.V. and Riwa B.V., each a leading pest control company in the Netherlands and Belgium; Anticimex Development A.B., a holding company for the leading pest control company in Sweden and which also operates in Norway; and the Stenglein Group, a group of pest control companies in Germany. Terminix also provides termite and pest control services through licensing arrangements with local service providers in twenty-seven other countries and through subsidiaries in eight other countries. The Terminix business is seasonal in nature.

Res/Com. Res/Com is a wholly-owned subsidiary of ServiceMaster Consumer Services L.P. ServiceMaster, through Res/Com, is the leading franchisor in the United States in the residential and commercial cleaning field. Res/Com provides carpet and upholstery cleaning and janitorial services, disaster restoration services and window cleaning services. As of December 31, 1998, these services were provided to approximately 1.7 million residential and commercial customers

worldwide through a network of over 4,420 independent franchisees. Res/Com provides its services through subsidiaries in Canada, Germany, Ireland and the United Kingdom, and through licensing arrangements with local service providers in 17 other countries.

Merry Maids. Merry Maids is a wholly-owned subsidiary of ServiceMaster Consumer Services L. P. Merry Maids is the organization through which ServiceMaster provides domestic house cleaning services. With approximately 345,000 worldwide customers, Merry Maids is the leading provider of domestic house cleaning services in the United States. As of December 31, 1998, these services were provided through 27 company-owned branches in 19 states and through 829 licensees operating in all 50 states. Merry Maids also provides domestic house cleaning services through subsidiaries in Canada and the United Kingdom and through licensing arrangements with local service providers in eight other countries.

American Home Shield. AHS is a wholly-owned subsidiary of ServiceMaster Consumer Services L.P. AHS is a leading provider of home systems and appliance warranty contracts ("warranty contracts") in the United States, providing homeowners with contracts covering the repair or replacement of built-in appliances, hot water heaters and electrical, plumbing, central heating and central air conditioning systems which malfunction by reason of normal wear and tear. Warranty contracts are sold through participating real estate brokerage offices in conjunction with resales of single-family residences to homeowners. AHS also sells warranty contracts directly to non-moving homeowners by renewing existing contracts and through various other distribution channels which are currently being expanded. As of

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December 31, 1998, AHS warranty contracts provided for services to approximately 700,000 homes through approximately 12,250 independent repair maintenance contractors in 50 states and the District of Columbia, with operations in California, Texas and Arizona accounting for 32%, 26% and 8%, respectively, of gross contracts written by AHS. AHS also provides home service warranty contracts through licensing arrangements with local service providers in three other countries.

AmeriSpec. AmeriSpec is a wholly-owned subsidiary of AHS. AmeriSpec is a leading provider of home inspection services in the United States. During 1998, AmeriSpec conducted approximately 135,000 home inspections in 45 states and Canada, with operations in California, New York and Illinois accounting for 27%, 5% and 4%, respectively, of the gross number of inspections conducted through AmeriSpec.

Furniture Medic. Furniture Medic is a wholly-owned subsidiary of ServiceMaster Consumer Services L.P. Furniture Medic provides on-site furniture repair and restoration services in 46 states. As of December 31, 1998, these services were provided through 581 licensees. Furniture Medic also provides its services through subsidiaries in Canada and the United Kingdom and through licensing arrangements with local service providers in two other countries.

Rescue Rooter. Rescue Rooter is a subsidiary of ServiceMaster Consumer Services L.P. Rescue Rooter acquired the business and assets of Rescue Industries, Inc. on January 1, 1998. Rescue Rooter provides plumbing and drain cleaning services, and heating and air conditioning services, in 12 states through 25 company-owned branches and one franchise location. In 1998, Rescue Rooter performed services for approximately 410,000 customers. As of March 1, 1999 certain key employees of Rescue Rooter had purchased an aggregate 8.35% equity interest in Rescue Rooter pursuant to a management equity plan. Such interest is subject to reciprocal put and call rights which will become exercisable on January 1, 2003 and which will be consummated on the basis of the then fair market value of the interest.

ServiceMaster Management Services

ServiceMaster pioneered the providing of supportive management services to health care facilities by instituting housekeeping management services in 1962. Since then, ServiceMaster has expanded its management services business such that it now provides a variety of supportive management services to health care, education and business and industrial customers (including the management of housekeeping, plant operations and maintenance, laundry and linen, grounds and landscaping, clinical equipment maintenance, food service, energy management, and total facility management). ServiceMaster's general programs and systems free the customer to focus on its core business activity with confidence that the support services are being managed and performed in an efficient manner.

ServiceMaster Management Services L.P. is organized into three divisions, each of which provides service on a nationwide basis within its market. These markets are: Healthcare Management Services; Education Management Services; and Business & Industry Management Services. The responsibility for overseeing the Management Services businesses which are conducted in foreign markets lies with ServiceMaster Management Services L.P.

As of December 31, 1998, ServiceMaster was providing supportive management services to approximately 1,602 health care customers and to approximately 498 educational and commercial customers. These services were being provided in all 50 states and the District of Columbia. Outside of the United States, ServiceMaster was providing management services through subsidiaries in Canada and Japan, through an affiliated company in Mexico, and through licensing arrangements with local service providers in twenty-five other countries.

ServiceMaster Healthcare Management Services. The Healthcare division of ServiceMaster Management Services L.P. is a leading provider to the health care market of supportive management services, including the management of housekeeping, plant operations and maintenance, laundry and linen, grounds and landscaping, clinical equipment maintenance, food services and total facility management. As of December 31, 1998, the Healthcare division was serving in approximately 1,846 healthcare facilities. Although the healthcare market has undergone significant consolidation in recent years, ServiceMaster believes that there continues to be potential for expansion in the healthcare market due to the trend of healthcare facilities to outsource more of their service requirements.

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ServiceMaster Education Management Services. The Education division of ServiceMaster Management Services L.P. is a leading provider to the education market of maintenance, custodial and grounds services. The facilities which comprise the education market include primary schools, secondary schools and school districts, private specialty schools and colleges and universities. As of December 31, 1998, ServiceMaster was serving 281 educational customers. ServiceMaster believes there is potential for expansion in the education market due to its current relatively low penetration of that market and the trend of educational facilities to consider outsourcing more of their service requirements. However, a majority of the educational facilities continue to assume direct responsibility for managing their support functions.

ServiceMaster Business & Industry Management Services. The Business & Industry division of ServiceMaster Management Services L.P. is a leading provider of plant operations and maintenance, custodial and grounds management services to business and industrial customers in selected markets. Such markets include the food processing, transportation, healthcare products and automotive markets. ServiceMaster believes that there is potential for expansion in these business and industrial markets due to ServiceMaster's current low penetration of those markets, the trend of businesses to consider outsourcing more of their service requirements and the trend of governmental units to privatize parts of their operations. As of December 31, 1998, ServiceMaster was serving approximately 217 business or industrial customers.

The Business and Industry division includes Premier Manufacturing Support Services Limited Partnership. Premier is a leading provider of facility management services in the automotive industry, specializing in paint booth cleaning services. As of December 31, 1998, Premier was serving 77 customer locations in ten countries.

Other Businesses

ServiceMaster Diversified Health Services. In 1998, ServiceMaster Diversified Health Services ("DHS") provided management services to freestanding, hospital-based and government-owned nursing homes, skilled nursing facilities, and assisted living facilities; design, development, refurbishing and construction consulting services to long-term care facilities; rehabilitation services; the sale of various medical produces and supplies; and pharmacy management.

ServiceMaster Home Health Care. During the year 1998, ServiceMaster Home Health Care Services Inc., a wholly owned subsidiary of the Company, provided management services to hospital-based home health care agencies (as well as the direct operation of freestanding home health care agencies). On January 4, 1999, the Company announced the completion of its strategic review of its home health care business and the decision to sell its direct operations of home health care agencies and certain support operations and to discontinue its outsource and operation of home health care agencies. ServiceMaster Home Health Care Services will continue to provide consulting services to hospitals and other providers of home health care.

ServiceMaster Employer Services. ServiceMaster Employer Services is one of the nation's larger professional employer organizations. It provides more than 950 clients with administrative processing of payroll, workers compensation insurance, health insurance, unemployment insurance and other employee benefits.

Energy Management. During the year 1998, the Company provided energy management services through Energy Management Services, a division of ServiceMaster Management Services L.P. On January 4, 1999, the Company announced the formation of a strategic venture with Texas Utilities Company for the ownership and operation of the energy management business. The new venture acquired all the assets of ServiceMaster Energy Management and is owned 85% by

International Operations. Consumer services and supportive management services in international markets are provided through licensing arrangements and ownership of foreign operating companies acquired by ServiceMaster. Except as noted below, these activities in Europe, Latin America and the Middle East are administered as part of the operations of ServiceMaster Management Services L.P. and ServiceMaster Consumer Services L.P., respectively. Operating arrangements and market expansion efforts in the Pacific Rim are administered by the parent company.

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Other Activities

Supporting Departments. The Company has various departments responsible for technical, engineering, management information, planning and market services, and product and process development activities. Various administrative support departments provide personnel, public relations, administrative, education, accounting, financial and legal services.

Manufacturing Division. ServiceMaster has a manufacturing division which formulates, combines and distributes supplies, products and equipment that are used internally in providing management services to customers and which are sold to licensees for use in the operation of their businesses. ServiceMaster has a small share of the market for the manufacture and distribution of cleaning equipment, chemicals and supplies.

Venture Fund. ServiceMaster Venture Fund L.L.C., a subsidiary of the parent company (the "Venture Fund"), invests in emerging growth companies which show an ability to provide innovative service technologies to ServiceMaster's current and new customers. The Venture Fund is managed so as not to be intrusive to the ongoing operations of the Company's operating units.

Industry Position, Competition and Customers

The following information is based solely upon estimates made by the management of ServiceMaster and cannot be verified. In considering ServiceMaster's industry and competitive positions, it should be recognized that ServiceMaster competes with many other companies in the sale of its services, franchises and products and that some of these competitors are larger or have greater financial and marketing strength than ServiceMaster.

The principal methods of competition employed by ServiceMaster in the Consumer Services business are name recognition, assurance of customer satisfaction and a history of providing quality services to homeowners. The principal methods of competition employed by ServiceMaster in each of the operating units in the Management Services business are price, quality of service and experience in providing management services. The principal methods of competition employed by ServiceMaster in the Employer Services business are name recognition, assurance of customer satisfaction and financial strength.

Consumer Services

Subsidiaries of Consumer Services provide a variety of residential and commercial services under their respective names on the basis of their and ServiceMaster's reputation, the strength of their service marks, their size and financial capability, and their training and technical support services. The markets served by Terminix and TruGreen-ChemLawn are seasonal in nature.

Lawn Care Services. TruGreen-ChemLawn, both directly and through franchisees, provides lawn care services to residential and commercial customers. Competition within the lawn care market is strong, coming mainly from regional and local, independently-owned firms and from homeowners who elect to care for their lawns through their own personal efforts. TruGreen-ChemLawn is the leading national lawn care company within this market. TruGreen-ChemLawn also provides indoor plant maintenance to commercial customers.

Lawn care services are regulated by law in most of the states in which TruGreen-ChemLawn provides such services. These laws require licensing which is conditional on a showing of technical competence and adequate bonding and insurance. The lawn care industry is regulated at the federal level under the Federal Insecticide, Fungicide and Rodenticide Act, and lawn care companies (such as TruGreen-ChemLawn) which apply herbicides and pesticides are regulated under the Federal Environmental Pesticide Control Act of 1972. Such laws, together with a variety of state and local laws and regulations, may limit or prohibit the use of certain herbicides and pesticides, and such restrictions may adversely affect the business of TruGreen-ChemLawn.

Landscaping and Tree Services. TruGreen-ChemLawn provides landscaping and tree services to commercial customers. (See page 22 for a discussion of the acquisition of LandCare USA, Inc.). The landscape and tree services

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industry is highly competitive. Most of TruGreen-ChemLawn's landscape services competitors are small, owner-operated companies operating in a limited geographic market but there are a few large companies operating in multiple markets. Competition in the line clearing market is characterized by a small number of large companies. The commercial tree services market is characterized by a large group of small competitors, most of which are owner-operated businesses operating in limited geographic areas and a few larger companies operating in one or more regions.

Termite and Pest Control Services. The market for termite and pest control services to commercial and residential customers includes many competitors. Terminix is the leading national termite and pest control company within this market. Competition within the termite and pest control market is strong, coming mainly from regional and local, independently-owned firms throughout the United States and from one other large company which operates on a national basis.

Termite and pest control services are regulated by law in most of the states in which Terminix provides such services. These laws require licensing which is conditional on a showing of technical competence and adequate bonding and insurance. The extermination industry is regulated at the federal level under the Federal Insecticide, Fungicide and Rodenticide Act, and pesticide applicators (such as Terminix) are regulated under the Federal Environmental Pesticide Control Act of 1972. Such laws, together with a variety of state and local laws and regulations, may limit or prohibit the use of certain pesticides, and such restrictions may adversely affect the business of Terminix.

House Cleaning Services. The market for domestic house cleaning services is highly competitive. In urban areas the market involves numerous local companies and a few national companies. ServiceMaster believes that its share of the total potential market for such services is small and that there is significant potential for further expansion of its housecleaning business through continued internal expansion and greater penetration of the housecleaning market. Through its company-owned branches and its franchisees, ServiceMaster has a small share of the market for the cleaning of residential and commercial buildings.

Home Systems and Appliance Warranty Contracts. The market for home systems and appliance warranty contracts is relatively new. ServiceMaster believes that AHS maintains a favorable position in its industry due to the system developed and used by AHS for accepting, dispatching and fulfilling service calls from homeowners through a nationwide network of independent contractors. AHS also has a computerized information system developed and owned by AHS, and an electronic digital voice communication system through which AHS handled more than 4.9 million calls in 1998.

Home Inspection Services. AmeriSpec is a leading provider of home inspection services in the United States. Competition within this market is strong, coming mainly from regional and local, independently-owned firms.

Furniture Repair Services. The market for on-site furniture repair services is relatively new. ServiceMaster believes that Furniture Medic maintains a favorable position in its industry due to its patented environmentally sensitive procedure for repairing furniture in the customer's home.

Plumbing and Drain Cleaning Services. The market for plumbing and drain cleaning services is highly competitive in both the residential and commercial sectors. Rescue Rooter believes that its share of the total potential market for such services is small and that there is significant potential for future expansion and penetration. Plumbing is regulated by most states in which Rescue Rooter provides such services. The level of licensing varies from state to state. There are no state or federal guidelines regulating drain cleaning services.

Management Services

Health Care. Within the market consisting of general health care facilities having 50 or more beds, ServiceMaster is the leading supplier of plant operations and maintenance, housekeeping, clinical equipment maintenance, and laundry and linen management services. As of December 31, 1998, ServiceMaster was serving approximately 1,602 customers and managing approximately 1,846 health care facilities. The majority of health care facilities within this market not currently served by ServiceMaster assume direct responsibility for managing their own non-medical support functions.

ServiceMaster believes that its management services for health care facilities may expand by the addition of facilities not presently served, by initiating additional services at facilities which use only a portion of the services now offered, by the development of new services and by growth in the size of facilities served. At the same time, industry consolidation, changes in use and methods of health care delivery and payment for services (including in particular changes in Medicare reimbursement regulations) continue to affect the health care environment.

Education. ServiceMaster is a leading provider to the education market of maintenance, custodial and grounds services. The facilities which comprise the education market served by ServiceMaster include primary schools, secondary schools and school districts, private specialty schools and colleges and universities. As of December 31, 1998, ServiceMaster was serving approximately 281 customers and managing approximately 5,700 facilities. ServiceMaster believes there is potential for expansion in the education market due to its current relatively low penetration of that market and the trend of educational facilities to consider outsourcing more of their service requirements. However, a majority of the educational facilities continue to assume direct responsibility for managing their support functions.

Business and Industry. ServiceMaster is a leading provider of plant operations and maintenance, custodial and grounds management services to business and industrial customers in selected markets. ServiceMaster believes that there is potential for expansion in those business and industrial markets which ServiceMaster has elected to emphasize due to ServiceMaster's low current penetration of those markets, the trend of businesses to consider outsourcing more of their service requirements and the trend of governmental units to privatize parts of their operations. The emphasized markets include the food processing, transportation, healthcare products, and automotive markets. As of December 31, 1998, ServiceMaster was serving approximately 217 customers and managing approximately 817 business or industrial facilities.

Major Customers

ServiceMaster has no single customer which accounts for more than 10% of its total revenues. No part of the Company's business is dependent on a single customer or a few customers, the loss of which would have a material adverse effect on the Company as a whole. Revenues from governmental sources are not material.

Employees

On December 31, 1998, ServiceMaster had a total of approximately 51,740 employees.

ServiceMaster provides its employees with annual vacation, medical, hospital and life insurance benefits and the right to participate in additional benefit plans.

Year 2000 Computer Program Compliance

Year 2000 Compliance. Certain computer programs use two digits rather than four to define the applicable year and consequently may not function properly beyond the year 1999 unless they are remediated. In addition, some computer programs are unable to recognize the year 2000 as a leap year. These problems may also exist in chips embedded in various types of equipment. The Company has long been aware of this Year 2000 (Y2K) problem. The Company is dealing with the Y2K problem in part through system upgrades, which were planned to occur in the normal course of business. In other cases, the Company has put programs into place which the Company believes will result in the completion of necessary remediation efforts prior to the year 2000.

State of Readiness. The Company has initiated a program (the "Y2K program") to address Y2K issues as they affect the Company's information technology (IT) systems, electronic data interfaces and its non-IT hardware. The Y2K program was set up to use the following steps as appropriate: inventory-assessment - planning - renovation - testing - implementation. In addition, the program calls for inquiries of the Company's major suppliers of goods and services to determine their Y2K status and a review of the Company's relationships with its customers to determine if the Company has any responsibility for the status of the customers' IT and/or non-IT systems and hardware.

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In 1998, the Company began to monitor its progress on the Y2K program on a consolidated basis and completed an inventory which covered both IT and non-IT items for all operating companies and administrative units within the ServiceMaster enterprise. All items in the inventory were placed in one of four categories: mission critical, critical, important and ordinary within the context of the operating company or administrative unit involved. (A "mission critical" or "critical" designation for an item within an operating company or administrative unit does not necessarily hold the same level of criticality from the perspective of the entire ServiceMaster enterprise).

Remediation plans have been developed for the mission critical and critical matters, with milestones established for each plan which enable management to measure the progress made in respect of a plan against the work schedule established for that plan. Although these plans encompass many separately identifiable items, from a ServiceMaster enterprise standpoint, there are nine projects (the "Key Projects") which management has identified as either mission

critical or critical and which will require a measurable amount of attention to remediate. Although all of the Key Projects are scheduled for completion before the end of the year 1999, most of the Key Projects are scheduled for completion by June 30, 1999. As of February 28, 1999, work on each of the Key Projects was on schedule and the Company believes that all Key Projects will be completed in accordance with their scheduled completion dates.

The Company has utilized the services of an outside consultant for the Y2K program to help identify Y2K issues and to develop a system to closely monitor remediation work. In early 1998, the Company established a Y2K committee in the parent unit with responsibility for monitoring the Y2K program in each of the Company's operating units and for providing status reports to the Board of Directors.

Year 2000 Costs. Several of the Key Projects are upgrades of systems which the Company would have undertaken irrespective of the Y2K problem. In some cases, including a new accounting and financial reporting system for the parent company and its Management Services subsidiary, work on these systems has been accelerated in view of Y2K issues. Other upgrades or new systems were already scheduled for completion prior to the year 2000, such as a new support system for the Company's American Home Shield subsidiary and a new accounting and billing system for the recently developed commercial landscape business within the Company's TruGreen-ChemLawn subsidiary. References to "Year 2000 costs" in this report do not include the costs of projects for which no acceleration is occurring due to Y2K issues.

The Company's Year 2000 costs to date are not material to the Company's results of operations or financial position and the Company does not expect its future Year 2000 costs to be material to the Company's results of operations or financial position. All Year 2000 costs (as well as the costs of installing the system upgrades referred to above) have been, and are expected to continue to be, funded with cash from operations.

Year 2000 Risks. The Company believes that its greatest Year 2000 compliance risk, in terms of magnitude of risk, is that key third party suppliers of goods or services may fail to complete their own remediation efforts in a timely manner and thereby provoke an interruption in the ability of one or more of the operating segments of the Company to provide uninterrupted services to their customers. Utility services (electrical, water and gas), telephone service, banking services and, to a much lesser degree, the delivery of chemical products are the critical items in this regard. Based on the Company's inquiries to its providers of goods and services and on the basis of the Company's general knowledge of the state of readiness of the utility companies and banks with which it does business, the Company does not expect to suffer any material interruption in the services on which the Company depends.

The Company has reviewed its agreements with its customers, including particularly the customers of its Management Services units for whom such units provide facility management services. The Company is satisfied that it is not responsible, contractually or otherwise, for the Y2K readiness of the customer's IT and non-IT systems and hardware, and the Company is in the process of notifying all of its customers to this effect where, in the Company's judgment, the nature of the customers' business or facility warranted such notices.

Where the Company uses its own software in the course of providing management services, the Company is responsible to make such software Y2K ready. The Company is confident that such software is already, or soon will be, Y2K ready. For those units of the Company which sell franchises and which provide software to the franchisees, such software is already, or soon will be, fully Y2K ready or, alternatively, provision has been made for making

available to franchisees software from third-party developers from whom appropriate Y2K compliance assurances have been or will be received.

Contingency Plans. At this time, the Company fully expects all of its internal key IT and non-IT systems to be Y2K ready well in advance of the end of the year 1999. If it appears that timely delivery of any Key Projects becomes questionable, the Company will immediately develop appropriate contingency plans.

The Company presently expects that its significant providers of goods and services are or will be Y2K ready by the end of the year 1999. The Company will continue to make inquiries of its key suppliers for the purpose of testing this expectation. Insofar as the Company is exposed to risks originating in Y2K problems at key suppliers, the Company will utilize short-term solutions, but no practical long-term contingency plans for these external Y2K problems are possible.

Although the Company believes that critical remediation efforts will be completed prior to the Year 2000, the untimely completion of these efforts could, in certain circumstances, have a material adverse effect on the operations of the Company.

Definition. As used in this Year 2000 statement, the term "year 2000 ready" or "Y2K ready" when used with reference to a item of software or equipment means the capability of the software or equipment to process correctly (including calculating, comparing, sequencing, displaying, or storing), transmit, or receive data from, into, and between the 20th and 21st centuries, and during the years 1999 and 2000, and to make leap year calculations, provided that all products used with the software or equipment properly exchange accurate date data with it.

Properties

The headquarters facility of ServiceMaster, which also serves as headquarters for ServiceMaster Management Services, is owned by The ServiceMaster Company and is located on a ten-acre tract at One ServiceMaster Way, Downers Grove, Illinois. The initial structure was built in 1963, and two additions were completed in 1968 and 1976. In early 1988, ServiceMaster completed construction of a two-story 15,000 square foot addition for office space, food service demonstrations and dining facilities. The building contains approximately 118,900 square feet of air conditioned office space and 2,100 square feet of laboratory space. In the Spring of 1992, ServiceMaster completed the conversion of approximately 30,000 square feet of space formerly used as a warehouse to offices for Management Services and for The Kenneth and Norma Wessner Training Center.

ServiceMaster owns a seven-acre, improved tract at 2500 Warrenville Road, Downers Grove, Illinois, which is adjacent to its headquarters facility. In 1993, ServiceMaster substantially remodeled the building and thereafter leased approximately half the space (50,000 square feet) to a commercial tenant. The balance of the space is utilized by ServiceMaster personnel.

ServiceMaster owns a 50,000 square foot facility near Aurora, Illinois which is used by ServiceMaster as a warehouse/distribution center. Ownership of this facility was acquired on February 11, 1999 by a deed in lieu of foreclosure from the company with whom ServiceMaster had, on August 2, 1989, entered into a sale/leaseback arrangement.

ServiceMaster believes that the facilities described in the preceding three paragraphs will satisfy the Company's needs for administrative and warehouse space in the Chicago area for the immediate future.

ServiceMaster owns four properties in Cairo, Illinois, consisting of a 36,000 square foot, three-story building used for manufacturing and warehousing equipment, supplies and products used in the business; a warehouse and package facility comprising 30,000 square feet; a three-story warehouse and manufacturing building consisting of 43,000 square feet; and a 2,500 square foot building used for a machine shop. ServiceMaster also leases two warehouse properties, one 14,000 square feet and the other 6,000 square feet, in Cairo, Illinois. Management believes that the foregoing manufacturing and warehouse facilities are adequate to support the current needs of ServiceMaster.

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The headquarters for ServiceMaster Consumer Services L.P. are located in leased premises at 860 Ridge Lake Boulevard, Memphis, Tennessee. The 860 Ridge Lake Boulevard facility also serves as the headquarters for TruGreen-ChemLawn, Terminix, Res/Com, Merry Maids, American Home Shield, AmeriSpec, Furniture Medic and Rescue Rooter.

A new call center is located in leased premises at 6399 Shelby View Drive, Memphis, Tennessee. The center contains approximately 60,000 square feet of air conditioned office space from which telephone sales, scheduling services, and other business functions are conducted.

TruGreen-ChemLawn owns 8 buildings which are used as branch sites for lawn care services. These facilities are located in Colorado (1), Florida (1), Georgia (1), Michigan (1), Ohio (2), and Texas (2). TruGreen-ChemLawn also leases 337 facilities used as branch sites.

Terminix owns 22 buildings which are used as branch sites for termite and pest control services. These properties are all one-story buildings that contain both office and storage space. These properties are located in California (3), Florida (10), Georgia (1), Illinois (1), New Jersey (2), Tennessee (1), and Texas (4).

American Home Shield has retained some leased space in the building at 90 South E Street, Santa Rosa, California, for administrative and sales operations. Certain of American Home Shield's service and data processing departments are located in premises owned by the company in Carroll, Iowa. This facility consists of a 43,000 square foot building on a seven-acre site.

American Home Shield owns approximately 17 acres of land in Santa Rosa, California of which 11.2 acres are under contracts for sales to occur in the second quarter of 1999. This land is held for investment purposes and has been

and will continue to be offered for sale, with the timing of sales being affected by, among other things, market demand, zoning regulations, and the availability of financing to purchasers.

Rescue Rooter owns three buildings and leases 23 facilities which are used for branch operations to provide plumbing and drain cleaning services, and heating and air conditioning services. The owned facilities are located, respectively, in Phoenix, Arizona; Round Lake, Illinois; and St. Louis, Missouri. The leased facilities are located in California (11), Colorado (1), Indiana (2), Ohio (1), Oregon (1), Tennessee (1), Texas (4), Utah (1), and Washington (1).

The headquarters for Diversified Health Services are located in a leased facility at 3839 Forest Hill-Irene Road, Memphis, Tennessee. DHS leases other administrative facilities in St. Augustine, Florida; Minneapolis, Minnesota; Plymouth Meeting, Pennsylvania; Memphis, Tennessee; and Irving, Texas. As of March 1, 1999, through a joint venture and subsidiaries, DHS had an ownership interest in four nursing home facilities and DHS leased several nursing home and assisted living facilities. These facilities are located in Alabama, Connecticut, Florida, Michigan, Tennessee, and Texas.

The headquarters for ServiceMaster Employer Services ("SES") and Certified Systems, Inc., the principal subsidiary of SES, are located at 3218 Highway 67, Mesquite, Texas. SES leases other administrative facilities in Little Rock, Arkansas, and Memphis, Tennessee.

Legal Proceedings

In the ordinary course of conducting its business activities, ServiceMaster becomes involved in judicial and administrative proceedings which involve both private and governmental authorities. As of March 1, 1999, these proceedings included a number of general liability actions and employment-related proceedings which were ordinary routine litigation incidental to the Company's business.

American Home Shield Class Action. A lawsuit was instituted in November 1997 and is currently pending in the District Court of Harris County, Texas against ServiceMaster, ServiceMaster's American Home Shield subsidiary ("AHS") and AHS' Texas subsidiary ("AHS-Texas") in which three plaintiffs, Brian Carmichael, Penny Carmichael

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and Tanja Kortz, claim that AHS-Texas violated certain provisions of two Texas consumer protection statutes in the course of soliciting new and renewal service contracts. (A second lawsuit of a similar nature was filed in the same court by Edward Thorne III. This case has been abated pending disposition of the certification issue described below.) The plaintiffs have requested the court to permit the lawsuit to be maintained as a class action on behalf of all customers who purchased service contracts since late 1993. Theoretically, this would place some 300,000 contracts in issue. The plaintiffs have further claimed that the number of contracts in issue times a statutory penalty of \$1,000 per contract represents the measure of damages. ServiceMaster believes that AHS-Texas accurately represented the coverage provided in its service agreements and that the changes in the wording of its renewal contracts were routine updates or clarifications. In this regard, it is noteworthy that most of the AHS-Texas contract forms were reviewed and approved by the Texas Real Estate commission before the forms were distributed. In any and all events, no material actual damages have been suffered by anyone in this matter. Furthermore, ServiceMaster believes that the lawsuit cannot be sustained as a class action and the statutes in question were not intended to be applied in the manner advanced by the plaintiffs (and in fact cannot be so applied under the federal constitution). Accordingly, ServiceMaster believes that the ultimate outcome of these cases will not be material to ServiceMaster's financial condition or results of operations.

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MANAGEMENT

Directors of ServiceMaster

The Board of Directors of the Company consists of 17 persons. Pursuant to the Company's Certificate of Incorporation and the Company's Bylaws, the Board is divided into 3 classes with staggered terms of 3 years each so that the term of office of one class expires at each Annual Meeting of the Stockholders. Each class is identified by the year in which its terms of office expires. The classes of directors as of the date of this Prospectus are: the Class of 1999, consisting of 6 persons; the Class of 2000, consisting of 6 persons and the Class of 2001, consisting of 5 persons. Information regarding each of the directors is set forth below. The descriptions of the business experience of these persons include the principal positions held by them from July 1993 to the

date of this Prospectus. The period of service as a director includes service as a director with the Company's predecessor.

Class of 1999

Paul W. Berezny. President. Berezny Investments, Inc., a real estate and development company. He is a member of the Audit Committee. Age 64. Director since 1995.

Henry O. Boswell. Retired President of Amoco Production Company and Chairman of the Board of Amoco Canada. Mr. Boswell is a director of Rowan Companies, Inc., Houston, Texas, an offshore oil drilling company; and Cabot Oil & Gas Corporation, Houston, Texas, an oil and gas production company. He is a member of the Executive Committee, the Compensation Committee (of which he is the chairman), the Nominating Committee, the Employee Benefit Plan Oversight Committee, and the Finance Committee. Age 69. Director since 1985.

Carlos H. Cantu. President and Chief Executive Officer of the Company since January 1, 1994. From May 1991 to December 31, 1993, Mr. Cantu was President and Chief Executive Officer of ServiceMaster Consumer Services L.P. Mr. Cantu is a director of First Tennessee National Corporation, Memphis, Tennessee, a financial institution, and of Unicom Corporation, Chicago, Illinois, the parent company of Commonwealth Edison, an electric utility company. He is a member of the Executive Committee, the Nominating Committee, the Finance Committee, and the Employee Benefit Plan Oversight Committee. Age 65. Director since 1988.

Vincent C. Nelson. Business investor. Mr. Nelson is a member of the Executive Committee, the Nominating Committee (of which he is the chairman), and the Audit Committee. Age 57. Director since 1978.

Steven S Reinemund. Chairman and Chief Executive Officer of the Frito-Lay Company, the packaged foods division of PepsiCo, Inc. From 1992 to March 1996, he served as President and Chief Executive Officer of the North American division of Frito-Lay. Mr. Reinemund is a director of PepsiCo, Inc., Purchase, New York, a food and beverage conglomerate, and a director of Provident Companies, Inc., Chattanooga, Tennessee, an insurance company. He is a member of the Nominating Committee. Age 50. Director since January 1, 1998.

Charles W. Stair. Vice Chairman of the Board of Directors. He was President and Chief Executive Officer of ServiceMaster Management Services L.P. from May 1991 to December 31, 1994. He is a member of the Nominating Committee. Age 58. Director since 1986.

Class of 2000

Herbert P. Hess. Managing Director of Berents & Hess Capital Management, Inc., Boston, Massachusetts, an investment management firm. He is a member of the Executive Committee, the Finance Committee (of which he is the chairman), the Employee Benefit Plan Oversight Committee, and the Compensation Committee. Age 62. Director since 1981.

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Michele M. Hunt. Private business consultant. From 1980 to July 1993, she was employed by Herman Miller, Inc., an office furniture manufacturer, and during the period from July 1990 to July 1993 she served as the company's Corporate Vice President for People and Quality. Ms. Hunt is a member of the Nominating Committee. Age 49. Director since 1995.

Dallen W. Peterson. Retired Chairman, Merry Maids Limited Partnership. He is a member of the Finance Committee and the Employee Benefit Plan Oversight Committee. Age 62. Director since 1995.

Phillip B. Rooney. Vice Chairman of the Board of Directors. From June 5, 1996 to February 17, 1997, he was President and Chief Executive Officer of WMX Technologies, Inc., Oak Brook, Illinois ("WMI"), and from November 1984 to May 1996, he was President and Chief Operating Officer of WMI. Mr. Rooney is a director of Van Kampen American Capital, Oak Brook, Illinois, an investment management company; Illinois Tool Works, Inc., Glenview, Illinois, a diversified manufacturing company; and Urban Shopping Centers, Inc., Chicago, Illinois, a retail real estate management company. Age 54. Director since 1994.

Burton E. Sorensen. Investor. From December 1984 to December 1995 he served as Chairman, President and Chief Executive Officer of Lord Securities Corporation. Mr. Sorensen is a director of Provident Companies, Inc., Chattanooga, Tennessee, an insurance company. He is a member of the Executive Committee, the Finance Committee, the Employee Benefit Plan Oversight Committee, and the Compensation Committee. Age 69. Director since 1984.

David K. Wessner. President, HealthSystem Minnesota. From August 1994 to July 1998 he served as Executive Vice President of HealthSystem Minnesota. From November 1992 to December 1993, he was Executive Vice President, Program and Process Improvement, Geisinger Health System. He is a member of the Executive

Committee, the Nominating Committee, and the Compensation Committee. Age 47. Director since 1987.

Class of 2001

Lord Brian Griffiths of Fforestfach. International adviser to Goldman, Sachs & Co. concerned with strategic issues related to their United Kingdom and European operations and business development activities worldwide. He was made a life peer at the conclusion of his service to the British Prime Minister during the period 1985 to 1990. Lord Griffiths is a director of Times Newspaper Holding Ltd., London, England, a newspaper company; English, Welsh and Scottish Railways, London, England, a rail freight company; Herman Miller, Inc., Zeeland, Michigan, an office furniture manufacturer; and Trillium Investments GP Limited, London, England, a facilities management company. He is a member of the Executive Committee and the Nominating Committee. Age 57. Director since 1992.

Sidney E. Harris. Dean, Robinson College of Business Administration, Georgia State University. From July 1987 to July 1997, Dr. Harris was Professor of Management at the Peter F. Drucker Graduate Management Center at the Claremont Graduate School, Claremont, California. He was Dean of the Graduate Management Center from September 1991 to July 1996. Dr. Harris is a director of Transamerica Investors, Inc., Los Angeles, California, a mutual funds investment company; and Amresco, Inc., Dallas, Texas, a financial services company. He is a member of the Executive Committee. Age 49. Director since 1994.

Gunther H. Knoedler. Retired Executive Vice President and Director Emeritus of Bell Federal Savings and Loan Association, Chicago, Illinois. He is a member of the Executive Committee and the Audit Committee (of which he is the chairman). Age 69. Director since 1979.

James D. McLennan. President of McLennan Company, a full-service real estate company. Mr. McLennan is a director of The Loewen Group, Inc., Burnaby, B.C., Canada, a provider of funeral services; and Advocate Health Systems, Oak Brook, Illinois, a health care provider. He is a member of the Audit Committee and the Compensation Committee. Age 62. Director since 1986.

C. William Pollard. Chairman of the Board of Directors. He served as Chief Executive Officer of the Company from May 1983 to December 31, 1993. Mr. Pollard is a director of Herman Miller, Inc., Zeeland, Michigan, an office furniture manufacturer; and Provident Companies, Inc., Chattanooga, Tennessee, an insurance company. He is a member

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of the Executive Committee (of which he is the chairman), the Finance Committee, the Employee Benefit Plan Oversight Committee, and the Nominating Committee. Age 60. Director since 1977.

Compensation of Directors

During the year 1998, directors of The ServiceMaster Company who were not employees and who satisfied the other independence standards of the Bylaws ("independent directors") received \$3,000 for each meeting of the Board of Directors and each meeting of a committee which they attended. In addition, each independent director received an annual stipend of \$15,000. The Chairman of the Audit Committee and the Chairman of the Compensation Committee each received an additional annual stipend of \$2,000. Directors who are employees of the Company or any subsidiary do not receive either a retainer or meeting fee.

The ServiceMaster 1998 Non-Employee Directors Discounted Stock Option Plan as approved by the Board of Directors in December 1997 and by the shareholders of the Company in May 1998 provides that options to purchase shares of the Company may be granted to those independent members of the Board who elect to accept such portions in lieu of retainer and meeting fees that would otherwise be paid in cash. The total amount of retainer and attendance fees for which share options may be granted under this plan is \$42,000 each year. Each option granted under this plan has an exercise price per share equal to 85% of the fair market value per share of the underlying shares of common stock of the Company on the date the option is granted. The number of shares for which each option is granted is determined by dividing the retainer or fee by 15%. In 1998, options for a total of 114,903 shares were granted to eleven independent directors under the Discounted Stock Option Plan.

Each independent director of the Company may enter into a deferred fee agreement whereby part or all of the fees payable in cash to him or her as a director are deferred and will either earn interest based on the five-year borrowing rate for ServiceMaster or be used to purchase shares of the Company in a number determined by the fair market value of such shares on the date of purchase. Upon termination of a director's services as an independent director or attainment of age 70, whichever occurs first, the director will receive the amount for his or her deferred fee account in a lump sum or in installments or in shares of the Company, depending on which deferral plan the director has elected.

Compensation Committee Interlocks and Insider Participation

The persons who served as members of the Compensation Committee of the Board of Directors during 1998 were Henry O. Boswell (Chairman), Herbert P. Hess, James D. McLennan, Burton D. Sorensen and David K. Wessner. The Compensation Committee consists solely of independent members of the board of directors.

There are no interlocking arrangements involving service by any executive officer of the Company on the Compensation Committee of another entity and an executive officer of such other entity serving on the ServiceMaster Compensation Committee.

Executive Officers of ServiceMaster

The following table shows: (i) the names and ages as of March 1, 1999 of the present executive officers of the Company; (ii) all positions presently held by each officer; and (iii) the year each person became an officer. Each person named has served as an officer of the Company and its predecessor company continuously since the year shown. There are no arrangements or understandings between any executive officer and any other person pursuant to which the officer was or is to be selected as an officer.

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<TABLE>

<CAPTION>

Name	Age	Present Position	First Became An Officer
----	---	-----	-----
<S>	<C>	<C>	<C>
C. William Pollard	60	Chairman and Director	1977
Carlos H. Cantu	65	President and Chief Executive Officer and Director	1986
Phillip B. Rooney	54	Vice Chairman and Director	1997
Charles W. Stair	58	Vice Chairman and Director	1973
Donald K. Karnes	48	Group President, Consumer Services and a Senior Management Adviser	1992
Ernest J. Mrozek	45	Group President, Consumer Services and a Senior Management Adviser	1987
Robert F. Keith	42	President and Chief Operating Officer, Health Care Management Services and a Senior Management Adviser	1986
Robert D. Erickson	55	Executive Vice President and a Senior Management Adviser	1976
Vernon T. Squires	64	Senior Vice President and General Counsel	1987
Stephen E. Reiter	46	Senior Vice President and Chief Information Officer	1998
Steven C. Preston	38	Executive Vice President and Chief Financial Officer and a Senior Management Adviser	1997
Eric R. Zarnikow	39	Vice President and Treasurer	1994
Deborah A. O'Connor	36	Vice President and Controller	1993

</TABLE>

Messrs. Pollard, Cantu, Stair and Rooney are also Directors of the Company. See "Directors of ServiceMaster" above for biographical information with respect to such persons.

Robert D. Erickson. Executive Vice President. Mr. Erickson was a director of ServiceMaster from May 1987 to May 1993. He previously served as a director of ServiceMaster from May 1981 to June 1984. He served as the President and Chief Operating Officer of ServiceMaster's international business unit from October 1993 to December 1997.

Donald K. Karnes. Group President, ServiceMaster Consumer Services. He has served as Group President of TruGreen-ChemLawn and Terminix since January 1996. He served as President and Chief Operating Officer of TruGreen-ChemLawn from January 1992 to December 1995.

Robert F. Keith. President, Healthcare Management Services. He served as President and Chief Operating Officer, ServiceMaster Management Services, from January 1, 1997 to October 2, 1998, as President and Chief Operating Officer, ServiceMaster Consumer Services from July 1994 to December 31, 1996, and as

Group President, ServiceMaster Consumer Services, from November 1992 to July 1994.

Ernest J. Mrozek. Group President, ServiceMaster Consumer Services. He served as President and Chief Operating Officer, ServiceMaster Consumer Services from January 1, 1997 to October 2, 1998, as Senior Vice

President and Chief Financial Officer of the Registrant from January 1, 1995 to December 31, 1996, as Vice President and Chief Financial Officer of the Registrant from May 1994 to December 1994, and as Vice President, Treasurer and Chief Financial Officer from November 1, 1992 to April 30, 1994.

Deborah A. O'Connor. Vice President and Controller since January 1, 1993.

Steven C. Preston. Executive Vice President and Chief Financial Officer since July 1, 1998. He served as Senior Vice President and Chief Financial Officer from April 1, 1997 to June 30, 1998. From August 1993 to March 1997, he was Senior Vice President and Corporate Treasurer for First Data Corporation, Atlanta, Georgia.

Stephen E. Reiter. Senior Vice President and Chief Information Officer since July 1, 1998. From May 8, 1996 to May 31, 1998, he was Vice President and Partner for Computer Science Corporation, an outsourcing firm providing ITO outsourcing and purchasing and materials management support to the chemical, oil, gas and utilities industries. From June 1, 1994 to May 31, 1996 he was a Principal/Practice Leader with A.T. Kearney, a management consulting firm operating as a wholly-owned subsidiary of Electronic Data Systems (EDS). For the preceding three-year period, he was a Vice President and Chief Information Officer with Tenneco, Inc., a global industrial manufacturer in auto parts and packaging.

Vernon T. Squires. Senior Vice President and General Counsel since January 1, 1988. He has served as Secretary since December 7, 1998.

Eric R. Zarnikow. Vice President and Treasurer since May 1, 1994. From August 1991 to April 1994, he served as Vice President and Treasurer of Gaylord Container Corporation.

Executive Officer Compensation; Summary Compensation Table

The following table sets forth all compensation awarded to, earned by, or paid to the Chief Executive Officer of ServiceMaster and ServiceMaster's next four most highly compensated executive officers during or in respect of the year 1998. Each of the listed persons was holding the office indicated in the table on the last day of December 1998.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

<S>	(a)	Annual Compensation (B)			
		<C> (b)	<C> (c)	<C> (d)	<C> (e)
Name and Principal Position		Year	Salary (\$)	Bonus (\$)(C)	Other Annual Compensation (\$)
	Carlos H. Cantu.....	1998	475,000	570,000	-
	President and Chief Executive Officer	1997	450,000	900,021	-
		1996	388,000	679,000	-
	C. William Pollard.....	1998	400,000	300,000	-
	Chairman	1997	375,000	550,934	-
		1996	300,000	300,000	-
	Phillip B. Rooney (A).....	1998	300,000	325,000	-
	Vice Chairman	1997	166,667	200,000	-
		1996	--	--	-
	Ernest J. Mrozek.....	1998	290,000	290,000	-
	Group President, Consumer Services	1997	275,000	382,618	-
		1996	220,000	264,000	-
	Steven C. Preston (A).....	1998	256,250	281,250	-
	Executive Vice President and Chief Financial Officer	1997	180,000	242,983	-
		1996	--	--	-

</TABLE>
 <TABLE>
 <CAPTION>

		Long-Term Compensation			
		Awards		Payouts	
(a)	(b)	(f)	(g)	(h)	(i)
Name and Principal Position	Year	Restricted Stock Awards (\$)	Securities	LTIP Payouts (\$ (E))	All Other (\$)
			Underlying Options/SARs (#) (D)		
<S>	<C>	<C>	<C>	<C>	<C>
Carlos H. Cantu.....	1998	-	150,000	469,580	-
President and Chief Executive Officer	1997	-	225,000	-	-
	1996	-	168,750	-	-
C. William Pollard.....	1998	-	112,500	349,368	-
Chairman	1997	-	168,750	-	-
	1996	-	168,750	-	-
Phillip B. Rooney (A).....	1998	-	75,000	338,098	-
Vice Chairman	1997	-	348,750	-	-
	1996	-	10,125	-	-
Ernest J. Mrozek.....	1998	-	52,500	270,948	-
Group President, Consumer Services	1997	-	303,750	-	-
	1996	-	84,375	-	-
Steven C. Preston (A).....	1998	-	45,000	253,573	-
Executive Vice President and Chief Financial Officer	1997	-	337,500	-	-
	1996	-	0	-	-

</TABLE>

(A) Neither Mr. Rooney nor Mr. Preston were employed by the Company in 1996. The option shares shown for Mr. Rooney in column (g) for the year 1996 were issued in connection with his service as a director.

(B) The Summary Compensation Table does not include the cash distributions made in respect of the year 1997 by ServiceMaster Management Corporation (the managing general partner of ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership) to the persons listed in the table in their capacity as stockholders of ServiceMaster Management Corporation. Such distributions were dividends and represented a return on the investment made by such persons in the corporation. The source of these dividends was the cash distributions made to ServiceMaster Management Corporation by ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership on the 1% carried interests held by ServiceMaster Management Corporation in each of these two partnerships throughout the year 1997. As part of the Reincorporating Merger which was completed at the end of 1997 (described on page 8), the two partnerships were terminated, ServiceMaster Management Corporation was dissolved, and the requirement for direct investments by senior management in a managing general partner of the parent entity and the principal subsidiary was eliminated. Accordingly, the foregoing dividend payments will not occur in 1998 or thereafter. Effective January 1, 1998, the Company instituted a long-term performance based award program. The following table has been prepared as a supplement to the Summary Compensation Table in order to show both the 1997 payments reflected in the Summary Compensation Table and the ServiceMaster Management Corporation dividends paid to the persons listed in the Summary Compensation Table for the year 1997.

1997 Summary Compensation and ServiceMaster Management Corporation Dividend Table (Supplement to the Summary Compensation Table)

<TABLE>
 <CAPTION>

(a)	(b)	(c)	(d)
Name and Principal Position	Total Annual Compensation For 1997 (from Compensation Table)	ServiceMaster Management Corporation Dividends	Total of Columns (b) and (c)
<S>	<C>	<C>	<C>
Carlos H. Cantu.....	\$1,350,021	\$727,742	\$2,077,763
President and Chief Executive Officer			
C. William Pollard.....	\$ 932,434	\$698,118	\$1,631,052
Chairman			
Phillip B. Rooney.....	\$ 366,667	N/A	\$ 366,667
Vice Chairman			
Ernest J. Mrozek.....	\$ 657,618	\$340,283	\$ 997,901

Group President, Consumer Services			
Steven C. Preston.....	\$ 525,000	\$174,555	\$ 699,555
Executive Vice President and Chief Financial Officer			

Footnotes to Summary Compensation Table (continued)

- (C) The amounts shown in column (d) of the Summary Compensation Table include payments made under the ServiceMaster Incentive Compensation Plan plus payments made in connection with a gain arising from the Reincorporation.
- (D) The numbers of shares listed in column (g) of the Summary Compensation Table have been adjusted, where appropriate, for 3-for-2 share splits occurring in June 1996, June 1997 and August 1998.
- (E) This column (h) shows the amounts paid or credited to the five named executive officers in respect of the year 1998 pursuant to the Company's 1998 Long-Term Performance Award Plan (the "LTPA Plan") as approved by the Company's stockholders in May 1998. The LTPA Plan did not exist prior to 1998. Awards under the LTPA Plan are paid (or credited, if a participant elects to defer payment pursuant to the Company's deferred compensation plan) either in cash or in shares of common stock. To the extent that stock is elected as the form of payment, such election will entitle the participant to shares in a number which, at their then fair market value, reflects 120% of the amount which would be paid if the payment were made in cash. The total amount payable each year under the LTPA Plan is determined by the performance of the Company with respect to growth in earnings per share relative to the preceding year, growth in economic value relative to the preceding year, growth in revenue relative to the preceding year and a comparison of the Company's total return to stockholders relative to the S&P 500 total return. 20% of the total payout for the year 1998 was, in accordance with the LTPA Plan, held back for payment in whole or in part in early 2001. The extent to which the held-back amount is paid will depend upon the extent to which the Company achieved its strategic planning objectives for the five-year planning cycle ending on December 31, 2000. A participant's interest in the held-back amount is forfeited in the case of certain terminations of his or her employment. The amount held back for each of the five named executive officers in respect of the year 1998 is shown in the Long-Term Incentive Plans table on page 38.

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The following table summarizes the number and terms of the stock options granted during the year 1998 to the named executive officers.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

(a)	(b)	(c)	(d)	(e)	(f)
Name and Principal Position	Number of Securities Underlying Options/SARs Granted (k#)	% of Total Options/SARs Granted to Employees 1998	Exercise or Base Price (\$/Sh) (A)	Expiration Date	Grant Date Value (B)
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Carlos H. Cantu..... President and Chief Executive Officer	150,000	4.6%	\$18.2583	2-15-08	\$762,000
C. William Pollard..... Chairman	112,500	3.4%	\$18.2583	2-15-08	\$571,500
Phillip P. Rooney..... Vice Chairman	75,000	2.3%	\$18.2583	2-15-08	\$381,000
Ernest J. Mrozek..... Group President, Consumer Services	52,500	1.7%	\$18.2583	2-15-08	\$266,700
Steven C. Preston..... Executive Vice President and Chief Financial Officer	45,000	1.4%	\$18.2583	2-15-08	\$228,600
-----	-----	-----	-----	-----	-----

- (A) The options listed in column (b) were granted in February 1998. The number of shares shown in column (b) and the exercise price shown in column (d) have been adjusted to reflect the 3-for-2 split in the Company's shares effected in August 1998. Each of the options listed in column (b) is subject to a vesting schedule under which the option becomes exercisable in 20% increments on the 1st, 2nd, 3rd, 4th and 5th anniversaries of grant date.

- (B) In accordance with Item 402(c)(2)(vi)(B) of Regulation S-K of the Commission, the grant date value of each of these options has been

estimated based on the Black-Scholes option pricing model by an independent consulting firm using the following assumptions: a risk-free rate of interest of 5.6%, a volatility rate of 22%, a 1.9% distribution yield, and an expected life of seven years. The values of the options which are shown in the table are theoretical and do not necessarily reflect the actual values which the option holders may eventually realize. Such actual values will depend on the extent to which the market value of the Company's shares at a future date exceeds the exercise price of the options.

The following table summarizes the exercises of stock options during the year 1998 by the named executive officers and the number of, and the spread on, unexercised options held by such officers at December 31, 1998.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION/SAR VALUES

<TABLE>
<CAPTION>

(a)	(b)	(c)	(d)	(e)
Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable	Value of Unexercised In-The-Money Options/SARs At FY-End (\$) Exercisable/Unexercisable
<S>	<C>	<C>	<C>	<C>
Carlos H. Cantu,..... Chief Executive Officer	0	\$0	112,500/431,250	1,249,587/3,664,676
C. William Pollard.....	0	\$0	101,250/348,750	1,127,628/3,034,163
Phillip B. Rooney.....	0	\$0	71,775/360,075	602,773/2,368,214
Ernest J. Mrozek.....	0	\$0	109,808/346,125	1,311,648/3,482,248
Steven C. Preston.....	0	\$0	67,500/315,000	706,453/2,744,627

</TABLE>

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LONG-TERM INCENTIVE PLANS AWARDS IN 1998 (A)

<TABLE>
<CAPTION>

(a)	(b)	(c)	(d)	(e)	(f)
Name	Number of shares, units or other rights (#)	Performance or Other period until Maturaton or Payout	Threshold (\$ or #)	Target (\$ or #)	Maximum (\$ or #)
<S>	<C>	<C>	<C>	<C>	<C>
Carlos. H. Cantu, CEO	1,000	2001			\$117,395
C. William Pollard	620	2001			\$ 87,342
Phillip B. Rooney	600	2001			\$ 84,525
Ernest J. Mrozek	577	2001			\$ 67,737
Steven C. Preston	500	2001			\$ 63,393

</TABLE>

(A) This table pertains to the awards made in respect of the year 1998 under the Company's 1998 Long-Term Performance Award Plan (the "LTPA Plan"). See footnote (D) to the Summary Compensation Table for a description of the LTPA Plan. The figures in column (b) show the number of units awarded for the year 1998 to each of the named executive officers. The LTPA Plan has a total of 10,000 participation units. The figures in column (f) reflect the amounts held back from the awards to each of such persons for the year 1998 for payment in 2001. The extent to which such held-back amounts are in fact paid will depend upon the extent to which the Company achieved its strategic planning objectives for the five-year planning cycle ending on December 31, 2000. If and to the extent such held-back amounts are not paid to the named executive officers, the unpaid sums will revert to the Company.

Employment and Severance Arrangements

The Company has an employment agreement in effect with each of the executive officers named in the Summary Compensation Table. Each of such agreements establish a 1999 base salary, provide that certain information proprietary to the Company be kept confidential, provide for certain restrictions on employment with a competitor or a customer following termination of employment with the Company and is terminable by the Company without prior notice in the case of misconduct, nonperformance or incompetent performance and upon two weeks' notice in all other cases subject to certain exceptions and

limitations.

The Company does not presently have employment agreements with any members of the Company's senior management under which termination benefits are provided if a change in control of the Company occurs. The Board of Directors is considering the desirability of such arrangements, as well as the desirability of a more broadly based plan to cover employees who are not members of senior management and who meet certain employment longevity standards.

The ServiceMaster 1998 Equity Incentive Plan provides that all stock options granted prior to the occurrence of a change in control shall become immediately exercisable upon the occurrence of a change in control and shall remain exercisable thereafter throughout the entire terms of the options.

Indebtedness of Management

No executive officer was indebted to the Company in excess of \$60,000 at any point during the year 1998.

OWNERSHIP OF COMMON STOCK

As of March 1, 1999, no one is the beneficial owner of more than five percent of the Common Stock. The following table sets forth as of January 1, 1999 the beneficial ownership of the Common Stock with respect to ServiceMaster's directors, senior management advisers and those executive officers named in the Summary Compensation Table and the Company's directors and officers as a group:

<TABLE>
<CAPTION>

(1) Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)			
	(2) Sole Voting and Investment Power	(3) Other	(4) Total Ownership	(5) Percent Ownership
<S>	<C>	<C>	<C>	<C>
Paul W. Berezny (3) (4) (6) (8).....	139,607	1,198,779	1,338,386	0.448%
Henry O. Boswell (2) (4).....	83,706	91,108	174,814	0.058%
Carlos H. Cantu (4) (5) (12).....	693,031	2,428,929	3,121,960	1.043%
Robert D. Erickson (4) (5) (7).....	1,044,268	123,391	1,167,659	0.390%
Brian Griffiths (4).....	34,723	0	34,723	0.012%
Sidney E. Harris (4).....	22,710	1,687	24,397	0.008%
Herbert P. Hess (4) (8).....	251,725	30,375	282,100	0.094%
Michele M. Hunt (4).....	22,136	0	22,136	0.007%
Donald K. Karnes (4).....	1,948,459	0	1,948,459	0.651%
Robert F. Keith (4) (5).....	457,100	104,339	561,439	0.188%
Gunther H. Knoedler (4).....	76,277	0	76,277	0.026%
James D. McLennan (4).....	65,744	0	65,744	0.022%
Ernest J. Mrozek (4) (5).....	519,096	61,189	580,285	0.193%
Vincent C. Nelson (4) (8) (9) (10).....	59,386	787,547	846,933	0.283%
Dallen W. Peterson (4).....	2,473,273	0	2,473,273	0.827%
C. William Pollard (4) (5) (11).....	1,120,978	223,540	1,344,518	0.449%
Steven C. Preston (4).....	144,000	0	144,000	0.048%
Steven S Reinemund (4).....	10,002	15,000	25,002	0.008%
Phillip B. Rooney (3) (4).....	419,581	13,500	433,081	0.145%
David M. Slott (4).....	622,227	439,938	1,062,165	0.355%
Burton E. Sorensen (4).....	43,477	0	43,477	0.015%
Charles W. Stair (5) (6) (13).....	891,824	103,092	994,916	0.333%
David K. Wessner (3) (4) (8) (14) (15).....	299,727	1,710,459	2,010,186	0.672%
All directors and officers as a group (128 persons) (16).....	21,021,936	9,107,406	30,129,342	9.898%

- (1) The shares owned by each person and by all directors and officers as a group, and the shares included in the total number of shares, have been adjusted, and the percentage ownership figures have been computed, in accordance with Rule 13d-3(d) (1) (i).
- (2) Shares in column (3) include 60,658 shares owned by spouse as to which beneficial ownership is disclaimed.
- (3) Shares in column (3) include shares held by spouse and/or other family members.
- (4) Shares in column (2) include shares which may be acquired within sixty days under options granted under the ServiceMaster Share Option Plan, the ServiceMaster 10-Plus Option Plan, the ServiceMaster 1998 Equity Incentive Plan, the ServiceMaster Non-Employee Directors Option Plan and/or the ServiceMaster 1998 Non-Employee Directors Discounted Stock Option Plan.
- (5) Shares in column (3) include shares held in one or more investment partnerships in which the listed person is a partner with shared voting power and investment power.
- (6) Shares in column (2) include shares held in trust for the benefit of family

- members as to which beneficial ownership is disclaimed.
- (7) Shares in column (3) include 97,168 shares owned by spouse or held in trust for the benefit of family members as to which beneficial ownership is disclaimed.
- (8) Shares in column (3) include shares held in trust for benefit of self and/or family members.

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- (9) Shares in column (2) include 43,804 shares in trust for the benefit of family members as to which beneficial ownership is disclaimed. Shares in column (3) include 16,252 shares held in trust for the benefit of family members as to which beneficial ownership is disclaimed.
- (10) Shares in column (3) include 353,211 shares owned by a charitable trust of which Vincent C. Nelson is a trustee. Mr. Nelson disclaims beneficial ownership of such shares.
- (11) Shares in column (3) include 35,620 shares owned by a charitable foundation of which C. William Pollard is a director. Mr. Pollard disclaims beneficial ownership of such shares. Shares in column (3) also include 34,426 shares in trust for the benefit of family members.
- (12) Shares in column (3) include 11,523 shares owned by a charitable foundation of which Carlos H. Cantu is an officer. Mr. Cantu disclaims beneficial ownership of such shares.
- (13) Shares in column (3) include 59,400 shares owned by a charitable foundation of which Charles W. Stair is a director. Mr. Stair disclaims beneficial ownership of such shares.
- (14) Shares in column (3) include 731,162 shares owned by a charitable foundation of which David K. Wessner is a director. Mr. Wessner disclaims beneficial ownership of such shares.
- (15) Shares in column (3) include 545,620 shares held by an investment company of which David K. Wessner is a shareholder and one of four directors.
- (16) Includes 5,419,879 shares which certain officers of ServiceMaster, through the exercise of their respective rights, may acquire within 60 days under share purchase agreements, options granted under the ServiceMaster Share Option Plan and options granted under the ServiceMaster 10-Plus Option Plan. 20% of the options granted under the ServiceMaster 1998 Equity Incentive Plan in February 1998 were exercisable on March 1, 1999. None of the options granted under the ServiceMaster 1998 Equity Incentive Plan in February 1999 were exercisable on March 1, 1999. Shares purchasable by the persons identified in the Summary Compensation Table under one or more of the foregoing plans are as follows: Mr. Cantu - 187,500 shares; Mr. Pollard - 157,500 shares; Mr. Rooney - 91,050 shares; Mr. Mrozek - 197,933 shares; Mr. Preston - 144,000 shares; and all executive officers as a group 1,502,981 shares.

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DESCRIPTION OF COMMON STOCK

Under the Company's Amended and Restated Certificate of Incorporation (the "Restated Certificate"), the Company is authorized to issue 1,000,000,000 shares of Common Stock, par value \$0.01 per share, and 11,000,000 shares of preferred stock, par value \$0.01 per share (the "Preferred Stock"). As of March 1, 1999, approximately 300,000,000 shares of Common Stock (excluding treasury shares) were issued and outstanding and no shares of Preferred Stock were issued and outstanding. In addition, as of March 1, 1999, the Board of Directors had approved the issuance of 7,500,000 shares of Common Stock under the Company's equity incentive plans, and of that number approximately 2,160,000 were subject to issuance under outstanding stock options. The number of authorized shares of Preferred Stock includes 1,000,000 authorized shares of Junior Participating Preferred Stock, Series A (the "Series A Preferred Stock") issuable pursuant to the rights agreement dated as of December 15, 1997 between the Company and Harris Trust and Savings Bank (the "Rights Plan"), none of which were outstanding as of December 31, 1998. See "--Stock Purchase Rights."

Common Stock

Subject to the rights of the holders of any Preferred Stock, each holder of Common Stock on the applicable record date is entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor, and, in the event of liquidation, to share pro rata in any distribution of the Company's assets after payment of liabilities. Each holder of Common Stock is entitled to one vote for each share held of record on the applicable record date on all matters presented to a vote of stockholders. The outstanding Common Stock is, and the shares of Common Stock offered hereby by the Company will be, fully paid and non-assessable.

Harris Trust and Savings Bank of Chicago, Illinois is the registrar and transfer agent for the Common Stock.

Stock Purchase Rights

Each outstanding share of Common Stock includes, and each share of Common

Stock offered hereby will include, one preferred stock purchase right (individually a "Right" and collectively the "Rights") provided under the Rights Plan. Each Right entitles the holder, until the earlier of December 11, 2007 or the redemption of the Rights, to buy one one-thousandth of a share of Series A Preferred Stock at a price of \$130 per one one-thousandth of a share (as may be adjusted to reflect stock splits since the issuance of the Rights). The Series A Preferred Stock is nonredeemable and will have 1,000 votes per share (subject to adjustment). The Company has reserved 1,000,000 shares of Series A Preferred Stock for issuance upon exercise of such Rights.

In the event that any person becomes the beneficial owner of 15% or more of the Company's Common Stock, the Rights (other than Rights held by the acquiring stockholder) would become exercisable for that number of shares of the Common Stock having a market value of two times the exercise price of the Right. Furthermore, if after any person becomes the beneficial owner of 15% or more of the Company's Common Stock the Company is acquired in a merger or other business combination or 50% or more of its assets or earnings power were sold, each Right (other than Rights held by the acquiring person) would become exercisable for that number of shares of Common Stock (or securities of the surviving company in a business combination) having a market value of two times the exercise price of the Right.

The Company may redeem the Rights at one cent per Right prior to the occurrence of an event that causes the Rights to become exercisable for Common Stock.

One Right will be issued in respect of each share of Common Stock issued before the earlier of December 11, 2007 or the redemption of the Rights. As of the date of this Prospectus, the Rights are not exercisable, certificates representing the Rights have not been issued and the Rights automatically trade with the shares of Common Stock. The Rights will expire on December 11, 2007, unless earlier redeemed.

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Preferred Stock

Shares of Preferred Stock may be issued from time to time in one or more series. The Board is authorized to determine and alter all rights, preferences and privileges and qualifications, limitations and restrictions thereof (including, without limitation, voting rights and the limitation and exclusion thereof) granted to or imposed upon any wholly unissued series of Preferred Stock and the number of shares constituting any such series and the designation thereof, to determine whether fractional shares can be issued in any particular series and, if so, the nature of the fractional interests which can be issued in that series, and to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series subsequent to the issue of shares of that series then outstanding. In case the number of shares of any series is so decreased, the shares constituting such reduction shall resume the status which such shares had prior to the adoption of the resolution originally fixing the number of shares of such series.

Certain Provisions of the Restated Certificate and By-Laws

The following summary of certain provisions of the Restated Certificate and By-Laws of the Company (the "By-Laws") does not purport to be complete and is subject to and qualified in its entirety by reference to the Restated Certificate and the By-Laws, which are incorporated by reference as exhibits to the Registration Statement of which this Prospectus is a part.

Classification of Directors. The Company's Restated Certificate and By-Laws provide that its Board of Directors shall be divided into three classes, each class being as nearly equal in number as reasonably practicable, and that at each annual meeting of the Company's stockholders, the successors to the Directors whose terms expire that year shall be elected for a term of three years. The number of Directors is fixed by the affirmative vote of the majority of the Directors then in office, but may not be less than three. Newly created Directorships and any vacancies on the Board of Directors are filled by a majority vote of the remaining Directors then in office, even if less than a quorum. Except in certain limited circumstances, no Director may be removed from the Board prior to the time such person's term would expire unless (i) such removal is for cause and (ii) such removal has been approved by the affirmative vote of the holders of 67% of the outstanding voting shares of the Company. The Restated Certificate requires that a majority of the members of the Board be "independent directors," which is defined to generally include any person (i) who is not and has not been employed by any ServiceMaster unit within one year; (ii) is not a "Related Person" (as hereinafter defined) and has not been employed by a Related Person within one year; (iii) is not a party to any agreement, requirement or arrangement under which such person may be obligated to act in his or her capacity as a Director in accordance with instructions provided by any person who is not independent (including, but not limited to, a Related Person); and (iv) is not subject to any relationship, arrangement or circumstance (including any relationship with a Related Person) which, in the judgment of a majority of the independent Directors (the "Independent Board

Majority") is reasonably possible will interfere with such person's exercise of independent judgment as a Director.

Special Meetings. The By-Laws provide that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting. The By-Laws provide that, except as otherwise required by law, special meetings of the stockholders can only be called pursuant to a resolution adopted by a majority of the Board of Directors. Stockholders are not permitted to call a special meeting or to require the Board to call a special meeting.

Approval of Certain Business Combinations. The Restated Certificate provides that the affirmative vote of the holders of not less than 80% of the outstanding shares of the Common Stock held by stockholders other than a "Related Person" (any person or entity which, together with its affiliates and associates, beneficially owns in the aggregate 15% or more of the outstanding Common Stock and any affiliate or associate of such person or entity) is required for the approval or authorization of any "Business Combination" (as hereinafter defined) of the Company with any Related Person; provided, that the foregoing 80% voting requirement is not applicable if an "Independent Board Majority" (a majority of the group comprised of all individuals who are independent sitting directors) either (a) has expressly approved in advance the acquisition of the outstanding shares of Common Stock that caused such Related Person to become a Related Person or (b) has expressly approved such Business Combination either in advance of or subsequent

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to such Related Person's having become a Related Person. The term "Business Combination" is defined under the Restated Certificate to mean (a) any merger or consolidation of the Company or a subsidiary of the Company with or into a Related Person; (b) any sale, lease, exchange, transfer or other disposition of all or any substantial part (as defined in the Restated Certificate) of the assets either of the Company (including without limitation any voting securities of a subsidiary) or of a subsidiary of the Company to a Related Person; (c) any merger or consolidation of a Related Person with or into the Company or a subsidiary of the Company; (d) any sale, lease, exchange, transfer or other disposition of all or any substantial part of the assets of a Related Person to the Company or a subsidiary of the Company; (e) the issuance of any securities of the Company or a subsidiary of the Company to a Related Person; (f) any recapitalization that would have the effect of increasing the voting power of a Related Person; and (g) any agreement, contract or other arrangement providing for any of the transactions described in this definition of a Business Combination.

Action by Written Consent. The By-Laws provide that a holder of Common Stock or any other class of stock at any time issued by the Company shall not have the right to take action by written consent. Rather, stockholders shall only have the right to act with respect to any particular issue at a meeting of stockholders at which that issue is properly up for a vote by stockholders.

Stockholder Proposals. Stockholders are only entitled to make proposals to be voted upon by stockholders at an annual meeting if they comply with certain procedures set forth in the By-Laws, which require, among other things, that the proposing stockholder must deliver a written notice identifying such proposal to the office of the Company's General Counsel at the Company's headquarters no later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Company. At a special stockholders meeting, a stockholder's proposal will be timely for that meeting if it is actually delivered to the General Counsel's office at the Company's headquarters no later than the close of business on the 10th day following the day on which the Company first publicly announced the date of the special meeting and that a vote by stockholders will be taken at that meeting. Such stockholder's proposal notice must: (i) contain a description of the proposal, the reasons for the proposal and any material interest in such proposal by the proposing stockholder or the beneficial owner of the stockholder's record shares; (ii) contain an affirmation by the proposing stockholder that the stockholder satisfies the requirements specified in the By-Laws for presentation of such proposal; and (iii) as to the stockholder making the proposal and the beneficial owner, if any, on whose behalf the proposal is made (x) the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner and the telephone number at which each may be reached during normal business hours through the time for which the meeting is scheduled and (y) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner.

Amendments to the Restated Certificate and Bylaws. The Restated

Certificate provides that no change in the Restated Certificate shall be effective unless it shall have been approved by at least 80% of the Company's sitting directors and shall have received such other approvals as may have been required by the Company's By-Laws or by applicable law. Amendment of the Bylaws requires either the approval of 80% of the sitting directors in office at the time such amendment is approved or the approval of the holders of 80% of the outstanding Common Stock.

Certain Anti-Takeover Provisions of Delaware Law

The Company is a Delaware corporation and is subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an "interested stockholder" (defined generally as a person owning 15% or more of the Company's outstanding voting stock) from engaging in a "business combination" (as defined in Section 203) with the Company (or its majority-owned subsidiaries) for three years following the time such person became an interested stockholder unless: (i) before such person became an interested stockholder, the Company's Board of Directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination; (ii) upon consummation of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of the Company's voting stock outstanding at the

time the transaction commenced (excluding stock held by directors who are also officers of the Company and by employee stock plans that do not provide employees with the rights to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or (iii) at or following the transaction in which such person became an interested stockholder, the business combination is approved by the Company's Board of Directors and approved at a meeting of stockholders by the Affirmative vote of the holders of at least two-thirds of the Company's outstanding voting stock not owned by the interested stockholder. Under Section 203, the restrictions described above also do not apply to certain business combinations proposed by an interested stockholder following the earlier of the announcement or notification of one of certain extraordinary transactions involving the Company and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the Company's directors, if such extraordinary transaction is approved or not opposed by a majority of the directors who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Common Stock is listed on the NYSE under the symbol "SVM." The following table sets forth the high and low sale prices of the Common Stock for the year 1998 and for the Partnership Shares for all other periods as reported on the New York Stock Exchange Composite Tape and the cash dividends paid per share of Common Stock or the cash distributions paid per Partnership Share for the periods indicated. The prices have been adjusted to give retroactive effect to ServiceMaster's three-for-two share splits in August 1998, June 1997 and June 1996 (share prices have been rounded to the nearest one cent).

<TABLE>
<CAPTION>

	High	Low	Cash Distributions Paid
<S>	<C>	<C>	<C>
Year ended December 31, 1996:			
First Quarter.....	\$ 9.93	\$ 8.61	\$ 0.07-1/8
Second Quarter.....	10.45	9.17	0.07-1/8
Third Quarter.....	11.00	9.55	0.07-1/2
Fourth Quarter.....	11.83	10.55	0.07-1/2
Year ended December 31, 1997:			
First Quarter.....	12.33	10.92	0.07-1/2
Second Quarter.....	15.92	12.09	0.07-1/2
Third Quarter.....	19.67	15.17	0.08
Fourth Quarter.....	19.50	14.00	0.08
Year ended December 31, 1998:			
First Quarter.....	19.63	16.50	0.08
Second Quarter.....	25.50	17.92	0.08
Third Quarter.....	24.75	19.75	0.09
Fourth Quarter.....	23.81	16.00	0.09
Year ended December 31, 1999:			
First Quarter (through March 22, 1999).....	22.00	17.50	0.09

</TABLE>

As of February 15, 1999, there were approximately 28,724 holders of record of the Common Stock. A recent last reported sale price on the NYSE for the Common Stock is set forth on the cover page of this Prospectus.

The Company has consistently paid increasing dividends or cash distributions over the last 28 years. The Company's current policy is to continue to increase its dividend payment. The timing and amount of future dividends will be at the discretion of the Board of Directors and will depend on, among other things, the Company's results of operations, corporate finance objectives and cash requirements. The Company has announced that its intended cash dividend for 1999 will be \$0.36 per share.

LEGAL MATTERS

Certain legal matters regarding the issuance of the Common Stock, under laws other than federal or state securities laws, have been passed upon for the Company by the General Counsel of the Company.

EXPERTS

The financial statements and schedules included in this Prospectus and elsewhere in the Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

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See Notes to Consolidated Financial Statements

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Report of Independent Public Accountants
To the Shareholders of
The ServiceMaster Company

We have audited the accompanying consolidated statements of financial position of THE SERVICEMASTER COMPANY (organized under the laws of the State of Delaware, formerly ServiceMaster Limited Partnership) AND SUBSIDIARIES, as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, the consolidated financial statements referred to above

present fairly, in all material respects, the financial position of The ServiceMaster Company and Subsidiaries as of December 31, 1998 and 1997, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP
Chicago, Illinois
January 25, 1999

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Summary of Significant Accounting Policies

Basis of Consolidation: 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 consolidation. Investments in unconsolidated subsidiaries representing ownership of at least 20 percent, but less than 50 percent, are accounted for under the equity method. Certain immaterial 1997 and 1996 amounts have been reclassified to conform with the 1998 presentation. The preparation of the consolidated financial statements requires management to make certain estimates and assumptions required under generally accepted accounting principles which may differ from the actual results.

Revenues: Revenues from lawn care, termite, pest control, and plumbing services are recognized as the services are provided. Revenues from franchised services (which in aggregate represent less than 10 percent of consolidated totals) consist of initial franchise fees received from the sales of licenses, sales of products to franchisees, and continuing monthly fees based upon franchise revenue.

Home warranty contract fees are recognized as revenues ratably over the life of the contract while the contract costs are expensed as incurred.

Revenues from management services are recognized as services are rendered and consist of contract fees which reflect the total price of such services. Where the Company principally manages people who are employees of the facility, the payroll costs for such employees are recognized by the Company and included in "Cost of services rendered and products sold" in the Consolidated Statements of Income. Receivables from the facilities are reflected in the Consolidated Statements of Financial Position at the net amount due, after deducting from the contract price all amounts chargeable to the Company.

Revenues from the professional employer organization (PEO) are recognized as the services are rendered. Consistent with PEO industry practice, revenues include the gross amount billed to clients, which includes payroll and other direct costs.

Inventory Valuation: Inventories are valued at the lower of cost (first-in, first-out basis) or market. Inventory costs include material, labor, and factory overhead and related handling costs. Raw materials represent less than three percent of the inventory value at December 31, 1998. The remaining inventory is finished goods to be used on the customers' premises or sold to franchisees.

Depreciation and Amortization: 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. Intangible assets consist primarily of trade names (\$177 million) and goodwill (\$1.7 billion). These assets are amortized on a straight-line basis over their estimated useful lives, which are predominately 40 years. Long-lived assets, including fixed assets and intangible assets, are periodically reviewed to determine recoverability by comparing their carrying values to the undiscounted future cash flows expected to be realized from their use. No recovery problems, other than that noted in the discontinued Home Health Care operations, have been indicated by these comparisons. Based on the reviews, if the undiscounted future cash flows 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.

Income Taxes: The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This statement utilizes an asset and liability approach that requires the recognition of deferred tax assets and liabilities 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. Shares potentially issuable

under options have been considered outstanding for purposes of the diluted earnings per share calculation.

Newly Issued Accounting Statements and Positions: In 1998, Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and Statement of Position No. 98-5, "Reporting on the Costs of Start Up and Preoperating Activities," were issued. The Company intends to adopt these policies beginning in 1999 as required by the Statements. The Company does not expect the adoption of these Statements to have a material impact on the financial statements.

Also in 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company intends to adopt this Statement in January 2000 as required by the Statement. Adoption of this Statement is not expected to have a material impact on the Company's financial statements.

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Statements of Income
(In thousands, except per share data)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Operating Revenue.....	\$4,724,119	\$3,961,502	\$3,458,328
Operating Costs and Expenses:			
Cost of services rendered and products sold.....	3,679,612	3,058,160	2,681,008
Selling and administrative expenses.....	648,085	559,409	482,102
Total operating costs and expenses.....	4,327,697	3,617,569	3,163,110
Operating Income.....	396,422	343,933	295,218
Non-operating Expense (Income):			
Interest expense.....	92,945	76,447	38,298
Interest and investment income.....	(15,301)	(14,304)	(10,183)
Minority interest.....	--	7,511	14,706
Income before Income Taxes.....	318,778	274,279	252,397
Provision for income taxes (pro forma corporate form in 1997 and 1996)/(1)/..	128,786	110,809	101,968
Net Income (pro forma corporate form in 1997 and 1996)/(1)/.....	\$ 189,992	\$ 163,470	\$ 150,429
Per Share (pro forma corporate form in 1997 and 1996):(1),(2)/			
Basic.....	\$0.66	\$0.57	\$0.47
Diluted.....	\$0.64	\$0.55	\$0.46

</TABLE>

(1) The Company converted from partnership to corporate form in a tax-free exchange for shareholders on December 26, 1997. Prior to the conversion, the Partnership was not subject to federal income taxes as its taxable income was allocated to the Company's shareholders. As a result of the conversion, the Company is a taxable entity and is responsible for such payments. The results shown above for the years ended December 31, 1997 and 1996 have been restated to adjust the actual historical partnership information to a pro forma basis that assumes that reincorporation had occurred as of the beginning of the year. Upon reincorporation, the Company recognized a significant increase in the tax basis of certain assets and recorded a \$65 million tax gain related to reincorporation, which represented the difference between the tax basis and book value of its assets. The Company's historical net income and net income per share as a partnership were as follows:

<TABLE>
<CAPTION>

Partnership Information as Recorded:	Before One-Time		Earnings Per Share:	Tax Benefit		Actual	
	1997	1996		1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Income before income taxes.....	\$274,279	\$252,397	Basic	\$.92	\$.77	\$1.15	\$.77
Partnership tax provision.....	10,203	7,257	Diluted	\$.89	\$.75	\$1.10	\$.75
Tax benefit relating to change in tax status..	65,000	--					

Net income.....	\$329,076	\$245,140
-----------------	-----------	-----------

</TABLE>

(2) Basic earnings per share are calculated based on 289,315 shares in 1998, 285,944 shares in 1997, and 317,381 shares in 1996, while diluted earnings per share are calculated based on 298,887 shares in 1998, 299,640 shares in 1997, and 330,429 shares in 1996. All share and per share data reflect the three-for-two share splits in August 1998, June 1997 and June 1996.

See accompanying Summary of Significant Accounting Policies and Notes to the Consolidated Financial Statements.

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<TABLE>
<CAPTION>
Statements of Financial Position (In thousands)

	As of December 31,	
	1998	1997
<S>	<C>	<C>
Assets:		
Current Assets:		
Cash and cash equivalents.....	\$ 66,400	\$ 64,876
Marketable securities.....	54,022	59,248
Receivables, less allowances of \$38,988 in 1998 and \$32,221 in 1997.....	372,375	299,138
Inventories.....	49,770	48,157
Prepaid expenses and other assets.....	127,635	122,665
Total current assets.....	670,202	594,084
Property, Plant, and Equipment, at Cost:		
Land and buildings.....	53,068	46,632
Equipment.....	388,141	316,021
	441,209	362,653
Less: accumulated depreciation.....	229,049	204,383
Net property, plant, and equipment.....	212,160	158,270
Other Assets:		
Intangible assets, primarily trade names and goodwill, less accumulated amortization of \$272,254 in 1998 and \$218,293 in 1997.....	1,884,002	1,563,309
Notes receivable, long-term securities, and other assets.....	148,487	159,561
Total Assets.....	\$ 2,914,851	\$ 2,475,224
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable.....	\$ 110,523	\$ 84,673
Accrued liabilities:		
Payroll and related expenses.....	96,199	85,315
Insurance and related expenses.....	56,748	55,909
Income taxes payable.....	84,165	8,423
Other.....	149,477	121,020
Deferred revenues.....	204,969	181,298
Current portion of long-term debt.....	51,616	21,539
Total current liabilities.....	753,697	558,177
Long-Term Debt.....	1,076,167	1,247,845
Other Long-Term Obligations.....	128,501	144,764
Commitments and Contingencies (see Notes)		
Shareholders' Equity:		
Common stock \$0.01 par value, authorized 1 billion shares; issued and outstanding of 298,030 shares in 1998 and 279,944 shares in 1997.....	2,980	2,799
Additional paid-in capital.....	788,124	513,148
Retained earnings.....	179,840	65,000
Accumulated other comprehensive income.....	3,911	5,343
Restricted stock.....	(3,383)	(4,270)
Treasury stock.....	(14,986)	(57,582)
Total shareholders' equity.....	956,486	524,438

Total Liabilities and Shareholders' Equity.....

\$ 2,914,851

\$ 2,475,224

See accompanying Summary of Significant Accounting Policies and Notes to the Consolidated Financial Statements.

</TABLE>

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Statements of Cash Flows (In thousands)

<TABLE>
<CAPTION>

<S>	Years Ended December 31,		
	1998	1997	1996
	<C>	<C>	<C>
Cash and Cash Equivalents at January 1.....	\$ 64,876	\$ 72,009	\$ 23,113
Cash Flows from Operations:			
Net Income.....	189,992	329,076	245,140
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation.....	50,644	45,392	41,658
Amortization.....	53,961	47,670	37,348
Tax asset recorded upon reincorporation.....	--	(65,000)	--
Change in working capital, net of acquisitions:			
Receivables.....	(46,205)	(6,853)	(19,084)
Inventories and other current assets.....	(2,360)	(14,210)	(12,666)
Accounts payable.....	18,475	5,603	10,302
Deferred revenues.....	22,033	30,012	17,602
Deferred 1998 tax payment.....	83,000	--	--
Deferred income tax expense.....	36,400	--	--
Accrued liabilities.....	(2,028)	(82)	13,140
Other, net.....	1,627	281	7,946
Net Cash Provided from Operations.....	405,539	371,889	341,386
Cash Flows from Investing Activities:			
Property additions.....	(75,297)	(46,232)	(42,952)
Sale of equipment and other assets.....	6,941	4,134	2,664
Business acquisitions, net of cash acquired.....	(222,452)	(233,689)	(58,473)
Proceeds from sale of businesses.....	45,893	--	4,526
Net purchases of investment securities.....	(11,011)	(16,753)	(20,075)
Notes receivable and financial investments.....	(10,645)	(3,593)	3,304
Payments to sellers of acquired businesses.....	(10,271)	(4,723)	(3,742)
Net Cash Used for Investing Activities.....	(276,842)	(300,856)	(114,748)
Cash Flows from Financing Activities:			
Borrowings, net.....	310,190	888,528	123,732
Payment of borrowings and other obligations.....	(564,448)	(160,155)	(82,857)
Proceeds from stock offering.....	208,561	--	--
Distributions to shareholders and shareholders' trust...	(75,152)	(155,883)	(146,520)
Purchase of ServiceMaster stock.....	(18,310)	(657,191)	(76,556)
Proceeds from employee share plans.....	12,638	6,526	6,835
Distributions to holders of minority interests.....	--	(542)	(3,074)
Other.....	(652)	551	698
Net Cash Used for Financing Activities.....	(127,173)	(78,166)	(177,742)
Cash Increase (Decrease) During the Year.....	1,524	(7,133)	48,896
Cash and Cash Equivalents at December 31.....	\$ 66,400	\$ 64,876	\$ 72,009

</TABLE>

See accompanying Summary of Significant Accounting Policies and Notes to the Consolidated Financial Statements.

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<TABLE>
<CAPTION>
Statements of Shareholders' Equity
(In thousands)

Corporate Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Limited Partners' Equity	Accumulated Comprehensive Income	Treasury Stock	Restricted Stock	Total Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995.....	\$ -	\$ -	\$ -	\$ 761,710	\$ 5,904	\$ (13,405)	\$ (7,549)	\$ 746,660
Net income 1996.....				245,140				245,140
Other comprehensive income, net of tax:								
Unrealized gains on securities, net of reclassification adjustment.....					1,452			1,452
Foreign currency translation (\$678 tax expense).....					(999)			(999)
Total comprehensive income.....				245,140	453			245,593
Shareholder distributions.....				(146,520)				(146,520)
Shares issued under option, subscription, grant plans and other (3,667 shares).....				(7,166)		2,506	1,691	(2,969)
Treasury shares purchased and related costs (7,825 shares)....								(76,556)
Shares issued for acquisitions (3,213 shares).....				3,104		27,455		30,559
Balance, December 31, 1996.....	\$ -	\$ -	\$ -	\$ 856,268	\$ 6,357	\$ (60,000)	\$ (5,858)	\$ 796,767
Net income 1997.....			65,000	264,076				329,076
Other comprehensive income, net of tax:								
Unrealized gains on securities, net of reclassification adjustment.....					4,269			4,269
Foreign currency translation (\$3,580 tax expense).....					(5,283)			(5,283)
Total comprehensive income.....			65,000	264,076	(1,014)			328,062
Shareholder distributions.....				(155,883)				(155,983)
Shares issued under option, debentures, grant plans and other (6,552 shares).....				21,165		3,511	1,588	26,264
Treasury shares repurchased from WMX (61,112 shares).....				(625,978)				(625,978)
Treasury shares purchased and related costs (2,051 shares)....						(31,213)		(31,213)
Shares issued for the acquisition of Barefoot, Inc. and other acquisitions (16,161 shares)....				156,299		30,120		186,419
Conversion to corporate form.....	2,799	513,148		(515,947)				
Balance, December 31, 1997.....	\$ 2,799	\$ 513,148	\$ 65,000	\$ -	\$ 5,343	\$ (57,582)	\$ (4,270)	\$ 524,438
Net income 1998.....			189,992					189,992
Other comprehensive income, net of tax:								
Unrealized gains on securities, net of reclassification adjustment.....					(485)			(485)
Foreign currency translation (\$640 tax expense).....					(947)			(947)
Total comprehensive income.....			189,992		(1,432)			188,560
Shareholder distributions.....			(75,152)					(75,152)
Shares issued in public offering (11,400 shares).....	114	208,447						208,561
Shares issued under option, debentures, grant plans and other (2,514 shares).....	25	9,403				13,507	887	23,822
Treasury shares purchased and related costs (888 shares).....	(9)					(18,301)		(18,310)
Shares issued for acquisitions (5,059 shares).....	51	57,126				47,390		104,567
Balance, December 31, 1998.....	\$ 2,980	\$ 788,124	\$ 179,840	\$ -	\$ 3,911	\$ (14,986)	\$ (3,383)	\$ 956,486

</TABLE>

All share data reflect the three-for-two share splits in August 1998, June 1997 and June 1996.

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

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Unrealized holding gains arising in period	\$ 3,295	\$ 5,904	\$ 2,795
Less: gains realized	(3,780)	(1,635)	(1,343)
	-----	-----	-----
Net unrealized gains on securities	\$ (485)	\$ 4,269	\$ 1,452
	=====	=====	=====

See accompanying Summary of Significant Accounting Policies and Notes to the Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements

Business Unit Reporting

The business of the Company is primarily conducted through the ServiceMaster Consumer Services and ServiceMaster Management Services operating units. In accordance with Statement of Financial Accounting Standards No. 131, the Company's reportable segments are strategic business segments that offer different services. They are managed separately because each business requires different technology and marketing strategies. The Consumer Services unit provides a variety of specialty services to residential and commercial customers. The Management Services unit provides a variety of supportive management services to health care, education and commercial accounts. The Company derives substantially all of its revenues from customers in the United States with less than five percent generated in foreign markets.

The other operations group includes primarily ServiceMaster Employer Services, a professional employer organization that provides clients with administrative processing of payroll, workers' compensation insurance, health insurance, unemployment insurance and other employee benefit plans, and Diversified Health Services, which provides services and products to the long-term care industry. In the previous year, Diversified Health Services was reflected in the Management Services operating unit. It is now reflected in the other operations group for all years. The Company has reclassified Diversified Health Services into the other operations segment due to the unique nature of the services it provides and the industry factors which affect its performance. It also operates in a highly regulated industry and is managed separately from the other service lines.

Information regarding the accounting policies used by the Company is described in the Summary of Significant Accounting Policies. Operating expenses of the business units consist primarily of direct costs and a royalty payable to parent based on the revenues or profits of the business unit.

Identifiable assets are those used in carrying out the operations of the business unit and include intangible assets directly related to its operations. The Company's headquarters facility and other investments are included in the identifiable assets of other operations.

The following information prior to 1998 is presented on a pro forma basis as if the Company had been a taxable corporation in all years and corporate taxes had been allocated to the segments.

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Notes to the Consolidated Financial Statements

(In thousands)	Consumer Services	Management Services	Other Operations	Consolidated
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
1998				
Operating revenue.....	\$ 2,048,185	\$ 2,040,948	\$ 634,986	\$ 4,724,119
Operating income.....	305,408	112,919	(21,905)	396,422
Net interest expense (income).....	42,259	(1,882)	37,267	77,644
Income before income taxes.....	263,149	114,801	(59,172)	318,778
Provision for income taxes.....	106,309	46,380	(23,903)	128,786
	-----	-----	-----	-----
Net income.....	\$ 156,840	\$ 68,421	\$ (35,269)	\$ 189,992
	=====	=====	=====	=====
Net income, excluding unusual items (Note).....	\$ 156,840	\$ 45,774	\$ (12,622)	\$ 189,992
	=====	=====	=====	=====

Identifiable assets.....	\$ 2,244,652	\$ 237,924	\$ 432,275	\$ 2,914,851
Depreciation and amortization expense.....	\$ 71,369	\$ 22,023	\$ 11,213	\$ 104,605
Capital expenditures.....	\$ 36,206	\$ 29,757	\$ 9,334	\$ 75,297
1997				
Operating revenue.....	\$ 1,662,519	\$ 1,905,291	\$ 393,692	\$ 3,961,502
Operating income.....	235,064	76,224	32,645	343,933
Net interest and non-operating expense (income) ..	27,740	(1,264)	43,178	69,654
Income before income taxes.....	207,324	77,488	(10,533)	274,279
Corporate provision for income taxes.....	83,759	31,304	(4,254)	110,809
	-----	-----	-----	-----
Net income (pro forma corporate form).....	\$ 123,565	\$ 46,184	\$ (6,279)	\$ 163,470
	=====	=====	=====	=====
Identifiable assets.....	\$ 1,783,186	\$ 212,727	\$ 479,311	\$ 2,475,224
Depreciation and amortization expense.....	\$ 63,010	\$ 21,315	\$ 8,737	\$ 93,062
Capital expenditures.....	\$ 16,778	\$ 21,232	\$ 8,222	\$ 46,232
1996				
Operating revenue.....	\$ 1,461,696	\$ 1,816,953	\$ 179,679	\$ 3,458,328
Operating income.....	185,895	75,577	33,746	295,218
Net interest and non-operating expense.....	14,233	276	28,312	42,821
Income before income taxes.....	171,662	75,301	5,434	252,397
Corporate provision for income taxes.....	69,352	30,422	2,194	101,968
	-----	-----	-----	-----
Net income (pro forma corporate form).....	\$ 102,310	\$ 44,879	\$ 3,240	\$ 150,429
	=====	=====	=====	=====
Identifiable assets.....	\$ 1,394,177	\$ 236,038	\$ 216,626	\$ 1,846,841
Depreciation and amortization expense.....	\$ 52,446	\$ 21,304	\$ 5,256	\$ 79,006
Capital expenditures.....	\$ 19,915	\$ 17,852	\$ 5,185	\$ 42,952

</TABLE>

Note: This line excludes the \$38 million pretax gain in the Management Services segment related to the formation of a strategic venture which acquired the assets of ServiceMaster Energy Management and the pretax charges totaling \$38 million in the Other Operations segment related primarily to the home health care operations, which included a write-down for the impairment of assets and costs relating to exiting customer arrangements.

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Notes to the Consolidated Financial Statements

Reincorporation

Most operations of ServiceMaster and its subsidiary partnerships were conducted from 1986 through 1997 in partnership form, free of federal corporate income tax. Had ServiceMaster remained a partnership, the Internal Revenue Code would have imposed federal corporate tax on ServiceMaster operations beginning in 1998. In January 1992, in anticipation of this change, the Partnership's shareholders approved a tax-free plan of reorganization to return to corporate form.

The ServiceMaster Company was created as part of this plan. The reorganization became effective December 26, 1997, and was structured as a merger in which The ServiceMaster Company became the successor entity through which the public now invests in ServiceMaster. (The terms "the Company" and "ServiceMaster" are used to collectively refer to the Partnership and its successor corporation, The ServiceMaster Company.) At the time of reincorporation, each outstanding limited partnership share was converted into one share of \$0.01 par value common stock. No federal income taxes were imposed on the shareholders of the Partnership as a result of the reincorporation.

Pro forma information has been presented in the accompanying financial statements in order to compare the continuing results of operations as if the Company had been a taxable entity in 1997 and 1996. The pro forma tax provision has been calculated assuming that the Company's effective tax rate had been approximately 40 percent of pretax earnings.

Prior to December 26, 1997, The ServiceMaster Limited Partnership held as its only asset a 99 percent interest in the profits, losses and distributions of The ServiceMaster Company Limited Partnership, which through subsidiaries owned and operated the ServiceMaster business. The Managing General Partner was ServiceMaster Management Corporation, which held a one percent interest in the income of both Partnerships. As a result of the reorganization, The

ServiceMaster Company owns all of the general and limited partnership interests in the Partnership. No payment or equity issuance was made to the Managing General Partner in connection with the reorganization except for the payout of any income allocated to its capital account prior to reincorporation.

Income Taxes

Prior to reincorporation at the end of 1997, most operations conducted by the Company and its subsidiary partnerships were exempt from federal corporate income tax since 1986. As a result of the reincorporation, the Company recognized a step-up in the tax basis of its assets, which is being amortized against taxable income. The step-up resulted in a reduction of the Company's cash tax payments in excess of \$25 million per annum for the current year and for the ensuing 14 years.

The reconciliation of income tax for 1998 computed at the U.S. federal statutory tax rate to the Company's effective income tax rate is as follows:

<TABLE>

<CAPTION>

<S>	<C>
Tax at U.S. federal statutory rate	35.0%
State and local income taxes, net of U.S. federal benefit	4.4%
Other	1.0%

Effective rate	40.4%
	=====

</TABLE>

Income tax expense for 1998 consists of:

<TABLE>

<CAPTION>

(In thousands)	Current	Deferred	Total
	-----	-----	-----
<S>	<C>	<C>	<C>
U.S. federal	\$ 76,646	\$ 30,200	\$ 106,846
State and local	15,740	6,200	21,940
	-----	-----	-----
	\$ 92,386	\$ 36,400	\$ 128,786
	=====	=====	=====

</TABLE>

Deferred income tax expense of \$36.4 million for the year ended December 31, 1998 results from timing differences in the recognition of income and expense for income tax and financial reporting purposes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Management believes that, based upon its lengthy and consistent history of profitable operations, it is probable that the net deferred tax assets will be realized on future tax returns, primarily from the generation of future taxable income. Significant components of the Company's deferred tax assets are as follows:

<TABLE>

<CAPTION>

(In thousands)	1998	1997
	-----	-----
Deferred tax assets (liabilities):		
<S>	<C>	<C>
Current:		
Prepaid expenses and other	\$ (23,400)	\$ (11,500)
Accounts receivable allowance	7,400	12,000
Accrued insurance and related expenses	24,100	18,000
Other accrued expenses	16,700	18,100
Long-Term:		
Long-term assets	(500)	13,000
Insurance expenses	32,500	32,000
Other long-term obligations	(11,600)	-
	-----	-----
Net deferred tax assets	\$ 45,200	\$ 81,600
	=====	=====

</TABLE>

There were no federal taxes paid in 1998 and approximately \$5 million of state tax payments were made in the year. In the first year of corporate form, the Company was able to defer the remaining 1998 tax payments into 1999.

Acquisitions

Current Year-

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 market values as of the acquisition dates.

In 1998, the Company completed a number of acquisitions, including Rescue Industries, Inc. (Rescue), Ruppert Landscape Company (Ruppert), National Britannia and other lawn care, landscape and pest control businesses. Rescue, which operates under the Rescue Rooter trade name, is one of the largest

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Notes to the Consolidated Financial Statements

plumbing and drain cleaning companies in America. Ruppert is one of the Mid-Atlantic's largest commercial landscape companies. National Britannia, the third largest pest control company in the United Kingdom, significantly increases the international presence of Terminix. The aggregate fair market value of the assets acquired less liabilities assumed for these acquisitions was \$139 million, which consisted almost entirely of intangible assets, primarily goodwill. During the year, the Company acquired a number of smaller companies primarily in the lawn care, landscaping and pest control businesses. The aggregate fair market value of the assets acquired less seller financed notes and liabilities assumed for these purchases was \$194 million, including approximately \$249 million of goodwill.

On November 1, 1998, the Company entered into an agreement to acquire LandCare USA, Inc., one of the leading commercial landscape companies in the country. The transaction is expected to be consummated in March 1999.

Prior Years-

On February 24, 1997, the Company acquired Barefoot Inc., (Barefoot) the second largest professional residential lawn care services company in the United States. The Company paid approximately \$237 million by issuing 12.9 million shares and paying \$91 million in cash in exchange for all of the Barefoot stock. The excess of the consideration paid over the fair value of the Barefoot business of \$254 million was recorded as goodwill, which is being amortized on a straight-line basis over 40 years.

During 1997, the Company made several smaller acquisitions which included Certified Systems, Inc. one of the nation's largest professional employer organizations, Orkin's lawn care and plantscaping division and a number of other lawn care and pest control businesses. The Company also purchased the minority interests of Management Services and Diversified Health Services for a combination of cash and Company shares, totaling approximately \$25 million. The aggregate fair market value of the assets acquired less liabilities assumed for these smaller acquisitions was \$196 million, including approximately \$267 million of intangible assets, primarily goodwill.

During 1996, the Company acquired Premier Manufacturing Support Services, a provider of management services to the automotive industry, and several other smaller companies, predominately pest control, lawn care and pharmacy management businesses. The aggregate fair value of assets acquired less liabilities assumed was \$91 million, including approximately \$96 million of intangible assets which are being amortized on a straight-line basis over 40 years.

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

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Fair value of assets acquired.....	\$ 465,380	\$ 590,600	\$134,377
Less liabilities assumed.....	(132,381)	(157,741)	(43,781)
Net assets acquired.....	332,999	432,859	90,596
Less shares issued.....	(104,567)	(186,419)	(30,559)
Less cash acquired.....	(5,980)	(12,751)	(1,564)
Business acquisitions, net of cash acquired...	\$ 222,452	\$ 233,689	\$ 58,473

</TABLE>

Other Events

The Company formed a strategic venture with Texas Utilities Company for the ownership and operation of the ServiceMaster Energy Management business. The new venture acquired all of the assets of ServiceMaster Energy Management and is owned 85 percent by Texas Utilities and 15 percent by ServiceMaster. This transaction resulted in a pretax gain of \$38 million.

In late 1998, the Company completed a strategic review of its Home Health Care operations and concluded that, without significant investment, it could not profitably provide high quality service in the future and continue to satisfy all the changes and the requirements of new governmental reimbursement programs. The Company has decided to sell its direct operations and is discontinuing its outsourced management operation of home health care agencies. The Company will continue to provide consulting services to hospitals and other providers of home health care.

During the course of the Company's strategic review of its Home Health Care operations, the Company assessed the recoverability of the carrying value of the intangible assets and fixed assets which resulted in pretax impairment losses of \$13 million and \$3 million, respectively. In accordance with Statement of Financial Accounting Standards No. 121, these losses reflect the amounts by which the carrying values of these assets exceed their estimated fair values determined by their future discounted cash flows. In addition, the Company has recorded a pretax charge of \$8 million related to the costs associated with exiting customer arrangements in the Home Health Care business. In response to the impact that changes in governmental reimbursement programs have begun to have on the financial condition of certain customers of the Home Health Care and Diversified Health Services businesses, the Company increased its reserves for accounts receivable by \$8 million and \$6 million, respectively.

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Notes to the Consolidated Financial Statements

Employee Benefit Plans

Contributions to qualified profit sharing plans were made in the amount of \$9.9 million in 1998, \$8.2 million in 1997, and \$6.9 million in 1996. Under the Employee Share Purchase Plan, the Company contributed \$1.2 million in 1998, \$1.1 million in 1997, and \$1.0 million in 1996. These funds defrayed part of the cost of the shares purchased by employees.

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Notes to the Consolidated Financial Statements

Long-Term Debt

Long-term debt includes the following:

<TABLE>
<CAPTION>

(In thousands, except per share data)	1998	1997
<S>	<C>	<C>
Notes Payable:		
10.57%, maturing in 1999 - 2000.....	\$ 18,000	\$ 27,000
8.38%, maturing in 1999 - 2001.....	30,000	40,000
10.81%, maturing in 2000 - 2002.....	55,000	55,000
6.65%, maturing in 2002 - 2004.....	70,000	70,000
7.40%, maturing in 2006.....	125,000	125,000
6.95%, maturing in 2007.....	100,000	100,000
7.10%, maturing in 2018.....	150,000	-
7.45%, maturing in 2027.....	200,000	200,000
7.25%, maturing in 2038.....	150,000	-
6.00%, subordinated, convertible at \$5.53 per share...	-	3,581
Revolving credit facilities.....	50,000	550,000
International borrowings.....	48,272	29,856
Other.....	131,511	68,947
Less current portion.....	(51,616)	(21,539)
Total long-term debt.....	\$1,076,167	\$1,247,845

</TABLE>

The Company is party to a number of long-term debt agreements which require it to comply with certain financial covenants, including limitations on

indebtedness, restricted payments, fixed charge coverage ratios and net worth. The Company has been and currently is in compliance with the covenants related to these debt agreements.

ServiceMaster filed a shelf registration statement with the Securities and Exchange Commission for the sale of up to \$950 million in unsecured senior debt securities or equity interests in June 1997. As of year end, the Company had \$350 million of securities available for issuance under this shelf registration statement. The first debt issuance from the shelf occurred in August 1997. It included two tranches of debt totaling \$300 million. The Company completed a second \$300 million dual-tranche offering of unsecured senior notes in February 1998, that consisted of \$150 million, 7.10 percent notes due March 1, 2018, and \$150 million, 7.25 percent notes due March 1, 2038. The net proceeds of these offerings reduced borrowings under bank credit facilities and thereby reduced exposure to short-term interest rate fluctuations.

In May 1998, the Company filed a Form S-3 registration statement under which 11.4 million newly-issued shares were sold at \$19.17 per share. The net proceeds to the Company were approximately \$209 million and were used to reduce outstanding debt under existing bank credit facilities.

The Company has a committed revolving credit facility for up to \$750 million maturing in April 2002. The facility can be used for general Company purposes. The revolving credit facility had \$700 million of unused commitment as of December 31, 1998.

The Company is exposed to interest rate fluctuations on its floating rate debt. As of year end, the Company had approximately \$100 million in floating rate borrowings. The Company has, from time to time, entered into interest rate swap or similar arrangements to mitigate its exposure to interest rate fluctuations, and does not, as a matter of policy, enter into hedging contracts for trading or speculative purposes. As of year end, the Company was not a party to any interest rate swaps.

Cash interest payments were \$88 million in 1998, \$63 million in 1997, and \$34 million in 1996. Average rates paid on the revolving credit facility were 5.9 percent in 1998, 6.0 percent in 1997 and 5.6 percent in 1996. Future scheduled long-term debt payments are \$51.6 million in 1999 (average rate of 4.2 percent), \$67.7 million in 2000 (average rate of 6.0 percent), \$44.3 million in 2001 (average rate of 6.7 percent), \$45.9 million in 2002 (average rate of 6.6 percent), and \$34.8 million in 2003 (average rate of 5.4 percent). Notes payable of \$19 million due in 1999 are intended to be refinanced by the long term revolving credit facility in 1999 and therefore are not included in the \$51.6 million of current liabilities. The \$50 million revolving credit facility balance as of year end has not been included in the scheduled payments above as the Company expects to extend the revolving credit facility beyond 2003.

Based upon the borrowing rates currently available to the Company for long-term borrowings with similar terms and maturities, the fair value of long-term debt is approximately \$1.1 billion.

Future long-term noncancelable operating lease payments are \$33.4 million in 1999, \$25.5 million in 2000, \$17.9 million in 2001, \$11.3 million in 2002, \$6.6 million in 2003, and \$7.4 million thereafter. Rental expense for 1998, 1997, and 1996 was \$103.8 million, \$83.9 million, and \$74.8 million, respectively.

The Company maintains an \$80 million operating lease facility with a bank which provides for the acquisition and development of properties to be leased by the Company. The Company has guaranteed the residual value of the properties under the lease up to 82 percent of the fair market value at the commencement of the lease. The Company does not expect to be required to make residual value payments and therefore, no amounts have been included in the future payments above. At December 31, 1998, approximately \$38 million was funded under this facility.

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Notes to the Consolidated Financial Statements

Cash and Marketable Securities

Marketable securities held at December 31, 1998 and 1997, with a maturity 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. Marketable securities available for current operations are classified as current assets while securities held for noncurrent uses are classified as long-term. The Company's investments consist primarily of publicly-traded debt and common equity securities. As of December 31, 1998, the aggregate market value of the Company's short- and long-term investments in debt and equity securities was \$97 million and the aggregate cost basis was \$84 million. In 1998, the Company

entered into a hedging arrangement in a notional amount of \$40 million expiring November 1999, designed to protect its equity portfolio against a decline in the equity market. This arrangement, which is linked to the Standard & Poor's 500 Index, provides protection for a market decline of up to 15 percent, while it caps the potential appreciation at 15 percent. At year end, the fair market value of this arrangement was an immaterial net liability to the Company. There was no participation in the trading of derivative securities in 1998 or 1997.

Interest and dividend income received on cash and marketable securities was \$8.9 million, \$8.3 million and \$8.0 million, in 1998, 1997 and 1996, 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.

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which requires the reporting of all changes in equity during a period, except those resulting from investment by owners and distribution to owners. The Company has chosen to disclose Comprehensive Income, which encompasses net income, unrealized gains on marketable securities, and the effect of foreign currency translation, in the Statement of Shareholders' Equity.

<TABLE>
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Unrealized holding gains			
arising in period	\$ 5,529	\$ 9,908	\$ 4,690
Tax expense	2,234	4,004	1,895
	-----	-----	-----
Net of tax amount	\$ 3,295	\$ 5,904	\$ 2,795
	=====	=====	=====
Gains realized	\$ 6,342	\$ 2,743	\$ 2,254
Tax expense	2,562	1,108	911
	-----	-----	-----
Net of tax amount	\$ 3,780	\$ 1,635	\$ 1,343
	=====	=====	=====

</TABLE>

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

<TABLE>
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Unrealized gain on			
securities	\$ 7,753	\$ 8,238	\$ 3,969
Foreign currency			
translation	(3,842)	(2,895)	2,388
	-----	-----	-----
Total	\$ 3,911	\$ 5,343	\$ 6,357
	=====	=====	=====

</TABLE>

Shareholders' Equity

The Company has authorized one billion shares of common stock with a par value of \$.01 and 11 million shares of preferred stock. There were no shares of preferred stock issued or outstanding. In December 1997, ServiceMaster converted from a publicly traded limited partnership to a corporation. At the time of reincorporation, each outstanding limited partnership share was converted into one share of common stock on a tax-free basis to the shareholders. Upon reincorporation, all Limited Partners' equity was transferred to common stock and additional paid-in capital. The shares underlying the obligations and rights relating to the employee option plans were also converted from partnership shares to corporate stock on a one-for-one basis.

In 1997, the Company filed a \$950 million shelf registration statement with the Securities and Exchange Commission for the sale of unsecured senior debt securities and equity interests. On May 15, 1998, the Company filed a Form S-3 registration statement, and 21.2 million Company shares were sold at \$19.17 per share. This included approximately 11.4 million of newly-issued shares from the Company and 9.8 million shares sold by existing shareholders. The net proceeds to the Company, after the underwriting discount and offering expenses, were approximately \$209 million and were used to reduce outstanding debt under existing bank credit facilities.

On July 23, 1998, the Company filed a Form S-1 shelf registration statement to issue up to 5.3 million shares of common stock in connection with future,

unidentified acquisitions. The S-1 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 roll-up acquisitions and small strategic acquisitions. There were approximately 3.5 million shares issued at year end.

On April 1, 1997, the Company bought Waste Management, Inc.'s (WMX) entire ownership interest in ServiceMaster for approximately \$626 million. This transaction resulted in the Company acquiring the 61.1 million Company shares held by WMX and canceling WMX's option to purchase an additional 4.2 million Company shares.

As of December 31, 1998, there were 18.1 million Company shares available for issuance upon the exercise of employee options outstanding and future grants. Share 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 carry a vesting period and are restricted as to the sale or transfer of the shares.

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Notes to the Consolidated Financial Statements

The Company accounts for employee share options under Accounting Principles Board Opinion 25, as permitted under generally accepted accounting principles. Accordingly, no compensation cost has been recognized in the accompanying financial statements related to these options. Had compensation cost for these plans been determined consistent with Statement of Financial Accounting Standards No. 123 (SFAS 123), which is an accounting alternative that is permitted, but not required, pro forma net income and net income per share would reflect the following:

<TABLE>

<CAPTION>

(In thousands, except per share data)

	1998 ----	1997 ----	1996 ----
<S>	<C>	<C>	<C>
Net Income:			
As reported (1)	\$189,992	\$163,470	\$150,429
SFAS 123 pro forma	\$185,555	\$160,966	\$149,480
Net Income Per Share:			
Basic: As reported (1)	\$.66	\$.57	\$.47
SFAS 123 pro forma	\$.64	\$.56	\$.47
Diluted: As reported (1)	\$.64	\$.55	\$.46
SFAS 123 pro forma	\$.62	\$.54	\$.45

</TABLE>

(1) Pro forma corporate form prior to 1998.

The SFAS 123 pro forma net income reflects options granted in 1998, 1997 and 1996. Since SFAS 123 does not apply to options granted prior to 1995, the pro forma disclosure is not likely to be indicative of pro forma results which may be expected in future years. This primarily relates to the fact that options vest over several years and pro forma compensation cost is recognized as the options vest. In addition, awards may have been granted in earlier years, which would have resulted in pro forma compensation cost in 1998.

The fair value of each option is estimated on the date of grant based on the Black-Scholes option pricing model with the following weighted-average assumptions in 1998, 1997 and 1996: risk-free interest rates of 5.6 percent, 6.3 percent and 5.6 percent, respectively; volatility rates of 22 percent, 21 percent and 27 percent, respectively; distribution yields of 1.9 percent, 3.2 percent and 3.2 percent, respectively; and average expected lives of seven years. The options granted to employees in 1998, 1997 and 1996 have weighted-average fair values of \$5.17, \$2.81 and \$2.40, respectively and vest ratably over five years. The Company has estimated the value of these options assuming a single weighted-average expected life for the entire award.

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Notes to the Consolidated Financial Statements

A summary of option and grant transactions during the last three years is summarized below:

<TABLE>

<CAPTION>	Share Options	Price Range	Weighted-Avg. Exercise Price	Share Grants	Price Range
<S>	<C>	<C>	<C>	<C>	<C>
Total exercisable, December 31, 1995	14,033,661	\$ 0.73- 7.63	\$ 5.46	-----	-----
Total outstanding, December 31, 1995	18,252,411	\$ 0.73- 9.78	\$ 6.46	2,205,738	\$ 2.86-7.96
Transactions during 1996					
Granted to employees	4,154,625	\$ 9.26-10.78	\$ 9.40	-----	-----
Exercised, paid, or vested	(5,470,646)	\$ 0.73- 7.63	\$ 5.56	(398,997)	\$ 2.86-7.96
Terminated or resigned	(360,274)	\$ 2.79- 7.63	\$ 3.89	-----	-----
Total exercisable, December 31, 1996	8,202,741	\$ 0.73- 7.63	\$ 5.49	-----	-----
Total outstanding, December 31, 1996	16,576,116	\$ 0.73-10.78	\$ 7.56	1,806,741	\$ 2.86-7.96
Transactions during 1997					
Granted to employees	5,295,785	\$11.23-18.42	\$11.62	-----	-----
Exercised, paid, or vested	(1,892,034)	\$ 2.17- 9.26	\$ 5.17	(430,460)	\$ 2.86-7.96
Cancelled, related to WMX	(4,218,750)	\$ 9.78	\$ 9.78	-----	-----
Terminated or resigned	(440,960)	\$ 1.97-11.22	\$ 7.11	(120,175)	\$ 2.86-7.96
Total exercisable, December 31, 1997	6,919,718	\$ 0.73-10.78	\$ 6.05	-----	-----
Total outstanding, December 31, 1997	15,320,157	\$ 0.73-18.42	\$ 8.65	1,256,106	\$ 2.86-7.96
Transactions during 1998					
Granted to employees	3,574,376	\$15.74-22.77	\$18.29	-----	-----
Exercised, paid, or vested	(1,604,784)	\$ 2.25-11.22	\$ 6.29	(293,376)	\$ 2.86-7.96
Terminated or resigned	(377,023)	\$ 0.73-18.26	\$ 8.57	-----	-----
Total exercisable, December 31, 1998	7,269,279	\$ 0.73-22.33	\$ 7.51	-----	-----
Total outstanding, December 31, 1998	16,912,726	\$ 0.73-22.77	\$10.89	962,730	\$ 2.86-7.96

</TABLE>

Options outstanding at December 31, 1998:

<CAPTION>	Range of Exercise Prices	Number Outstanding at 12/31/98	Remaining Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/98	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	\$ 0.73- 5.14	1,896,782	3.0 years	\$ 3.74	1,896,782	\$ 3.74
	6.44- 9.33	6,040,722	6.5 years	8.27	4,048,253	7.78
	10.78-22.77	8,975,222	8.5 years	14.17	1,428,808	12.50
	\$ 0.73-22.77	16,912,726	7.0 years	\$10.89	7,373,848	\$ 7.65

</TABLE>

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Notes to the Consolidated Financial Statements

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. Diluted earnings per share reflects the potential dilution of convertible securities and options to purchase common stock.

The following chart reconciles both the numerator and the denominator of the basic earnings per share computation to the numerator and the denominator of the diluted earnings per share computation.

<CAPTION>	For year ended 1998			For year ended 1997			For year ended 1996		
(In thousands, except per share data)	Income	Shares	EPS	Income	Shares	EPS	Income	Shares	EPS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Basic EPS (pro forma corporate form in 1997 and 1996)	\$ 189,992	289,315	\$ 0.66	\$ 163,470	285,944	\$ 0.57	\$ 150,429	317,381	\$ 0.47
Effect of Dilutive Securities, net of tax			=====			=====			=====
Options		9,391			8,333			7,607	
Convertible debentures	32	181		1,114	5,363		1,115	5,441	

Diluted EPS (pro forma corporate form in 1997 and 1996)	\$ 190,024	298,887	\$ 0.64	\$ 164,584	299,640	\$ 0.55	\$ 151,544	330,429	\$ 0.46
	=====	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

Quarterly Operating Results

Quarterly operating results and related growth for the last three years in revenues, gross profit, net income, and basic and diluted net income per share are shown in the table below. Net income and earnings per share amounts for 1997 and 1996 have been restated to a basis that assumes reincorporation had occurred as of the beginning of each year. For interim accounting purposes, certain costs directly associated with the generation of lawn care revenues are initially deferred and recognized as expense as the related revenues are recognized. Full year results are not affected.

Certain amounts from prior periods have been reclassified to conform with the current presentation.

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<TABLE>
<CAPTION>

(unaudited, in thousands, except per share data)

	1998	Percent Incr. '98-'97	1997	Percent Incr. '97-'96	1996
<S>	<C>	<C>	<C>	<C>	<C>
Operating Revenue:					
First Quarter	\$ 981,788	20%	\$ 817,136	10%	\$ 740,299
Second Quarter	1,244,627	23	1,010,794	10	916,931
Third Quarter	1,273,093	17	1,019,114	18	927,227
Fourth Quarter	1,224,611	17	1,043,458	19	873,871
	-----		-----		-----
	\$ 4,724,119	19%	\$ 3,961,502	15%	\$ 3,458,328
Gross Profit:					
First Quarter	\$ 186,991	17%	\$ 159,991	13%	\$ 142,116
Second Quarter	293,261	14	257,260	16	221,505
Third Quarter	316,718	23	257,449	17	219,127
Fourth Quarter	247,537	8	228,642	18	194,572
	-----		-----		-----
	\$ 1,044,507	16%	\$ 903,342	16%	\$ 777,320
Net Income:					
(pro forma in 1997 and 1996):					
First Quarter	\$ 29,270	1%	\$ 28,982	15%	\$ 25,188
Second Quarter	56,404	21	46,707	8	43,326
Third Quarter	56,352	20	46,793	11	42,262
Fourth Quarter	47,966	17	40,988	3	39,653
	-----		-----		-----
	\$ 189,992	16%	\$ 163,470	9%	\$ 150,429
Basic Net Income Per Share:					
(pro forma in 1997 and 1996):					
First Quarter	\$ 0.11	22%	\$ 0.09	13%	\$ 0.08
Second Quarter	0.20	18	0.17	21	0.14
Third Quarter	0.19	12	0.17	31	0.13
Fourth Quarter	0.16	7	0.15	25	0.12
	-----		-----		-----
	\$ 0.66	16%	\$ 0.57	21%	\$ 0.47
Diluted Net Income Per Share:					
(pro form in 1997 and 1996):					
First Quarter	\$ 0.10	11%	\$ 0.09	13%	\$ 0.08
Second Quarter	0.19	19	0.16	23	0.13
Third Quarter	0.19	19	0.16	23	0.13
Fourth Quarter	0.16	14	0.14	17	0.12
	-----		-----		-----
	\$ 0.64	16%	\$ 0.55	20%	\$ 0.46
Cash Distributions Per Share:					
First Quarter	\$ 0.08	7%	\$ 0.07 1/2	5%	\$ 0.07 1/8
Second Quarter	0.08	7	0.07 1/2	5	0.07 1/8
Third Quarter	0.08	-	0.08	7	0.07 1/2
Fourth Quarter	0.09	13	0.08	7	0.07 1/2
	-----		-----		-----
	\$ 0.33	6%	\$ 0.31	6%	\$ 0.29 1/4
Price Per Share:					
First Quarter	\$ 19.63 - 16.50		\$ 12.33 - 10.92		\$ 9.93 - 8.61
Second Quarter	25.50 - 17.92		15.92 - 12.09		10.45 - 9.17
Third Quarter	24.75 - 19.75		19.67 - 15.17		11.00 - 9.55
Fourth Quarter	23.81 - 16.00		19.50 - 14.00		11.83 - 10.55

</TABLE>

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following is a statement of estimated expenses (other than the SEC registration fee) in connection with the issuance and distribution of the securities being registered:

<TABLE>
<CAPTION>
<S>

	<C>
Securities and Exchange Commission Registration Fee.....	\$ 46,906
Accounting Fees and Expenses.....	10,000
Legal Fees and Expenses.....	50,000
Miscellaneous Expenses.....	4,000

Total.....	\$ 110,906

</TABLE>

Item 14. Indemnification of Directors and Officers.

The ServiceMaster Company (the "Company") is incorporated under the laws of the State of Delaware. Section 145 of the DGCL, inter alia ("Section 145") provides that a Delaware corporation may indemnify any persons who were, are or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was illegal. A Delaware corporation may indemnify any persons who are, were or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, provided such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation's best interests, provided that no indemnification is permitted without judicial approval if the officer, director, employee or agent is adjudged to be liable to the corporation. Where an officer, director, employee or agent is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him against the expenses that such officer or director has actually and reasonably incurred.

Article Ten of the Restated Certificate ("Article Ten") provides that no person shall have any liability of any kind by reason of a Relevant Loss (defined below) caused in whole or in part by any act or failure to act which occurred while such person was an officer or director of the Company except: (i) obligations arising under the express terms of any written contract to which such person is a party; (ii) the obligation to return to the Company an amount up to the value actually realized by such person by stewing or by any other action which constitutes a criminal felony; (iii) any liability imposed by contract or applicable law which is founded on, arises from or is related to activities by such person (or such person's agents or affiliates) which are in competition with any business of the Company or any of its affiliates; and (iv) any other liability from which it shall not be possible to exempt such person under applicable law either as constituted on the date on which the Restated Certificate was filed with the Secretary of State of Delaware (the "Filing Date") or at any time thereafter. The term "Relevant Loss" designates and includes any loss, damage or expense of any kind (i) experienced for any reason by the Company or by any entity controlled by the Company; (ii) which any person may experience by reason of any purchase (or failure to purchase), maintenance of an interest in, sale (or failure to sell) or failure to obtain payment of any amount due on any note, debenture, preferred stock, common stock or other security issued or issuable by the Company or (iii) which shall otherwise be

caused in whole or in part by or arise in connection with (or would not have occurred but for) such person's service as a director or officer of the Company. In addition,

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Article Ten provides that every director of the Company shall be exempt (except to the extent expressly set forth therein) from any personal liability to the Company or any of the Company's stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by (i) Section 102(b)(7) of the DGCL as constituted on the Filing Date or (ii) any provision of the law of the State of Delaware as constituted at any time after the December 11, 1991.

Except as otherwise provided in the Restated Certificate, Article Eleven of the Restated Certificate ("Article Eleven") provides that the Company shall indemnify any person against, and shall reimburse, such person for any amount which such person shall pay to satisfy, settle or otherwise deal with, any attempt to impose any liability or obligation of any kind upon such person if such attempt or such liability or obligation or both shall arise in connection with or by reason of, or would not have arisen but for, Covered Service (defined below) by such person (or any agreement by such person to serve as a director or officer of the Company or to provide other Covered Service) including, but not limited to: (i) any claim resulting from any loss, injury, damage, harm or other disadvantage which the Company, any affiliate, any employee plan or any person who acquires, holds, or disposes of any interest in any security issued by the Company suffers or is alleged to have suffered; (ii) any claim resulting from any act or failure to act by any person which is (or is alleged to be) beyond the scope of his or her authority, contrary to instructions or orders or contrary to his or her duties or applicable law; and (iii) any attempt by any governmental authority or other person to impose any fine or penalty or to obtain any other recovery by reason of any actual or alleged breach of any law or other governmental requirement.

The term "Covered Service" designates and includes: (a) service as a director or officer of the Company; (b) service by a person while he or she is an officer or director of the Company (i) as an agent or representative of the Company, (ii) in any other capacity with the Company, (iii) as a director, officer, employee, agent or representative of, or in any other capacity with, any affiliate, (iv) in any capacity with any Employee Plan (as defined therein), and (v) in any other capacity in which such person shall have been asked to serve by the Company's Board of Directors or Chief Executive Officer; (c) any services which constituted "Covered Service" under the Amended and Restated Agreement of United Partnership for ServiceMaster Limited Partnership; and (d) any other service of any kind by any person with any organization or entity of any kind (whether or not affiliated with the Company) which shall be designated in writing as Covered Service by a majority of the members of the Company's Board of Directors or by the Company's Chief Executive Officer. Service is deemed to constitute "Covered Service" if it is so designated by the terms in the preceding sentence regardless of whether it shall have been performed prior to, at, or after the time Article Eleven became part of the Company's Certificate of Incorporation. Any person is entitled to rely upon any written confirmation provided by the Company's Chief Executive Officer or by the Company's Board of Directors that service by such person in any capacity specified in such confirmation will constitute Covered Service and to rely upon the protection afforded by Article Eleven in connection with such service.

Except to the extent the Company shall otherwise expressly agree in writing, the Company is not obligated under Article Eleven to reimburse any person for or otherwise indemnify any person against: (a) any obligation the person may have under any written contract except to the extent such obligation arises by reason of any action taken by such person to satisfy, settle or otherwise deal with any claim against which such person is entitled to indemnification from the Company under Article Eleven or otherwise; (b) any income taxes payable by reason of salary, bonus or other income or gain actually realized by such person in connection with any Covered Service; (c) any liability imposed by contract or applicable law which is founded on, arises from or is related to activities by such person (or such person's agents or affiliates) which are in competition with any business of the Company or any of its affiliates; and (d) any obligation to pay an amount up to the value personally realized by such person by stewing or by any other action which constitutes a criminal felony. Except as otherwise provided in the Restated Certificate, the Company is not obligated under Article Eleven to indemnify any person in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized by the Board of Directors of the Company.

Article Eleven provides that each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of the Company, agreed to serve as a director or officer of the Company or is or was providing any other Covered Service, whether the basis of such proceeding is alleged action in an official capacity as a director or officer of the Company or in any

other Covered Service position, shall, except as otherwise provided therein, be indemnified and hold harmless by the Company to the fullest extent authorized by

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Delaware law against all expense, liability and loss (including attorneys' fees, judgments, fines, excise taxes or penalties arising under the Employee Retirement Income Security Act as amended from time to time and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director or officer of the Company or to provide any other Covered Service and shall inure to the heirs, executors and administrators of such person.

Article Eleven provides that the Company shall reimburse any Covered Person (as defined therein) for any payment made by such person for any legal fees or other expenses reasonably incurred by such person in order to investigate, evaluate, defend against, pay in full, settle or otherwise deal with (i) any Covered Claim (as defined therein) or (ii) any development or state of facts which could give rise to a Covered Claim.

Article Eleven also provides that any officer of the Company or any member of its Board of Directors shall have the right and power to execute on behalf of the Company any written contract with any other person providing indemnification or other protection to such other person in connection with service by such other person as a director or officer of the Company or in connection with any other Covered Service by such person, and any such contract shall be legal, valid and binding upon the Company and shall be enforceable against the Company in accordance with its terms to the maximum extent permitted by Article Eleven or by applicable law, if it shall be approved by a majority of the members of the Company's Board of Directors exclusive of the person to whom indemnification is provided by such contract. The rights of any person under any particular contract made in accordance with the provisions of the preceding sentence shall not be impaired or eliminated (i) by reason of the fact that all or any one or more of the members of the Board who approved such contracts shall be parties to contracts affording them similar protection (regardless of when those other contracts shall have been approved or signed) or shall otherwise have been provided with protection similar to that provided in the particular contract or shall be subject to the same claims against which the particular contract is intended to protect or (ii) for any other reason whatsoever. It is expressly intended that each person with whom the Company shall enter into a written contract to provide indemnification or other protection in connection with such person's service as an officer or director of the Company or in connection with other Covered Service by such person shall be entitled to rely upon (and shall conclusively be presumed to have relied upon) the rights which such contract purports to provide to such person. No separate written contract shall however be necessary in order for any person to obtain any indemnification or payment to which Article Eleven purports to entitle such person, and any Covered Person who has no separate contact of any kind with the Company shall be entitled to receive all indemnification, payments and other benefits which the provisions in Article Eleven purport to provide to such Covered Person.

The rights to indemnification and payment provided by Article Eleven are not exclusive of any other right of any kind which any person may have or at any time acquire under or by reason of any other provision in the Restated Certificate, the Company's By-Laws, any agreement, any law or other action by any governmental authority, or otherwise.

Article Eleven authorizes the Company to purchase and maintain insurance on behalf of any person who is or was a director or officer of the Company, or is or was serving in any other capacity with the Company, any Employee Plan or any other organization against any expense, liability or loss whether or not the Company would have the power to indemnify such person against such expense, liability or loss under the provisions of Article Eleven, under applicable law or otherwise.

In addition, Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against him and incurred by him in any such capacity, arising out of his status as such, whether or not the corporation would otherwise have the power to indemnify him under Section 145.

All of the Company's directors and the officers are covered by insurance policies maintained and held in effect by the Company against certain liabilities for actions taken in such capacities, including liabilities under the Securities Act of 1933.

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Item 15. Recent Sales of Unregistered Securities.

Item 16. Exhibits and Financial Statement Schedules.

- (a) Exhibits. See Index to Exhibits.
- (b) Financial Statement Schedules.

Schedule VIII - Valuation and Qualifying Accounts.

Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or the notes thereto.

Item 17. Undertakings.

- (a) The undersigned Registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:
 - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

- (c) The undersigned Registrant hereby undertakes that:

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- (1) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this Registration Statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Schedule VIII

THE SERVICEMASTER COMPANY

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

<TABLE>
<CAPTION>

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions Write-offs of Uncollectible Accounts	Balance at end of Period
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	
AS OF DECEMBER 31, 1998:				
Allowance for doubtful accounts--				
Accounts receivable (current)	\$27,544	25,998	19,389	\$34,153
Notes receivable (current)	\$ 4,677	686	528	\$ 4,835
AS OF DECEMBER 31, 1997:				
Allowance for doubtful accounts--				
Accounts receivable (current)	\$24,117	20,183	16,756	\$27,544
Notes receivable (current)	\$ 2,170	2,507	0	\$ 4,677
AS OF DECEMBER 31, 1996:				
Allowance for doubtful accounts--				
Accounts receivable (current)	\$18,029	20,517	14,429	\$24,117
Notes receivable (current)	\$ 2,439	59	328	\$ 2,170

</TABLE>

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Downers Grove, State of Illinois, on March 22, 1999.

The ServiceMaster Company, As Registrant

By: /s/ Vernon T. Squires

Vernon T. Squires
Senior Vice President and General Counsel

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed on March 22, 1999 by the following persons in the capacities indicated:

Signature

Title

*

Chairman and Director of The ServiceMaster Company

C. William Pollard

*

President, Chief Executive Officer and Director of The ServiceMaster Company

Carlos H. Cantu

*	

Charles W. Stair	Vice Chairman and Director of The Service Master Company
*	

Phillip B. Rooney	Vice Chairman and Director of The Service Master Company
*	

Paul W. Berezny, Jr.	Director of The ServiceMaster Company
*	

Henry O. Boswell	Director of The ServiceMaster Company
*	

Brian Griffiths	Director of The ServiceMaster Company
*	

Sidney E. Harris	Director of The ServiceMaster Company
*	

Herbert P. Hess	Director of The ServiceMaster Company
*	

Michelle M. Hunt	Director of The ServiceMaster Company

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SIGNATURE

TITLE

*	

Gunther H. Knoedler	Director of The ServiceMaster Company
*	

James D. McLennan	Director of The ServiceMaster Company
*	

Vincent C. Nelson	Director of The ServiceMaster Company
*	

Dallen W. Peterson	Director of The ServiceMaster Company
*	

Steven S Reinemund	Director of The ServiceMaster Company
*	

Burton E. Sorensen	Director of The ServiceMaster Company
*	

David K. Wessner	Director of The ServiceMaster Company

* The undersigned, by signing his name hereto, does sign and execute this Registration Statement pursuant to the Powers of Attorney executed by the above-named officers and directors of The ServiceMaster Company and filed with the Securities and Exchange Commission on behalf of such officers and directors.

By: /s/ VERNON T. SQUIRES

Vernon T. Squires
Attorney-in-Fact

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Acquisition agreement dated December 5, 1996 by and among ServiceMaster Limited Partnership, ServiceMaster Acquisition Corporation and Barefoot Inc. is incorporated by Registration Statement on Form S-4 as filed by ServiceMaster Limited Partnership on January 17, 1997 (SEC Registration No. 333-17759).
2.2	Plan and Agreement of Merger dated December 5, 1996 by and among ServiceMaster Limited Partnership, ServiceMaster Acquisition Corporation and Barefoot Inc. is incorporated by reference to Annex A-2 to the Offering Circular/Prospectus included as part of the Registration Statement on Form S-4 as filed by ServiceMaster Limited Partnership on January 17, 1997 (SEC Registration No. 333-17759).
2.3	Merger and Reorganization Agreement as amended and restated on October 3, 1997 is incorporated by reference to Exhibit 5 to the Current Report on Form 8-K as filed by ServiceMaster Limited Partnership on December 29, 1997 (the "SMLP December 29, 1997 8-K") and to Exhibit 5 to the Current Report on Form 8-K as filed by The ServiceMaster Company on Form 8-K on February 26, 1998 (second of three 8-K reports filed on that date) (the "Company February 26, 1998 8-K, No. 2").
2.4	Certificate of Merger of NewSub B, Inc. into ServiceMaster Limited Partnership in accordance with Section 17-211 of the Delaware Revised Uniform Limited Partnership Act (the "Reincorporating Merger"), the filing of which was certified by the Secretary of State of the State of Delaware on December 17, 1997 and the effective date and time of which was December 26, 1997 at 11:59 P.M., Eastern Standard Time, is incorporated by reference to Exhibit 2.4 to the Report on Form 10-K as filed by ServiceMaster on May 15, 1998 (the "1998 10 K").
2.5	Certificate of Merger of ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership with and into The ServiceMaster Company, a Delaware corporation, in accordance with the General Corporation Law of the State of Delaware, the filing of which was certified by the Secretary of State of the State of Delaware on December 18, 1997 and the effective date and time of which was January 1, 1998 at 12:01 A.M., Eastern Standard Time, is incorporated by reference to Exhibit 2.5 to the 1998 10-K.
2.6	The Plan of Reorganization and Agreement and Plan of Merger dated as of November 1, 1998 by and among LandCare USA, Inc., The ServiceMaster Company and SVM Acquisition Corporation is incorporated by reference to Appendix A to the Proxy Statement/Prospectus included as part of the Registration Statement on Form S-4 as filed by The ServiceMaster Company on February 10, 1999 (SEC Registration No. 333-70191).
3.1	Amended and Restated Certificate of Incorporation of The ServiceMaster Company, a Delaware corporation, as filed with the Secretary of State, State of Delaware, on November 6, 1997 is incorporated by reference to Exhibit 1 to the SMLP December 29, 1997 8-K and to Exhibit 1 to the Company February 26, 1998 8-K, No. 2.
3.2	Bylaws of The ServiceMaster Company as adopted on November 3, 1997 are incorporated by reference to Exhibit 2 to the SMLP December 29, 1997 8-K and to Exhibit 2 to the Company February 26, 1998 8-K, No. 2.

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Exhibit Number	Description of Exhibit
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 the SMLP December 29, 1997 8-K and to Exhibit 3 to the Company February 26, 1998 8-K, No.2.
4.2	The ServiceMaster Company: Certificate of Designation, Preferences and Rights of Junior Participating Preferred Stock, Series A, is incorporated by reference to Exhibit 4 to the SMLP December 29, 1997 8-K and to Exhibit 4 to the Company February 26, 1998 8-K, No. 2.
4.3	Indenture dated as of August 15, 1997 among The ServiceMaster Company (as successor to ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership) and the Harris Trust and Savings Bank as trustee is incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 of the ServiceMaster Limited Partnership and ServiceMaster Incorporated of Delaware filed with the Securities and Exchange Commission on July 28, 1997 (the "July 28,

- 4.4 First Supplemental Indenture dated as of August 15, 1997 among The ServiceMaster Company (as successor to ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership) and the Harris Trust and Savings Bank as trustee, is incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K for the year ended December 31, 1997 as filed by The ServiceMaster Company (the "1997 10-K").
- 4.5 Second Supplemental Indenture dated as of January 1, 1998 among The ServiceMaster Company (as successor to ServiceMaster Limited Partnership and The ServiceMaster Company Limited Partnership) and the Harris Trust and Savings Bank as trustee is incorporated by reference to Exhibit 2 to the Current Report on Form 8-K as filed by The ServiceMaster Company on Form 8-K on February 26, 1998 (first of three 8-K reports filed on that date) (the "Company February 26, 1998 8-K, No. 1").
- 4.6 Third Supplemental Indenture dated as of March 2, 1998 among The ServiceMaster Company and the Harris Trust and Savings Bank as trustee is incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K as filed by The ServiceMaster Company on February 27, 1998 (the "Company February 27, 1998 8-K").
- 4.7 Form of 6.95% Note due August 14, 2007 is incorporated by reference to Exhibit 4.1 to the July 28, 1997 Registration Statement.
- 4.8 Form of 7.45% Note due August 14, 2027 is incorporated by reference to Exhibit 4.2 to the July 28, 1997 Registration Statement.
- 4.9 Form of 7.10% Note due March 1, 2018 is incorporated by reference to Exhibit 4.1 to the Company February 27, 1998 8-K.
- 4.10 Form of 7.25% Note due March 1, 2038 is incorporated by reference to Exhibit 4.2 to the Company February 27, 1998 8-K.
- 5 Opinion of counsel regarding legality.

II-10

Exhibit Number	Description of Exhibit
10.1	\$750,000,000 Five-Year Credit Agreement dated as of April 1, 1997 among The ServiceMaster Company Limited Partnership, the First National Bank of Chicago and Morgan Guaranty Trust Company, is incorporated by reference to Exhibit 10.2 to the 1998 10-K.
10.2	Form of Deferred Directors Fee Agreement as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 10(c)(4) to the Annual Report on Form 10-K for the year ended December 31, 1980 as filed by ServiceMaster Limited Partnership (the "1980 10-K").
10.3	Incentive Reward Compensation Plan as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 10(c)(6) to the 1980 10-K.
10.4	ServiceMaster Profit Sharing, Savings and Retirement Plan as assumed by The ServiceMaster Company in the Reincorporating Merger amended and restated effective January 1, 1987 is incorporated by reference to the exhibit so captioned to the Annual Report on Form 10-K for the year ended December 31, 1987 as filed by ServiceMaster Limited Partnership (the "1987 10-K").
10.5	The Terminix International Company L.P. Profit Sharing Retirement Plan (previously known as Cook International, Inc. Profit Sharing Retirement Plan) effective January 1, 1984; Amendment No. One to The Terminix International Company L.P. Profit Sharing Retirement Plan effective January 1, 1986 and April 1, 1986; Amendment No. Two, effective April 1, 1986; Amendment No. Three, effective January 1, 1987 and January 1, 1988; The Terminix International Company L.P. Profit Sharing Retirement Trust, all of which are incorporated by reference to Exhibit 10.15 to the 1987 10-K.
10.6	ServiceMaster 10-Plus Plan as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 4.2 to the ServiceMaster Limited Partnership registration Statement on Form S-8 (No. 33-39148) filed with the SEC on February 26, 1991 (the "10-Plus Registration Statement").
10.7	Form of Option Agreement for the ServiceMaster 10-Plus Plan is

incorporated by reference to Exhibit 4.3 to the 10-Plus Registration Statement.

10.8 Form of Directors Deferred Fees Plan (ServiceMaster Shares Alternative) as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 1990 (the "1990 10-K").

II-11

Exhibit Number -----	Description of Exhibit -----
10.9	Form of Directors Deferred Fees Agreement (ServiceMaster Shares Alternative) as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 10.19 of the 1990 10-K.
10.10	Form of ServiceMaster Deferred Fees Plan Trust is incorporated by reference to Exhibit 10.20 of the 1990 10-K.
10.11	ServiceMaster 10-Plus Plan as amended September 3, 1991 and as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K for the year ended December 31, 1991 (the "1991 10-K").
10.12	Form of Option Agreement for the ServiceMaster 10-Plus Plan as amended September 3, 1991 is incorporated by reference to Exhibit 10.22 to the 1991 10-K.
10.13	ServiceMaster 1994 Non-Employee Directors Share Option Plan as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 4.2 to the ServiceMaster Limited Partnership Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 5, 1994 (the "Directors Share Plan Registration Statement").
10.14	Form of Option Agreement for the ServiceMaster 1994 Non-Employee Director Share Option Plan is incorporated by reference to Exhibit 4.3 to the Directors Share Plan Registration Statement.
10.15	ServiceMaster 1997 Share Option Plan as assumed by The ServiceMaster Company in the Reincorporating Merger is incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K for the year ended December 31, 1996 as filed by ServiceMaster Limited Partnership (the "1996 10-K").
10.16	Form of Option Agreement for the ServiceMaster 1997 Share Option Plan is incorporated by reference to Exhibit 10.29 to the 1996 10-K.
10.17	ServiceMaster 1998 Equity Incentive Plan as adopted on December 11, 1997 and approved by the shareholders on May 1, 1998 is incorporated by reference to Exhibit A to the Definitive Proxy Statement for the Registrant's May 1, 1998 Annual Meeting of Stockholders (the "1998 Proxy Statement").
10.18	Form of Option Agreement for the ServiceMaster 1998 Equity Incentive Plan (Non-Qualifying Stock Options), is incorporated by reference to Exhibit 10.20 to the 1998 10-K.
10.19	Form of Option Agreement for the ServiceMaster 1998 Equity Incentive Plan (Incentive Stock Options), is incorporated by reference to Exhibit 10.21 to the 1998 10-K.
10.20	ServiceMaster 1998 Non-Employee Directors Discounted Stock Option Plan as adopted on December 11, 1997 and approved by the shareholders on May 1, 1998 is incorporated by reference to Exhibit B to the 1998 Proxy Statement.
10.21	ServiceMaster 1998 Long-Term Performance Award Plan as adopted on December 11, 1997 is incorporated by reference to Exhibit C to the 1998 Proxy Statement.

II-12

Exhibit Number -----	Description of Exhibit -----
21	Subsidiaries of Registrant.

- 23.1 Consent of Arthur Andersen LLP.
- 23.2 Consent of Counsel (included in Exhibit 5).
- 24 Power of Attorney.
- 99.1 Amended and Restated Agreement of Limited Partnership of ServiceMaster Consumer Services Limited Partnership effective June 30, 1992 is incorporated by reference to Exhibit 28.12 to the Annual Report on Form 10-K for the year ended December 31, 1992 as filed by ServiceMaster Limited Partnership.
- 99.2 Amended and Restated Agreement of Limited Partnership of ServiceMaster Management Services Limited Partnership dated December 1991 is incorporated by reference to Exhibit 28.10 to the 1991 10-K.

Exhibit 5
March 22, 1999

The ServiceMaster Company
One ServiceMaster Way
Downers Grove, Illinois 60515-1700

Re: Acquisition Shelf
Registration of Common Stock
On Form S-1 Under the Securities Act of 1933

I am Senior Vice President and General Counsel of The ServiceMaster Company, a Delaware corporation (the "Company"). In that capacity, I have participated in the preparation of, and I am familiar with the contents of the Registration Statement on Form S-1 of the Company (the "Registration Statement"), which is to be filed with the Securities and Exchange Commission on or about the date of this letter, to register under the Securities Act of 1933 (the "Securities Act") an aggregate of 8.625 million shares of common stock, par value \$.01 per share (the "Acquisition Shares") to be issued by the Company which may be used by the Company or its subsidiaries to make acquisitions. The term "acquisitions" as used in this letter means: acquisitions by the Company or any of its subsidiaries of businesses (whether structured as purchases of property employed in the acquired business, acquisitions of stock or other interests representing ownership interests in the acquired business, mergers or in some other permissible manner) or to satisfy obligations arising out of convertible debt, warrants or other convertible or option-like securities delivered in connection with any such acquisitions or other transactions described in the prospectus included in the Registration Statement as initially filed.

I have reviewed the resolutions adopted by the Company's Board of Directors (the "Board") on March 20, 1998 relating to the subject registration (the "Registration Resolutions"). I have also reviewed such other records and documents as I have deemed necessary in order to enable me to express the opinions stated herein.

On the basis of the foregoing and subject to the limitations and assumptions identified in this letter, I am of the opinion that when delivered at the direction of the Company to satisfy the obligations of the Company or one of its subsidiaries in connection with future Acquisitions, the Acquisition Shares so delivered will be duly authorized, validly issued, fully paid and nonassessible.

For purposes of this letter, I have assumed that: (i) the Registration Statement will become effective under the Securities Act before any Acquisition Shares covered by the Registration Statement are sold; (ii) the terms governing the issuance and/or delivery of the Acquisition Shares in connection with any particular acquisition will be approved by the Board or by persons to whom the

Board effectively delegates authority to approve such issuance and/or delivery; (iii) the certificates used to represent the Acquisition Shares will comply as to form with the By-laws of the Company, the General Corporation Law of the State of Delaware and applicable resolutions adopted by the Board and will bear all necessary signatures and authentications, and (iii) the Company will receive the consideration for the Acquisition Shares prescribed in the relevant authorizations for the delivery of those shares and such consideration will be in excess of one cent per share. I have also made other assumptions which I believe to be appropriate for purposes of this letter.

My advice on every legal issue addressed in this letter is based exclusively on the Delaware General Corporation Law and the federal law of the United States.

I hereby consent to the inclusion of this letter as an exhibit to the Registration Statement and to the reference in each prospectus filed in connection with the Registration Statement to my having issued the opinions expressed herein.

Very truly yours,

/s/ Vernon T. Squires
Vernon T. Squires

SUBSIDIARIES OF THE SERVICEMASTER COMPANY

As of March 22, 1999, ServiceMaster had the following subsidiaries:

<TABLE>
<CAPTION>

Subsidiary	State or Country of Incorporation or Organization
<S>	<C>
ServiceMaster Holding Corporation.....	Delaware
ServiceMaster Consumer Services Limited Partnership.....	Delaware
ServiceMaster Consumer Services, Inc.....	Delaware
TruGreen Limited Partnership.....	Delaware
TruGreen, Inc.....	Delaware
Barefoot Inc.....	Delaware
Barefoot Grass Canada, Inc.....	Delaware
Barefoot Services L.L.C.....	Delaware
LandCare USA, Inc.....	Delaware
The Terminix International Company Limited Partnership.....	Delaware
Terminix International, Inc.....	Delaware
ServiceMaster Residential/Commercial Services Limited Partnership.....	Delaware
ServiceMaster Residential/Commercial Services Management Corporation.....	Delaware
ServiceMaster Direct Distributor Company Limited Partnership.....	Delaware
ServiceMaster DDC, Inc.....	Delaware
Merry Maids Limited Partnership.....	Delaware
Merry Maids, Inc.....	Delaware
American Home Shield Corporation (1).....	Delaware
AmeriSpec, Inc.....	Delaware
Furniture Medic Limited Partnership.....	Delaware
Furniture Medic, Inc.....	Delaware
Rescue Rooter L.L.C.....	Delaware
ServiceMaster Management Services Limited Partnership.....	Delaware
ServiceMaster Management Services, Inc.....	Delaware
ServiceMaster Aviation Services Limited Partnership.....	Delaware
ServiceMaster Aviation Management Corporation.....	Delaware
ServiceMaster Aviation L.L.C.....	Illinois
Premier Manufacturing Support Services Limited Partnership (2).....	Delaware
Quantum Resources Corporation.....	Delaware
Alabama Mid-South Company.....	Delaware
CMI Group, Inc.....	Wisconsin
ServiceMaster Employer Services, Inc. (3).....	Delaware
The ServiceMaster Acceptance Company Limited Partnership.....	Delaware
ServiceMaster AM Limited Partnership.....	Delaware
ServiceMaster Acceptance Corporation.....	Delaware
ServiceMaster Direct Marketing Corporation.....	Illinois

</TABLE>

- (1) American Home Shield Corporation has 17 subsidiaries through which it carries on its business in the various states in which it markets its products.
- (2) Premier Manufacturing Support Services Limited Partnership has 12 subsidiaries through which it carries on its business outside of the United States.
- (3) ServiceMaster Employer Services, Inc. has 6 subsidiaries.

SUBSIDIARIES OF THE SERVICEMASTER COMPANY--(CONTINUED)

<TABLE>
<S>

ServiceMaster International Limited Partnership.....	Delaware
ServiceMaster International Management Corporation.....	Delaware
ServiceMaster Limited.....	United Kingdom
ServiceMaster Operations Germany GmbH.....	Germany
ServiceMaster Japan, Inc.....	Japan
TMX-Europe B.V.....	The Netherlands
Terminix Peter Cox Ltd.....	United Kingdom
Terminix Protekta B.V.	The Netherlands
Riwa B.V.	The Netherlands

<C>

Anticimex Development AB (1).....	Sweden
TMX-Schadlingsbekämpfungsgesellschaft mbH (2).....	Germany
LTCS Investment Limited Partnership.....	Delaware
ServiceMaster Home Health Care Services Inc.	Delaware
ServiceMaster Diversified Health Services, Inc. (3).....	Delaware
ServiceMaster Diversified Health Services Limited Partnership (4).....	Tennessee
We Serve America, Inc.....	Delaware

</TABLE>

- (1) Anticimex Development AB has 5 subsidiaries.
- (2) The Stenglein group includes 2 subsidiaries.
- (3) ServiceMaster Diversified Health Services, Inc. has 4 subsidiaries.
- (4) ServiceMaster Diversified Health Services, L.P. has 32 subsidiaries.

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

/s/ ARTHUR ANDERSEN LLP

Arthur Andersen LLP

Chicago, Illinois
March 22, 1999

Exhibit 24

Power of Attorney

I hereby appoint each of Vernon T. Squires or Steven C. Preston or Eric R. Zarnikow or Susan D. Baker or any other person occupying the office of General Counsel, Chief Financial Officer, Treasurer, or Secretary with The ServiceMaster Company ("ServiceMaster") at the time any action hereby authorized shall be taken to act as my attorney-in-fact and agent for all purposes specified in this Power of Attorney. I hereby authorize each person identified by name or office in the preceding sentence (each of whom is herein called by "authorized representative") acting alone to sign and file on my behalf in all capacities I may at any time have with ServiceMaster (including but not limited to the position of director or any officership position): (i) a registration statement prepared under the Securities Act of 1933 registering common stock to be used by ServiceMaster or any of its subsidiaries for (x) future purchases of businesses, whether by way of acquisitions of assets, acquisitions of stock or statutory mergers, and (y) such other transactions as may be approved by the President and Chief Executive Officer of ServiceMaster or in accordance with authority delegated by ServiceMaster's Board of Directors on or after the date hereof and (ii) any pre-effective or post-effective amendment to such registration statement. I hereby authorized each authorized representative in my name and on my behalf to execute every document and take every other action which such authorized representative deems necessary or desirable in connection with the registration statement identified in this Power of Attorney and any sale of securities or other transaction accomplished by means of such registration statement.

At the discretion of the President and Chief Executive Officer of ServiceMaster, the registration of the common stock contemplated in the preceding paragraph may be made by means of separate registration statements rather than the single registration statement specified in the preceding paragraph; and, in that event, the authorizations in the preceding paragraph shall apply to each such registration statement.

This instrument shall remain in effect until and unless I shall give written notice to ServiceMaster's President and Chief Executive Officer or ServiceMaster's General Counsel or ServiceMaster's Chief Financial Officer of my election to revoke this instrument. No such revocation shall be effective to revoke the authority for any action taken pursuant to this Power of Attorney prior to such delivery of such revocation.

This instrument shall be governed by the law of the State of Illinois.

Dated: March 20, 1998

Signature

/s/ C. William Pollard

C. William Pollard

/s/ Carlos H. Cantu

Carlos H. Cantu

/s/ Charles W. Stair

Charles W. Stair

/s/ Phillip B. Rooney

Phillip B. Rooney

/s/ Paul W. Berezny, Jr.

Paul W. Berezny, Jr.

/s/ Henry O. Boswell

Henry O. Boswell

/s/ Brian Griffiths

Brian Griffiths

/s/ Sidney E. Harris

Sidney E. Harris

/s/ Herbert P. Hess

Herbert P. Hess

/s/ Michelle M. Hunt

Michelle M. Hunt

/s/ Gunther H. Knoedler

Gunther H. Knoedler

/s/ James D. McLennan

James D. McLennan

/s/ Vincent C. Nelson

Vincent C. Nelson

/s/ Dallen W. Peterson

Dallen W. Peterson

/s/ Steven S Reinemund

Steven S Reinemund

/s/ Burton E. Sorensen

Burton E. Sorensen

/s/ David K. Wessner

David K. Wessner