

SERVICEMASTER CO
Form DEF 14A
March 20, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

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- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
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- o Definitive Additional Materials
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The ServiceMaster Company
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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March 24, 2006

Dear Shareholder:

I am pleased to invite you to attend the 2006 Annual Meeting of Shareholders of The ServiceMaster Company. We will hold the meeting at 8:00 a.m., Central Time, on Friday, May 5, 2006 at Chase Tower, Plaza Level S.E., 10 South Dearborn, Chicago, IL 60603.

At this year's meeting we will elect three directors to the Class of 2009, consider approving a compensation plan, consider ratifying the selection of our independent auditors, consider two shareholder proposals which may be presented and report on our business. Our Annual Report to Shareholders for 2005 accompanies these proxy materials.

2005 was a year of solid accomplishment for the Company. On the performance side, we achieved solid revenue and earnings per share growth by making over 45 million service visits to our residential and commercial customers. Cash flow again substantially exceeded net income. We grew the top line in every business segment and two of our core businesses, Terminix and TruGreen ChemLawn, each surpassed \$1 billion in sales for the first time. This was accomplished as we continued to strengthen our core capabilities and position the firm for future growth.

Your vote on the matters to be considered at the 2006 Annual Meeting is important, regardless of the size of your holdings. You may vote by marking, dating, signing and returning the enclosed proxy card in the envelope provided. Also, most registered and most beneficial shareholders may vote by toll-free telephone in the U.S. or Canada, or over the Internet by following the instructions on the enclosed proxy card. We urge you to vote your shares as soon as possible. In this way, you can ensure your shares will be represented and voted at the meeting, and you will spare ServiceMaster the expense of a follow-up mailing. Even if you vote before the meeting you may still attend the meeting and vote in person.

Sincerely,

Jonathan P. Ward
Chairman and Chief Executive Officer

THE SERVICEMASTER COMPANY

NOTICE OF ANNUAL MEETING

To be held May 5, 2006

TO THE SHAREHOLDERS OF THE SERVICEMASTER COMPANY

The Annual Meeting of Shareholders of The ServiceMaster Company will be held at 8:00 a.m., Central Time, on Friday, May 5, 2006 at the Chase Tower, Plaza Level S.E., 10 South Dearborn, Chicago, IL 60603 for the following purposes:

1. To elect three directors to the Class of 2009;
2. To approve the Corporate Performance Plan;
3. To ratify the selection of Deloitte & Touche LLP as our independent auditors for 2006;
4. To act upon two shareholder proposals, if properly presented at the meeting; and
5. To conduct other business if properly raised.

Only holders of record of common stock at the close of business on March 8, 2006 are entitled to vote at the meeting.

Sandra L. Groman
Vice President and Corporate Secretary

March 24, 2006

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THE SERVICEMASTER COMPANY

March 24, 2006

General Information

We are providing these proxy materials to you in connection with the solicitation of proxies by the Board of Directors of The ServiceMaster Company for the 2006 Annual Meeting of Shareholders. We will hold the annual meeting at 8:00 a.m., Central Time, on Friday, May 5, 2006 at the Chase Tower, Plaza Level S.E., 10 South Dearborn, Chicago, IL 60603.

We mailed this proxy statement and proxy card to shareholders on or about March 24, 2006.

Voting Information

Record Date

You may vote all shares that you owned as of the close of business on March 8, 2006, which is the record date for the annual meeting. On March 8, 2006, we had 291,559,820 shares of common stock outstanding. Each share is entitled to one vote on each matter properly brought before the meeting.

Ownership of Shares

You may own shares either (1) directly in your name as a shareholder of record, which includes shares purchased through the ServiceMaster 2004 Employee Stock Purchase Plan (the "ESPP"), the ServiceMaster Franchisee Share Purchase Plan (the "FSPP") and the ServiceMaster Dividend Reinvestment Plan (the "DRIP"), or (2) indirectly through a broker, bank or other holder of record, which includes shares in the ServiceMaster Profit Sharing and Retirement Plan (the "401(k) Plan").

If your shares are registered directly in your name, you are the holder of record of those shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your voting proxy directly to us or to vote in person at the meeting. If you hold your shares indirectly, such as in a brokerage account or through a bank or other holder of record, you hold the shares in street name and your broker, bank or other holder of record sent these proxy materials to you. As a holder in street name, you have the right to direct your broker, bank or other holder of record how to vote by completing a voting instruction form.

Electronic Access to Proxy Materials and Annual Report

We are pleased to offer holders of record the opportunity to receive shareholder communications electronically. By signing up for electronic delivery of documents such as our annual report and the proxy statement, you can access shareholder communications as soon as they are available without waiting for them to arrive in the mail, and submit your shareholder votes online. Holders of record can also reduce the number of bulky documents in their personal files, eliminate duplicate mailings, conserve natural resources, and help reduce our printing and mailing costs. If you are a holder of record and would like to receive shareholder communications electronically, please contact Computershare Investor Services LLC at 1-888-834-0744. Enrollment will be effective until canceled.

If you hold your shares in street name, please refer to the information provided by the broker, bank or other institution that is the holder or record for instructions on how to elect to receive proxy statements and annual reports over the Internet. Most shareholders who hold their stock through a broker, bank or other holder of record and who have electronic access will receive an e-mail message containing the Internet address to use to access our proxy statement and annual report.

Householding

We are sending only one annual report and proxy statement to your household if you share a single address with another shareholder unless we received instructions to the contrary from you. This practice, known as *householding*, is designed to eliminate duplicate mailings, conserve natural resources and reduce printing and mailing costs. If you wish to receive a separate annual report or proxy statement than that sent to your household either this year or in the future, you may contact our transfer agent, Computershare at 1-888-834-0744 or write to Computershare Investor Services LLC, P.O. Box 1689, Chicago, IL 60690-1689. If members of your household receive multiple copies of our annual report and proxy statement, you may request householding by contacting Computershare. If you hold your shares in street name, you may request householding by contacting the holder of record.

How to Vote

Your vote is important. We encourage you to vote promptly, which may save us the expense of a second mailing.

If you are a holder of record, you may vote your shares in any of the following ways:

- **by telephone** If you are located in the U.S. or Canada, you may vote your shares by calling the toll-free telephone number on your proxy card. You may vote by telephone 24 hours a day through 1:00 a.m., Central Time, Friday, May 5, 2006. The telephone voting system has easy-to-follow instructions and allows you to confirm that the system has properly recorded your vote. If you vote by telephone, you do not need to return your proxy card.
- **over the Internet** You may vote your shares via the website <http://www.computershare.com/us/proxy>. You may vote over the Internet 24 hours a day through 1:00 a.m., Central Time, Friday, May 5, 2006. As with telephone voting, you may confirm that the system has properly recorded your vote. If you vote over the Internet, you do not need to return your proxy card. You may incur costs such as telephone and Internet access charges if you vote over the Internet.
- **by mail** You may vote your shares by marking, dating and signing your proxy card and returning it by mail in the enclosed postage-paid envelope.
- **in person at the annual meeting** If you vote by telephone, over the Internet or by mail, you may still attend the meeting and vote in person.

If you are a holder in street name, the instructions that accompany your proxy materials will indicate whether you may vote by telephone, over the Internet or by mail. If you wish to attend the meeting and vote in person, you must obtain a proxy, executed in your favor, from your broker or other nominee.

Our Board has appointed a proxy committee to vote your shares on your behalf. By giving us your proxy, you are authorizing the proxy committee to vote your shares in the manner you indicate. You may (1) vote **FOR** the election of all of our director nominees, (2) **WITHHOLD AUTHORITY** to vote for all of our director nominees, or (3) vote for the election of less than all of our director nominees and withhold authority to vote for our other nominees. You may vote **FOR** or **AGAINST** or **ABSTAIN** from voting on the proposal to approve the Corporate Performance Plan, the proposal to ratify the selection of Deloitte & Touche LLP as our independent auditors for 2006 and the two shareholder proposals.

All shares that have been properly voted by proxy and not revoked will be voted at the meeting. If you sign and return your proxy card without any voting instructions, your shares will be voted **FOR** :

- the election of each of our nominees for director;
- approval of the Corporate Performance Plan; and

- ratification of the selection of Deloitte & Touche LLP as our independent auditors for 2006.

New York Stock Exchange rules prohibit brokers from voting on Proposals 4 and 5 without receiving instructions from holders in street name. In the absence of instructions, shares subject to such broker non-votes will not be counted as voted or as present or represented on the proposals. In addition, management has taken a neutral position on Proposal 4. If a holder of record does not give instructions to the proxy committee as to that proposal, the shares subject to such non-votes will not be counted as voted or as present or represented on that proposal.

Revocation of Proxies

If you are the holder of record, you may revoke your proxy at any time before your shares are voted if you (1) submit a written revocation to our Corporate Secretary, (2) submit a later-dated proxy to our Corporate Secretary, (3) provide subsequent telephone or Internet voting instructions, or (4) vote in person at the meeting.

Shares held under Plans

If you participate in the ESPP, FSPP or DRIP, your proxy card shows the number of shares held for your benefit under the plans. If you participate in the 401(k) Plan, you will receive a separate proxy card that covers the number of shares that the plan has credited to your account under the 401(k) Plan. To allow sufficient time for the 401(k) Plan trustee to vote, the trustee must receive your voting instructions by 11:59 p.m., Central Time, Tuesday, May 2, 2006. If the 401(k) Plan trustee does not receive your instructions by that date, the trustee will vote your shares in the same proportion of votes that the trustee receives from other 401(k) Plan participants.

Quorum

A quorum is necessary to hold a valid meeting of shareholders. If shareholders entitled to cast at least a majority of the shares entitled to vote at the meeting are present in person or by proxy, a quorum will exist. Shares owned by ServiceMaster are not voted and do not count for quorum purposes. In order to assure the presence of a quorum at the meeting, please vote your shares by toll-free telephone or over the Internet or complete, sign and date our proxy card and return it promptly in the enclosed postage-paid envelope, even if you plan to attend the meeting. Abstentions are counted as present, and broker non-votes may be counted as present, to establish a quorum.

Vote Required for Proposals

Directors are elected by a plurality of the votes cast, which means that the three nominees to the Class of 2009 with the most votes will be elected. As a result, withholding authority to vote for a nominee and broker non-votes with respect to the election of directors will not affect the outcome of the election of directors.

Approval of the Corporate Performance Plan, the ratification of the selection of Deloitte & Touche LLP as independent auditors for 2006, and approval of each shareholder proposal requires the affirmative vote of a majority of the votes cast on that proposal. Abstentions with respect to a proposal will be treated as votes cast with respect to the proposal and will accordingly have the same effect as a vote cast against the proposal. Broker non-votes with respect to a proposal will not be considered as votes cast on the proposal. The shares of a holder of record who does not give instructions on Proposal 4 will not be considered as votes cast on the proposal.

Cost of Proxy Solicitation

We will pay the expenses of soliciting proxies. Our directors, officers or employees may solicit proxies for us in person, or by telephone, facsimile or electronic transmission. We have hired D. F. King & Co., Inc. to help us distribute and solicit proxies. We will pay D. F. King \$8,500 plus expenses for these services.

Governance and Nominating Committee Report

Reason for the Report

The Governance and Nominating Committee is furnishing this report for the purpose of informing ServiceMaster's shareholders about this Committee and ServiceMaster's corporate governance policies and practices. We believe that good corporate governance is important to ensure that ServiceMaster is managed for the long-term benefit of its shareholders. The Committee regularly reviews and discusses ServiceMaster's corporate governance policies and practices, especially in light of the Sarbanes-Oxley Act of 2002, rules and regulations of the Securities and Exchange Commission and listing standards of the New York Stock Exchange.

Corporate Objectives

ServiceMaster's Objectives, as affirmed by the Board in 2005, are as follows:

Honor God in All We Do
Excel with Customers
Help People Develop
Grow Profitably

After receiving that approval, the ServiceMaster leadership team launched a multi-year, values renewal project to help all employees learn how to use these Objectives as the context for basic, regular decisions. The initial phase is comprised of new, company-wide training initiatives, new Objectives graphics throughout the enterprise, a web site to access a variety of communications materials and tools, and inclusion of the Objectives in the yearly goals and performance evaluation of the leadership team.

Corporate Governance Principles

The Committee periodically reviews the adequacy of ServiceMaster's Corporate Governance Principles. A copy of ServiceMaster's Corporate Governance Principles is available on ServiceMaster's website at <http://www.svm.com> under Corporate Governance and is also available in print to any shareholder who requests it by writing to the Corporate Secretary at the following address: The ServiceMaster Company, 3250 Lacey Road, Suite 600, Downers Grove, Illinois 60515.

Committee Charter

The Committee is comprised of three directors, all of whom are independent under New York Stock Exchange listing standards. Under its Charter, which has been adopted by the Board, the Committee is responsible for reviewing ServiceMaster's corporate governance policies and practices, including matters relating to director candidates, independence, communications with the Board, Board governance and certain internal controls and compliance. A copy of the Committee's Charter is available on ServiceMaster's website at <http://www.svm.com> under Corporate Governance.

Director Candidates and Changes in Board Membership

Candidates. The Committee is responsible for reviewing the qualifications of, and recommending to the Board, nominees for membership on the Board. Consideration of Board candidates typically involves a series of internal discussions, review of information concerning candidates and interviews with selected

candidates. In general, candidates for nomination to the Board are suggested by Board members or by management. The Committee has also utilized the services of a search firm to identify director candidates. The Committee will consider candidates suggested by shareholders. A shareholder seeking to recommend a prospective nominee for the Committee's consideration should submit the candidate's name and qualifications to the Corporate Secretary at the following address: The ServiceMaster Company, 3250 Lacey Road, Suite 600, Downers Grove, Illinois 60515. The Committee did not receive any shareholder suggestions for director candidates to be considered for election to the Board at the 2006 annual meeting.

In considering whether to recommend a candidate for membership on the Board, the Committee evaluates the nominee against the standards and qualifications set forth in ServiceMaster's Corporate Governance Principles. The Committee evaluates candidates proposed by shareholders using the same criteria that are used to evaluate other candidates. The Committee reviews a candidate's qualifications in light of the needs of the Board and ServiceMaster at that time given the then existing mix of director skill sets. ServiceMaster strives to create a Board that has a diversity of gender, ethnicity, culture and race. Members should, in general, have skills, experience or expertise in one or more of the following areas: corporate finance, accounting, information technology, senior management of a major company, federal or state government agencies or contracting practices, marketing, strategic planning, human resources, ethical training, law, and regulatory compliance.

Retirement of Director. Dallen Peterson will retire from the Board in May 2006. Mr. Peterson has more than 10 years of service as a director. Mr. Peterson made significant contributions to our growth and success and we wish him happiness in his future endeavors.

Addition of New Director. In July 2005, J. Patrick Spainhour was appointed to the Board and the Audit and Finance Committee. Mr. Spainhour is a former CEO and has operational, financial and general business experience. The nomination of Mr. Spainhour was recommended to the Committee by a non-management director.

Independence

Under New York Stock Exchange listing standards, a director does not qualify as independent unless the board affirmatively determines that the director has no material relationship with the company. ServiceMaster's Board adopted categorical standards of independence to assist it in determining whether a director has a material relationship with ServiceMaster. A director will not be considered to have a material relationship with ServiceMaster because (1) the director is a partner, principal, counsel or advisor to, or shareholder, director or officer of, another company that does business with ServiceMaster if the annual sales to, or purchases from, ServiceMaster are less than 1% of the annual revenue of the other company and the director does not receive any compensation as a direct result of the other company's business with ServiceMaster or (2) the director is an officer, director or trustee of a charitable organization, if ServiceMaster's discretionary charitable contributions to the organization are less than 1% (and no more than \$50,000) of that organization's total annual charitable receipts. A director will be considered to have a material relationship with ServiceMaster if the director is an officer of another company that is not a charitable organization and any of ServiceMaster's present executives serves on that other company's board of directors.

New York Stock Exchange listing standards also provide that a director is not independent if (1) the director is, or has been within the last three years, an employee of ServiceMaster or an immediate family member of the director is, or has been within the last three years, an executive officer of ServiceMaster; (2) the director or an immediate family member of the director has received, during any 12-month period within the last three years, more than \$100,000 in direct compensation from ServiceMaster (other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service)); (3) the director or an immediate family member of the director is a partner of a firm that is ServiceMaster's internal or external

auditor; an immediate family member of the director is an employee of such a firm and participates in the firm's audit, assurance or tax compliance practice; or the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on ServiceMaster's audit within that time; (4) the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of ServiceMaster's executive officers at the same time serves or served on that company's compensation committee; or (5) the director is an employee, or an immediate family member is an executive officer, of a company that has made payments to, or received payments from, ServiceMaster for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

In February 2006, the Committee reviewed the independence of all directors and furnished a report to the Board. The Board determined that each of Louis Giuliano, Brian Griffiths, Sidney Harris, Roberto Herencia, Betty Jane Hess, Eileen Kamerick, James McLennan, Coleman Peterson, Dallen Peterson, J. Patrick Spainhour and David Wessner has no material relationship with ServiceMaster and that each director, except Jonathan Ward, ServiceMaster's Chairman and Chief Executive Officer, is independent under New York Stock Exchange listing standards. The Board also determined that each member of the Audit and Finance, Compensation and Leadership Development and Governance and Nominating Committees of the Board meets the independence and other requirements applicable to those Committees.

Communications with the Board

Shareholders or other interested parties who wish to send communications to the Board, the Chairman, a Committee Chairman or non-management directors as a group may do so by writing to the following address: ServiceMaster Board c/o Global Compliance Services AlertLine Response, PMB 3767, 13950 Ballantyne Corporate Place, Suite 300, Charlotte, North Carolina 28277. Shareholders or other interested parties may also communicate with the Board by submitting an email to ServiceMasterBoard@AlertLine.com or by calling 1-800-450-4308. The Audit and Finance Committee approved the process for handling communications received from shareholders or other interested parties. The third party administrator notifies the Corporate Secretary and the Chairman of the Audit and Finance Committee, or his or her designee, upon receipt of any communication directed to the Board, the Chairman, a Committee Chairman or non-management directors as a group. The Corporate Secretary is responsible for distributing the communications to each appropriate director, determining whether any follow-up action is necessary and assigning responsibility to complete any necessary further action. Each director has access to a database containing all communications directed to him or her. The Vice President of Compliance and Ethics distributes a quarterly report to the Audit and Finance Committee on all such communications received. The Chairman of the Audit and Finance Committee, or his or her designee, has ongoing access to the contents of the database containing these communications.

Board Governance

Presiding Director/Executive Sessions without Management. The Board and its Committees regularly meet in executive session without Chairman Jonathan Ward or other members of management in attendance. Sidney Harris, Chairman of this Committee, serves as presiding director at executive sessions of the Board. Mr. Harris's duties also include advising the Chairman of matters discussed in executive sessions without management, where appropriate, as well as on the Board agenda items and information to be provided to the Board.

Termination of Shareholder Rights Plan and Adoption of Rights Plan Policy. In response to several shareholder proposals ServiceMaster received regarding its shareholder rights plan, in February 2005 the Board approved the termination of ServiceMaster's shareholder rights plan and adopted the following

shareholder rights plan policy: The ServiceMaster Company shall seek shareholder approval prior to the adoption of a shareholder rights plan, unless the Board of Directors, in the exercise of its fiduciary duties and with the concurrence of a majority of the independent directors, determines that, under the circumstances existing at the time, it is in the best interests of ServiceMaster and its shareholders to adopt a shareholder rights plan without delay. In addition, if a shareholder rights plan is adopted by ServiceMaster without prior shareholder approval, such plan must provide that it shall expire unless ratified by ServiceMaster shareholders within twelve months of the adoption of the rights plan. The Governance and Nominating Committee shall review this policy statement on at least an annual basis and report to the Board any recommendation it may have in connection therewith.

Shareholder Proposal Regarding Annual Election of Directors. In October 2005, ServiceMaster received a shareholder proposal requesting the Board to take the necessary steps to implement annual director elections. For more information on the proposal see Item 4 Shareholder Proposal regarding Annual Election of Directors.

Committee Charters. Each of the three Committees of the Board periodically reviews the adequacy of its Charter which sets forth its respective duties and responsibilities. A copy of each Committee Charter is available on ServiceMaster's website at <http://www.svm.com> under Corporate Governance and is also available in print to any shareholder who requests it by writing to the Corporate Secretary at the following address: The ServiceMaster Company, 3250 Lacey Road, Suite 600, Downers Grove, Illinois 60515.

Board, Committee and Director Performance. With the Committee taking the lead, the Board annually assesses its performance and the performance of its Committees and individual directors. In 2005, the Committee reviewed director responses to a Board Performance Questionnaire and Committee Performance Questionnaires for the Committee as well as both the Audit and Finance Committee and the Compensation and Leadership Development Committee and reported the results to the Board. The Committee also reviewed responses to a Director Self-Assessment Questionnaire completed by four directors whose terms will expire in 2007 and reported the results to the Board. The Board Performance Questionnaire, Committee Performance Questionnaires and Director Self-Assessment Questionnaire are intended to facilitate the process of evaluating the performance of the Board, its Committees and individual directors and to help identify any concerns of a director well in advance of the expiration of the director's term. The Board considers the results of the annual performance assessment, including the responses to the questionnaires, when determining areas on which to focus more attention.

Director Orientation Program and Continuing Education. ServiceMaster has developed a director orientation program designed to familiarize new directors with ServiceMaster and its management structure, operations, financial processes and other issues. Each new director is expected to participate in the program within a reasonable time after he or she is first elected to the Board. The orientation program includes a visit to ServiceMaster's offices to meet with senior management and visits to branch operations. Each director is also encouraged to attend seminars, conferences and similar events to remain current in matters relating to corporate governance, disclosure, accounting and industry developments.

Director Compensation. The Compensation and Leadership Development Committee periodically reviews the compensation of ServiceMaster's directors. In October 2005, the Committee recommended certain changes in director compensation which the Board approved. For more information on director compensation, see Compensation of Directors.

Internal Controls and Compliance

Commitment Authority Policy. In May 2003, the Board approved revisions to ServiceMaster's Commitment Authority Policy. This policy specifies the level of corporate approval necessary for the Board, its Committees and management to commit ServiceMaster's monetary resources and enter into

contracts on behalf of ServiceMaster or its subsidiaries. This policy is reviewed by the Audit and Finance Committee every three years.

Public Accounting Firm Policy. In response to the Sarbanes-Oxley Act of 2002 and related regulations, the Audit and Finance Committee adopted a Public Accounting Firm Policy that governs ServiceMaster's relationship with its independent auditors. For more information on ServiceMaster's Public Accounting Firm Policy, see Item 3 Ratification of Selection of Independent Auditors.

Internal Control over Financial Reporting. The Audit and Finance Committee designated Roberto Herencia as having oversight responsibility for compliance with internal control over financial reporting.

Internal Control Process. Management regularly reviews ServiceMaster's disclosure controls and procedures and internal control over financial reporting. Management presents a quarterly review to the Audit and Finance Committee regarding the effectiveness of our disclosure controls and procedures and internal control over financial reporting. Management's report on the effectiveness of our internal control over financial report is included in ServiceMaster's Annual Report to Shareholders for 2005.

Stock Ownership Policy and Securities Trading Policy. It is ServiceMaster's policy that each director and member of senior management hold a number of shares of ServiceMaster common stock equal to 50% of (i) the number of shares of restricted stock granted to him or her that have vested and (ii) the number of shares issued upon the exercise of stock options or stock appreciation rights granted to him or her after providing for payment of the exercise price and taxes. The policy applies to all grants made after July 17, 2003. In addition, purchases, sales and other transactions involving ServiceMaster's common stock or other equity securities of ServiceMaster by a director or member of senior management must comply with ServiceMaster's Policy Regarding Securities Trading and Confidentiality. This policy establishes window periods during which directors and senior management may engage in securities transactions and requires that transactions be cleared in advance by either the Chief Financial Officer or General Counsel.

Financial Code of Ethics and Code of Conduct. ServiceMaster has a Financial Code of Ethics that applies to the Chief Executive Officer, Chief Financial Officer and Controller, or persons performing similar functions, and other designated officers and employees, including the Chief Financial Officer of each ServiceMaster business unit and the Treasurer. ServiceMaster also has a Code of Conduct that applies to directors, officers and employees. The Financial Code of Ethics and Code of Conduct each address matters such as conflicts of interest, confidentiality, fair dealing and compliance with laws and regulations. Copies of the Financial Code of Ethics and the Code of Conduct are available on ServiceMaster's website at <http://www.svm.com> under Corporate Governance and is also available in print to any shareholder who requests it by writing to the Corporate Secretary at the following address: The ServiceMaster Company, 3250 Lacey Road, Suite 600, Downers Grove, Illinois 60515.

Compliance Helpline. ServiceMaster maintains a Compliance Helpline. The Compliance Helpline establishes a confidential means for employees of ServiceMaster or other persons to communicate to management or the Board any concerns that they have regarding accounting, internal controls or audit matters or compliance with laws, regulations, policies or the ServiceMaster Code of Conduct.

NYSE Annual CEO Certification. In June 2005, Jonathan Ward, ServiceMaster's Chairman and Chief Executive Officer, certified to the New York Stock Exchange that he was not aware of any violation by ServiceMaster of the New York Stock Exchange corporate governance listing standards.

Governance and Nominating Committee
Sidney E. Harris, *Chairman*
Brian Griffiths
James D. McLennan

Item 1 Election of Directors

Our Board of Directors currently has 12 members. Dallen Peterson, a member of the Class of 2006 will retire from the Board immediately prior to our May committee and board meetings, at which time we will have 11 directors.

During 2005, the Governance and Nominating Committee conducted a search for director candidates. In July 2005, upon recommendation by the Governance and Nominating Committee, the Board unanimously approved the appointment of J. Patrick Spainhour to the Board.

Directors are divided into three classes. Each class serves for three years.

The terms of Eileen Kamerick, J. Patrick Spainhour and David Wessner will expire at the 2006 annual meeting. Each of these directors has been nominated to stand for reelection and to hold office until our 2009 annual meeting and until his or her successor is elected and qualified.

We expect that each nominee will be able to serve if elected as a director. However, if any nominee is not able to serve, the proxy committee may vote for another nominee chosen by our Board.

The Board of Directors recommends a vote **FOR** the election of each of the named nominees as directors.

We describe below the principal occupations and other information about our nominees and directors continuing in office.

Nominees for Election to Term Expiring 2009

Eileen A. Kamerick

Chief Financial Officer, Heidrick & Struggles International, Inc., a recruiting and search firm, 2004 to present. Ms. Kamerick was the Executive Vice President and Chief Financial Officer of Bcom3 Group, Inc., a provider of advertising and marketing communications services, from 2001 to 2003. From 2000 to 2001, Ms. Kamerick was the Executive Vice President and Chief Financial Officer of United Stationers, Inc., a wholesale distributor of business products. Ms. Kamerick is a director of Westell Technologies, Inc., a diversified broadband supplier. *Class of 2006. Age 47. Director since February 2005.*

J. Patrick Spainhour

Former Chairman and Chief Executive Officer, AnnTaylor Stores Corporation, a national specialty retailer of quality women's apparel, 1996 to 2005. Mr. Spainhour is a director of Circuit City Stores, Inc., a retailer of consumer electronics; and Tupperware Corporation, a direct seller of food storage items. *Class of 2006. Age 56. Director since July 2005.*

David K. Wessner

President and Chief Executive Officer of Park Nicollet Health Services, an integrated healthcare delivery system, 1998 to present. *Class of 2006. Age 54. Director since 1987.*

Directors Continuing in Office

Lord Griffiths of Fforestfach

International advisor to Goldman Sachs International Ltd., an investment banking firm, 1991 to present. 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 Newspapers Holding Ltd., a newspaper company; English, Welsh and Scottish Railways, a railroad company; Herman Miller, Inc., an office furniture manufacturer; and Land Securities Trillium, a property outsourcing solutions company. *Class of 2007. Age 64. Director since 1992.*

Sidney E. Harris

Professor of Management and International Business, Georgia State University, 2004 to present. From 1997 to 2004, Dr. Harris was Dean, Robinson College of Business, Georgia State University. Dr. Harris is a director of Transamerica Investors, Inc., an investment management company; Total System Services, Inc., a credit/debit card processor; and STI Classic Funds, a family of investment funds. *Class of 2007. Age 56. Director since 1994.*

James D. McLennan

Chairman and Chief Executive Officer of McLennan Company, a full-service real estate company, 1998 to present. *Class of 2007. Age 69. Director since 1986.*

Coleman H. Peterson

President and Chief Executive Officer, Hollis Enterprises, L.L.C., engaged in supporting businesses in improving their organizational effectiveness, from 2004 to present. He was Executive Vice President of Wal-Mart Stores, Inc., the world's largest retailer, 1994 to 2004. Mr. Peterson is a director of J. B. Hunt Transport Services, Inc., a full truck-load transportation and logistics company; and Build-A-Bear Workshop, Inc., a make your own stuffed animal retailer. *Class of 2007. Age 57. Director since 2004.*

Roberto R. Herencia

President, Banco Popular North America, a diversified community banking institution, 2001 to present. He was Senior Executive Vice President and Chief Operating Officer from 1999 to 2001. Mr. Herencia is Executive Vice President, and a member of the Corporate Leadership Council of Popular, Inc., the parent company of Banco Popular North America, 1997 to present. *Class of 2008. Age 46. Director since 2003.*

Louis J. Giuliano

Former Chairman, ITT Industries, Inc., a multi-industry company engaged in the design and manufacture of a wide range of engineered products. Mr. Giuliano was Chairman and Chief Executive Officer of ITT Industries from 2001 through 2004; President from 1998 to 2004; and Chief Operating Officer from 1998 to 2001. Mr. Giuliano is a governor of the United States Postal Service Board of Governors. *Class of 2008. Age 58. Director since 2004.*

Betty Jane Hess

Retired Senior Vice President, Arrow Electronics, Inc., a distributor of electronic components and computer products, 1997 to 2004. She was a member of Office of the President of Arrow Electronics, Inc. from 1997 to 2002. Mrs. Hess is a director of Cott Corporation, a supplier of retail brand carbonated beverages. *Class of 2008. Age 57. Director since 2003.*

Jonathan P. Ward

Chairman and Chief Executive Officer of ServiceMaster, 2002 to present. He served as President and Chief Executive Officer of ServiceMaster from 2001 to 2002. Mr. Ward was President and Chief Operating Officer of R.R. Donnelley & Sons Company, a commercial printing company, from 1997 to 2001. Mr. Ward is a director of Sara Lee Corporation, a manufacturer and marketer of brand-name products; and First Horizon, a diversified financial institution. *Class of 2008. Age 51. Director since 2001.*

Board and Committees of our Board

Our business is managed under the direction of our Board. Our Board is kept advised of ServiceMaster's business through regular and special meetings of the Board and its Committees, written reports and analyses and discussions with the Chairman and CEO and other officers.

During 2005, our Board met fourteen times. All directors are encouraged to attend our Annual Meeting. All directors attended the 2005 Annual Meeting of Shareholders, except J. Patrick Spainhour, who became a member of our Board subsequent to the meeting. All directors attended 75 percent or more of the meetings of our Board and standing committees on which they served in 2005. Our Board has four standing committees: the Audit and Finance Committee, the Compensation and Leadership Development Committee, the Governance and Nominating Committee and the Executive Committee.

The following table shows each Committee on which each director served, the Chairman of each Committee and the number of meetings held by each Committee.

Membership and Board Committees

Name	Audit and Finance Committee	Compensation and Leadership Development Committee	Governance and Nominating Committee	Executive Committee
Louis Giuliano		X		
Brian Griffiths			X	X
Sidney Harris			C	C
Roberto Herencia	C			X
Betty Jane Hess		X		
Eileen Kamerick	X			
James McLennan			X	
Coleman Peterson		C		X
Dallen Peterson	X			
J. Patrick Spainhour	X			
Jonathan Ward				X
David Wessner		X		
2005 Meetings	6	6	7	0

C=Chairperson

Each Committee has the duties and responsibilities set forth in its respective Charter, regularly assesses the adequacy of its Charter and recommends changes as necessary to the Board. By February 2006, each Committee conducted an evaluation of its performance. For a more detailed discussion regarding our corporate governance activities, see Governance and Nominating Committee Report .

Audit and Finance Committee. The Audit and Finance Committee functions as the standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Our Board has determined that each of Roberto Herencia and Eileen Kamerick is an audit committee financial expert as defined under Securities and Exchange Commission regulations and is independent

under New York Stock Exchange listing standards. This Committee, in its capacity as an audit committee, assists the Board in its oversight of the integrity of ServiceMaster's financial statements; ServiceMaster's compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of ServiceMaster's internal audit function and independent auditor; and prepares an audit committee report for inclusion in the proxy statement. This Committee, in its capacity as a finance committee, assists our Board in its oversight of financial matters affecting ServiceMaster. In addition, this Committee is responsible for appointing, retaining, compensating, evaluating, and terminating, when appropriate, the independent auditor; reviewing with management the adequacy of, and related disclosures in ServiceMaster's quarterly and annual reports, ServiceMaster's disclosure controls and procedures and internal control over financial reporting; discussing with management and the independent auditor, ServiceMaster's annual and quarterly financial statements, including disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations; and discussing policies with respect to risk assessment and risk management, including guidelines and policies to govern the process by which risk assessment and risk management is undertaken.

Compensation and Leadership Development Committee. This Committee has direct responsibility to review and approve corporate goals and objectives relevant to Chief Executive Officer compensation; evaluate the Chief Executive Officer's performance in light of his competencies, corporate goals, objectives and potential; determine and approve the Chief Executive Officer's compensation level based on such evaluation; and prepare a compensation committee report on executive officer compensation for inclusion in the proxy statement. In addition, this Committee is responsible for establishing the overall compensation structure and executive officer compensation philosophy and principles of ServiceMaster; reviewing and approving the compensation of ServiceMaster's executives; making recommendations to our Board with respect to non-CEO executive officer compensation plans, incentive compensation plans and equity-based compensation plans; health and welfare plans; and conducting reviews of leadership development strategy, people development strategy and succession planning.

Governance and Nominating Committee. This Committee develops and recommends to our Board the corporate governance principles applicable to ServiceMaster; identifies individuals qualified to be Board members, consistent with the criteria approved by our Board; selects or recommends that our Board select the director nominees for the next annual meeting of shareholders; and oversees the evaluation of our Board and its Committees. For more information regarding the Governance and Nominating Committee, see Governance and Nominating Committee Report.

Executive Committee. This Committee meets only as necessary and may meet instead of the full Board on all matters, except for those matters reserved for our Board by law or our Certificate of Incorporation or Bylaws.

Compensation of Directors

Each non-employee director receives an annual retainer of \$115,000. The Chairman of the Audit and Finance Committee receives an additional \$15,000. In October 2005, the Compensation and Leadership Development Committee, with the assistance of independent advisors, evaluated the existing compensation plan for directors against competitive practices. As a result, our Board modified the directors' compensation program to (1) increase the retainer of non-employee directors from \$105,000 to \$115,000, (2) increase the retainer of the Chairman of the Compensation and Leadership Development Committee and the Governance and Nominating Committee from \$5,000 to \$7,500, both effective as of January 1, 2006, and (3) pay a retainer for the presiding director of \$5,000 in 2005 and \$7,500 in 2006. The Board also approved compensation of \$5,000 to the presiding director for 2005.

Each director must receive at least 50% of his or her annual retainer in the form of stock options or restricted stock and each director may elect to receive the remaining 50% of his or her retainer in the form

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of cash, stock options or restricted stock or to defer receipt of that portion of his or her retainer under The ServiceMaster Company 2002 Directors Deferred Fees Plan (the Directors Deferred Fees Plan).

Non-employee directors who elect to participate in the Directors Deferred Fees Plan may elect to defer the receipt of up to 50% of their annual retainer until a later date. Participating directors may invest their deferred amounts in either: (1) a cash account that earns interest based on our average five-year borrowing rate (6.0% as of December 31, 2005) or (2) a share equivalent account that is credited with a number of share equivalent units equal to the deferred amount divided by the fair market value of a share of our common stock on the deferral date. The value of a share equivalent unit on any date is equal to the value of a share of our common stock on that date. Share equivalent unit accounts are credited when we pay dividends on our common stock as if the dividend was reinvested in additional shares.

The Company will, in certain limited circumstances, pay for the spouses of directors to accompany the directors on ServiceMaster-related trips. As described below, on two occasions in 2005 the Company paid for airfare for Mr. Griffiths' wife to accompany him to Board meetings.

In 2005, non-employee directors were paid their retainers as follows:

Director			Cash (\$)	Restricted Stock (\$ (1))	Stock Options (\$ (2))	Deferred Fees (\$)	Total Retainer (\$)
Louis Giuliano							