SERVICEMASTER CO
Form 10-Q/A
May 14, 2003

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

FORM 10-Q/A

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

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

For the transition period from to

Commission file number 1-14762

THE SERVICEMASTER COMPANY
(Exact name of registrant as specified in its charter)

Delaware	36-3858106
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3250 Lacey Road, Downers Grove, Illinois	60515-1700
(Address of principal executive offices)	(Zip Code)

630-663-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock: 301,344,000 shares of common stock on November 7, 2002.

Explanatory Note:
This amendment is being filed to reflect the restatement of the Company's unaudited condensed consolidated financial statements, as discussed in Note 2 thereto, and other information related to such restated financial statements.

TABLE OF CONTENTS

	Page NO.
THE SERVICEMASTER COMPANY (Registrant) –	
PART I. FINANCIAL INFORMATION	
Item 1 : Financial Statements	
Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2002 (Restated) and September 30, 2001 (Restated)	2
Condensed Consolidated Statements of Financial Position as of September 30, 2002 (Restated) and December 31, 2001 (Restated)	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2002 (Restated) and September 30, 2001 (Restated)	5
Notes to Condensed Consolidated Financial Statements (Restated)	6
Item 2: Management Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3: Quantitative and Qualitative Disclosures About Market Risk	24
Item 4: Controls and Procedures	25
PART II. OTHER INFORMATION	
Item 6: Exhibits and Reports on Form 8-K	26
Signature	28
Exhibit 99.1: Certification of Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code	31
Exhibit 99.2: Certification of Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code	32

PART I. FINANCIAL INFORMATION

THE SERVICEMASTER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,	
	2002 (Restated 4)	2001 (Restated
OPERATING REVENUE	$ 1,010,661	$ 981,2
OPERATING COSTS AND EXPENSES:		
Cost of services rendered and products sold	685,893	671,9
Selling and administrative expenses	197,647	184,9
Goodwill, trade name and other intangible amortization (1)	2,126	17,8
Total operating costs and expenses	885,666	874,7
OPERATING INCOME	124,995	106,5
NON-OPERATING EXPENSE (INCOME):		
Interest expense	17,030	30,9
Interest and investment income	(405)	(5,4
Minority interest and other expense, net	1,905	2,2
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	106,465	78,7
Provision for income taxes	39,477	33,7
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEMS	66,988	45,0
Income from discontinued operations, net of income taxes (2)	1,095	7,4
Extraordinary gain (loss), net of income taxes (3)	-	
NET INCOME	$ 68,083	$ 52,5
PER SHARE:		
BASIC EARNINGS PER SHARE:		
Income from continuing operations before extraordinary items	$ 0.22	$ 0.
Discontinued operations, net (2)	-	0.
Extraordinary gain (loss) (3)	-	
	$ 0.23	$ 0.

SHARES	301,093	298,9
DILUTED EARNINGS PER SHARE:		
Income from continuing operations before extraordinary items	$ 0.22	$ 0.
Discontinued operations, net (2)	-	0.
Extraordinary gain (loss) (3)	-	
	$ 0.22	$ 0.
SHARES	313,649	312,5
Dividends per share	$ 0.105	$ 0.

(1) The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", which eliminates the amortization of goodwill and intangible assets with indefinite lives beginning in 2002. Had the provisions of SFAS 142 been applied to 2001, amortization expense would have been reduced by $15.4 million ($10.4 million, after-tax) and $45.9 million ($31.1 million, after-tax) for the three and nine month periods ended September 30, 2001, respectively.

(2) In the fourth quarter of 2001, the Company's Board of Directors approved a series of actions related to the strategic review of its portfolio of businesses that commenced earlier in 2001. These actions included the sale in November 2001 of the Company's Management Services business as well as the decision to exit certain non-strategic and under-performing businesses including TruGreen LandCareConstruction and Certified Systems, Inc., as well as certain Terminix operations in Europe. During the third quarter of 2002, the Company sold its remaining European Terminix operations. These operations are classified in "Discontinued operations" for all periods presented.

(3) The Company purchased a portion of its public debt securities in the second quarter of 2002 and in the first quarter of 2001. The Company has recorded an extraordinary gain (loss) from the early extinguishment of debt related to these repurchases. The Company intends to adopt SFAS 145 beginning in fiscal 2003. Adoption of SFAS 145 in 2003 will result in the reclassification of the extraordinary gain/loss into income from continuing operations.

(4) See Note 2 in the Notes to the Condensed Consolidated Financial Statements for the basis of the restatement and the financial statement impact.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3

THE SERVICEMASTER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(IN THOUSANDS)

ASSETS	As of Sept.30, 2002 (Restated 1)
CURRENT ASSETS:	
Cash and cash equivalents	$ 170,178
Marketable securities	71,789
Receivables, less allowance of $31,003 and $28,397, respectively	397,164
Inventories	73,634
Prepaid expenses, deferred costs and other assets	104,092
Deferred taxes and income taxes receivable	118,558
Assets of discontinued operations	8,604
Total Current Assets	944,019
PROPERTY AND EQUIPMENT:	
At cost	480,480
Less: accumulated depreciation	(289,122)
Net property and equipment	191,358
OTHER ASSETS:	
Goodwill	1,912,605
Intangible assets, primarily trade names	258,826
Notes receivable	57,953
Long-term securities and other assets	64,883
Total Assets	$ 3,429,644
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 94,993
Accrued liabilities:	
Payroll and related expenses	92,067

Self-insured claims and related expenses	81,050
Income taxes payable	41,771
Other	92,435
Deferred revenues	378,346
Liabilities of discontinued operations	31,675
Current portion of long-term debt	31,404
Total Current Liabilities	843,741
LONG-TERM DEBT	810,719
LONG-TERM LIABILITIES:	
Deferred taxes	259,780
Liabilities of discontinued operations	28,500
Other long-term obligations	120,568
Total Long-Term Liabilities	408,848
MINORITY INTEREST	101,851
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Common stock $0.01 par value, authorized 1 billion shares; issued 315,753 and 314,538 shares, respectively	3,158
Additional paid-in capital	1,050,467
Retained earnings	372,956
Accumulated other comprehensive loss	(3,024)
Restricted stock	(446)
Treasury stock	(158,626)
Total Shareholders' Equity	1,264,485
Total Liabilities and Shareholders' Equity	$ 3,429,644

(1) See Note 2 in the Notes to the Condensed Consolidated Financial Statements for the basis of the restatement and the financial statement impact.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

	Nine Months September
	2002 (Restated 1)

CASH AND CASH EQUIVALENTS AT JANUARY 1	$ 402,644
CASH FLOWS FROM OPERATIONS:	
NET INCOME	142,227
Adjustments to reconcile net income to net cash flows from operations:	
Income from discontinued operations	(1,173)
Extraordinary (gain) loss	9,229
Depreciation expense	37,124
Amortization expense	6,432
Deferred income tax expense	69,990
Change in working capital, net of acquisitions:	
Receivables	(53,594)
Sale of receivables	--
Inventories and other current assets	(31,504)
Accounts payable	(1,370)
Deferred revenues	34,222
Accrued liabilities	29,702
Tax refund from prior years payments	--
Other, net	3,259
NET CASH PROVIDED FROM OPERATIONS	244,544
CASH FLOWS FROM INVESTING ACTIVITIES:	
Property additions	(41,802)
Sale of equipment and other assets	2,031
Business acquisitions, net of cash acquired	(10,132)
Proceeds from business sales and minority interests	--
Notes receivable, financial investments and securities	(1,512)
Proceeds from sale of European businesses	30,500
NET CASH USED FOR INVESTING ACTIVITIES	(20,915)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net payments of debt	(338,129)
Purchase of ServiceMaster stock	(14,529)
Shareholders' dividends	(91,374)
Other, net	15,386
NET CASH USED FOR FINANCING ACTIVITIES	(428,646)
CASH PROVIDED FROM (USED FOR) DISCONTINUED OPERATIONS	(27,449)
CASH DECREASE DURING THE PERIOD	(232,466)
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	$ 170,178

(1) See Note 2 in the Notes to the Condensed Consolidated Financial Statements for the basis of the restatement and the financial statement impact.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1: The condensed consolidated financial statements include the accounts of ServiceMaster and its subsidiaries, collectively referred to as "the Company". Intercompany transactions and balances have been eliminated in consolidation.

NOTE 2: The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles and pursuant to the rules and regulations of the Securities and Exchange Commission. The Company suggests that the quarterly condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report to Shareholders and the Annual Report to the Securities and Exchange Commission on Form 10-K. The condensed consolidated financial statements reflect all adjustments, which are in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The results of operations for any interim period are not necessarily indicative of the results which might be obtained for a full year.

RESTATEMENT The Company has restated its consolidated financial statements for the year ended December 31, 2001 as well as the previously reported quarterly results for 2002 and 2001. Subsequent to the original issuance of these condensed consolidated financial statements, management determined that the historical accounting treatment relating to the items below required revision. The table below presents the net income impacts from the restatement.

(In millions, except per share data)	Three Months Ended Sept. 30, 2002	Three Months Ended Sept. 30, 2001	Nine Months Ended Sept. 30, 2002	Ni Sep
Continuing Operations:				
AHS deferred acquisition costs	$ -	$ (0.7)	$ -	$
Trade name license fee	-	-	-	
Interim accounting (TruGreen)	7.6	8.7	3.6	
Other, net	1.6	1.5	4.3	
Tax adjustment from reincorporation	-	(0.2)	-	
Income Impact	$ 9.2	$ 9.3	$ 7.9	$
Diluted EPS Impact	$ 0.03	$ 0.03	$ 0.03	$
Discontinued Operations:				
Income Impact	$ 0.6	$ (2.9)	$ 0.5	$
Diluted EPS Impact	$ -	$(0.01)	$ -	$
Cumulative effect of accounting change:				
Income Impact	$ -	$ -	$ 44.6	$
Diluted EPS Impact	$ -	$ -	$ 0.15	$

A summary of the significant effects of the restatement is as follows:

(in thousands, except per share data)	Three Months Ended September 30, 2002		Three Month September 3
	As Previously Reported	As Restated	As Previously Reported
Operating revenue	$1,013,484	$1,010,661	$981,552
Operating income	108,752	124,995	88,594
Income from continuing operations before income taxes	91,429	106,465	62,807
Income from continuing operations	57,810	66,988	35,730
Discontinued operations, net	527	1,095	10,393
Net income	$58,337	$68,083	$46,123
Diluted earnings per share:			
Income from continuing operations	$0.19	$0.22	$0.12
Discontinued operations, net	-	-	0.03
Diluted earnings per share	$0.19	$0.22	$0.15

6

	As of September 30, 2002		As of December 31
	As Previously Reported	As Restated	As Previously Reported
Current assets	$937,931	$944,019	$1,131,824
Net property, plant, and equipment	173,686	191,358	180,937
Other long-term assets	2,306,172	2,294,267	2,361,978
Total assets	$3,417,789	$3,429,644	$3,674,739
Current liabilities	$840,668	$843,741	$796,113
Long-term debt	795,987	810,719	1,105,518
Long-term liabilities	446,833	408,848	449,470

Minority interest	101,851	101,851	102,677
Total shareholders' equity	1,232,450	1,264,485	1,220,961
Total liabilities and shareholders' equity	$3,417,789	$3,429,644	$3,674,739

	Nine Months Ended September 30, 2002		Nine Month September 3
(in thousands, except per share data)	As Previously Reported (1)	As Restated	As Previously Reported
Operating revenue	$2,779,676	$2,779,861	$2,716,830
Operating income	283,672	299,367	255,177
Income from continuing operations before income Taxes	225,032	237,885	169,190
Income from continuing operations before extraordinary items	142,345	150,283	97,755
Discontinued operations, net	684	1,173	22,305
Extraordinary gain (loss), net	(9,229)	(9,229)	6,003
Cumulative effect of accounting change, net	(44,577)	-	-
Net income	$89,223	$142,227	$126,063
Diluted earnings per share:			
Income from continuing operations before extraordinary items	$0.46	$0.49	$0.32
Discontinued operations, net	-	-	0.07
Extraordinary gain (loss), net	(0.03)	(0.03)	0.02
Cumulative effect of accounting change, net	(0.15)	-	-
Diluted earnings per share	$0.29	$0.46	$0.42

(1) Includes the cumulative effect of the change in accounting principle at American Home Shield.

AMERICAN HOME SHIELD DEFERRED ACQUISITION COSTS

In July 2002, the Company changed its method of accounting for deferred customer acquisition costs in its American Home Shield business from SFAS No. 60, "Accounting and Reporting by Insurance Enterprises," pursuant to which the Company believed it was appropriate to amortize deferred acquisition costs over the expected customer life to FASB Technical Bulletin No. 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts," pursuant to which deferred acquisition costs are amortized over the initial contract life.

The new method of accounting reduced after-tax earnings by $.03 per diluted share in 2002, but had no material impact on cash flow in current or future years. In the second quarter of 2002, the Company retroactively recorded to the first quarter of 2002 a cumulative charge of $45 million ($.15 per diluted share) to effect this change.

Following discussions with the Staff of the Securities and Exchange Commission, the Company has restated prior years to account for deferred acquisition costs in accordance with FASB Technical Bulletin No. 90-1. The effect of this restatement is to eliminate the cumulative charge for the accounting change and reduce full year income from continuing operations by $8.5 million or $.03 per diluted share in 2001, and $6.1 million or $.02 per diluted share in 2000. In addition, this change results in a reduction of retained earnings of $30 million at January 1, 2000. This restatement reduced income from continuing operations by $.7 million for the third quarter of 2001 and $5.3 million for the nine months ended September 30, 2001.

TRADE NAME LICENSE FEE

In connection with the sale of its Management Services business in the fourth quarter of 2001, the Company entered into a three-year licensing arrangement with ARAMARK Corporation for the use of the ServiceMaster trade name. This agreement was valued at $15 million and accordingly, a like amount was allocated from the purchase price. The Company intended to recognize this amount over the three-year contractual period, and as such, recognized $2 million related thereto in each of the first and second quarters of 2002. In November 2002, the Company announced that it had determined that it was appropriate to recognize the entire $15 million licensing fee in the fourth quarter of 2001. The effect of this correction is to increase full year income from continuing operations by $9 million and diluted earnings per share by $.03 in 2001, and to reduce income from continuing operations by $2.5 million and diluted earnings per share by $.01 in the first half of 2002. The impact of this restatement was reflected in the Company's Form 10-Q filing of November 14, 2002. There is no restatement reflected for this item in the amended Form 10-Q filing.

INSURANCE (TRUGREEN)

In January 2002, the Company reported that it had recognized a $9 million pretax expense in 2001 relating to a revised estimate of the 2000 insurance reserve requirements. Net income has been restated for this item which results in an increase to full year income from continuing operations of $3.7 million (or $.01) in 2001 and a decrease to income from continuing operations of the same amount in 2000. The remaining adjustment results in a decrease to full year income from discontinued operations of $1.1 million in 2000. This restatement impacted the fourth quarter of 2001.

REINCORPORATION TAX

Prior to 1997, the Company was in partnership form and therefore was not a federal taxpayer. Consequently, the Company did not record deferred tax balances reflecting the differences between the book and tax basis of its assets and liabilities. When the Company converted to corporate form in 1997, it realized a significant step-up in the tax basis of its assets, which was largely reflected as an increase in the basis of the tax intangibles and provided for significant tax deductions over the next 15 years. In accounting for this event in 1997, the Company recorded the net deferred tax asset associated with differences between the book and tax basis of its tangible assets and liabilities. As it related to intangible assets, the Company made a determination that the tax basis of intangibles equaled the overall book balance of intangible assets on an enterprise basis. Subsequently it was determined that intangible assets needed

to be considered at the individual business unit level which resulted in a situation where tax basis exceeded book basis in certain units. This difference created an additional deferred tax asset. The Company restated the financial statements to reflect the deferred tax asset as if it had been recorded in 1997.

This change results in an increase to retained earnings as of January 1, 2000 of $92.6 million, and an increase to the tax full year provision for continuing operations of $.8 million in both 2001 and 2000 and an increase to the full year tax provision for discontinued operations of $.8 million and $1.2 million in 2001 and 2000, respectively. This restatement also results in an increase to the tax provision relating to the gain on certain businesses sold in the fourth quarter of 2001 of $45.8 million. The net impact of these items was to increase deferred tax assets by $33.4 million and equity by $43.2 million as of December 31, 2001. This restatement increased the tax provision for continuing operations by $.2 million and $.6 million for the third quarter and nine months ended September 30, 2001, respectively. In addition, the tax provision for discontinued operations increased by $.3 million and $.8 million for the third quarter and nine months ended September 30, 2001, respectively.

OTHER, NET

Other items primarily relate to adjustments in accruals, timing of revenue and expense items and other miscellaneous items. The Company also determined it was appropriate to expense the costs associated with telephone directory placements when the directory is published rather than expensing the cost over the contract period. In addition, certain operating leases of constructed properties have been included in the balance sheet as assets with associated debt. The financial statements have been restated from the amounts previously reported for these items. The restatement related to these items resulted in income from continuing operations increasing $1.6 million and $1.5 million for the third quarter 2002 and 2001, respectively. For the nine months ended September 30, 2002 and 2001, income from continuing operations increased by $4.3 million in both periods. Income from discontinued operations increased by $.6 million and decreased by $2.7 million for the

third quarter 2002 and 2001, respectively. For the nine months ended September 30, 2002 and 2001, income from discontinued operations increased by $.5 million and decreased $4.5 million, respectively.

INTERIM ACCOUNTING

TruGreen ChemLawn incurs pre-season advertising costs and annual repair and maintenance procedures in the first quarter. These costs are deferred and recognized as expense in proportion to the related revenues. Full-year results are not affected. The quarterly information for 2002 and 2001 has been restated to treat certain costs that were previously deferred, as current period costs. There was no impact on full-year results for 2002 and 2001 as a result of this change. This restatement resulted in income from continuing operations increasing by $7.6 million and $8.7 million for the third quarter of 2002 and 2001, respectively, and increasing by $3.6 million and decreasing $.6 million for the nine months ended September 30, 2002 and 2001, respectively.

NOTE 3: The Company has identified the most important accounting policies in order to portray its financial condition and results of operations. These relate primarily to revenue recognition and the deferral of customer acquisition costs. The following revenue recognition policies have not changed since year-end. Revenues from lawn care, non-baiting termite, pest control, heating/air conditioning and plumbing services are recognized as the services are provided. Revenues from landscaping services are recognized based upon agreed monthly

contract payments or when services are performed for non-contractual arrangements. Revenues from the Company's commercial installation contracts, primarily relating to HVAC, are recognized on the percentage of completion method in the ratio that total incurred costs bear to total estimated costs. Fees from home warranty and termite baiting contracts are recognized as revenues over the life of the contract in proportion to the direct costs (service or claim), which are expensed as incurred. Franchised revenues (which in aggregate represents approximately three percent of consolidated totals) consist of initial franchise fees and continuing monthly fees based upon the franchisee revenue. Revenue is recognized when reported from the franchisee and collectibility is assured.

Customer acquisition costs, which are incremental and direct costs of obtaining the customer, relating to several of the Company's contracts are deferred and amortized over the life of the contract, in proportion to revenue recognized. These costs include sales commissions and direct selling costs which can be shown to have resulted in a successful sale.

TruGreen ChemLawn has significant seasonality to its business. In the winter and early spring, this business sells a series of lawn applications to customers which are rendered primarily in March through October. The Company incurs incremental selling expenses at the beginning of the year that directly relate to successful sales in which the revenues will be recognized in later quarters. This business also defers, on an interim basis, pre-season advertising costs and annual repairs and maintenance procedures that are performed in the first quarter. These costs are deferred and recognized approximately in proportion to the contract revenue over the production season, and are not deferred beyond the calendar year-end.

As noted above, TruGreen's pre-season advertising costs are deferred and recognized approximately in proportion to the contract revenue over the year. These costs are not deferred beyond the calendar year-end. Beginning in 2002, the cost of direct-response advertising at Terminix is capitalized and amortized over its expected period of future benefits. This direct-response advertising consists primarily of direct-mail promotions, for which the cost is capitalized and amortized over the one-year customer contract life.

The preparation of the financial statements requires management to make certain estimates and assumptions required under generally accepted accounting principles which may differ materially from the actual results. Disclosures in the 2001 Annual Report presented the significant areas that require the use of management's estimates and discussed how management formed its judgment. The areas discussed included the allowance for receivables, accruals for self-insured retention limits related to medical, workers compensation, auto and general liability insurance, the possible outcome of litigation and the useful lives for depreciation and amortization expense and the valuation of tangible and intangible assets. There have been no changes in these areas or methodologies in 2002.

NOTE 4: The Company carries insurance policies on insurable risks which it believes to be appropriate. The Company generally has self-insured retention limits and has obtained fully insured layers of coverage above

9

such self-insured retention limits. Accruals for self-insurance losses are made based on the Company's claims experience and actuarial assumptions. The Company has certain liabilities with respect to existing or potential claims, lawsuits, and other proceedings. The Company accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably

estimated.

The Company believes that other legal proceedings and currently pending litigation arising in the ordinary course of business will not have a material effect on the consolidated financial statements.

NOTE 5: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets". SFAS 142 requires that after December 31, 2001, existing goodwill will no longer be amortized and intangible assets with indefinite useful lives will not be amortized until their useful lives are determined to be no longer indefinite. In accordance with SFAS 142, the Company discontinued the amortization of goodwill and indefinite lived intangible assets effective January 1, 2002. Goodwill and intangible assets that are not amortized are subject to at least an annual assessment for impairment by applying a fair-value-based test. The Company completed its initial assessment of goodwill impairment in the second quarter of 2002 and the testing concluded that there were no impairment issues. Estimated fair value was determined for each reporting unit by utilizing the expected present value of the future cash flows of the units. In all instances, the estimated fair value of the reporting units exceeded their book values. The Company will perform impairment testing on an annual basis and may test for impairment on a more frequent basis if management believes events have changed resulting in a reporting units fair value being reduced below its book value. In accordance with SFAS 142, the following table provides summarized transitional information for the periods ended September 30, 2002 and 2001, with the 2001 information presented on an adjusted basis to reflect the elimination of amortization expense required under SFAS 142:

	Three Months Ended September 30,		Nine Se
(in thousands, except per share data)	2002	2001	2002
Reported operating income	$124,995	$106,504	$299,3
Add back: Goodwill and trade name amortization	-	15,443	
Operating income as adjusted under SFAS 142	$124,995	$121,947	$299,3
Reported income from continuing operations before extraordinary gain (loss)	$66,988	$45,042	$150,2
Add back: Goodwill and trade name amortization, net of tax	-	10,445	
Income from continuing operations before extraordinary gain/loss as adjusted under SFAS 142	66,988	55,487	150,2
Discontinued operations, net of taxes	1,095	7,490	1,1
Extraordinary gain/(loss), net of taxes	-	-	(9,22
Net income as adjusted under SFAS 142	$68,083	$62,977	$142,2
Reported basic earnings per share from continuing operations before extraordinary gain/(loss)	$0.22	$0.15	$0.
Add back: Goodwill and trade name amortization, net of tax	-	0.03	

Basic earnings per share from continuing operations before extraordinary gain/(loss) as adjusted under SFAS 142	0.22	0.19	0.
Discontinued operations, net	-	0.03	
Extraordinary gain/(loss), net	-	-	(0.0
Basic earnings per share as adjusted under SFAS 142	$0.23	$0.21	$0.

10

	Three Months Ended September 30,		Nine Se
(in thousands, except per share data)	2002	2001	2002
Reported diluted earnings per share from continuing operations before extraordinary gain/(loss)	$0.22	$0.15	$0.
Add back: Goodwill and trade name amortization, net of tax	-	0.03	
Diluted earnings per share from continuing operations before extraordinary gain/(loss) as adjusted under SFAS 142	0.22	0.18	0.
Discontinued operations, net	-	0.02	
Extraordinary gain/(loss), net	-	-	(0.0
Diluted earnings per share as adjusted under SFAS 142	$0.22	$0.21	$0.

The following table summarizes goodwill and intangible assets.

(IN THOUSANDS)	As of September 30, 2002	As of December 31, 2001
Goodwill (1)	$1,912,605	$1,904,178
Trade names (1)	238,550	238,550
Other intangible assets	77,475	74,197
Accumulated amortization (2)	(57,199)	(51,611)
Net other intangibles	20,276	22,586
Total	$2,171,431	$2,165,314

(1) Not subject to amortization
(2) Annual amortization expense of approximately $6 - $8 million is expected over the next five years.

NOTE 6: The Company has announced that; beginning in 2003, it will begin accounting for employee stock options as compensation expense in accordance with SFAS 123, "Accounting for Stock Based Compensation." If the Company continues its historical pattern of option granting, the impact would be approximately $.005 per diluted share in 2003, growing to approximately $.03 per diluted share over five years.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The primary impact to the Company of SFAS 145 is that it rescinds SFAS 4 which required all material gains and losses from the extinguishment of debt to be classified as extraordinary items. SFAS 145 requires that the more restrictive criteria of APB Opinion No. 30 will be used to determine whether such gains or losses are extraordinary. The Company intends to adopt SFAS 145 in its fiscal year 2003, as required by SFAS 145. Adoption of SFAS 145 will result in the reclassification of the extraordinary gains/losses into income from continuing operations included in the accompanying Condensed Consolidated Statements of Income.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002.

NOTE 7: On October 3, 2001 the Company's Board of Directors approved a series of strategic actions which were the culmination of an extensive portfolio review process that was initiated in the first quarter of 2001. The goal of the portfolio review was to increase shareholder value by creating a focused and aligned company that provides the greatest return and growth potential. The Company determined it could best achieve these goals with a portfolio of businesses which support the business strategy to become America's Home Service Company and have attractive cash flow and return characteristics. As part of this determination, in the fourth

quarter of 2001, the Company sold its Management Services business to ARAMARK Corporation for approximately $800 million. Also in the fourth quarter of 2001, the Company's Board of Directors approved the exit of non-strategic and under-performing businesses including TruGreen LandCare Construction, Certified Systems Inc. (CSI), and certain other small operations. The Company sold its TruGreen LandCare Construction operations to Environmental Industries, Inc. (EII) in certain markets and entered into an agreement with EII to manage the wind-down of commercial landscaping construction contracts in the remaining markets. In addition, the Company sold all of its customer contracts relating to the exit of CSI (the Company's professional employer organization), to AMS Staff Leasing, N.A., Inc. The Company also completed, in the fourth quarter of 2001, the sale of certain subsidiaries of its European pest control and property services operations. The results of these discontinued business units have been separated and classified as "Discontinued Operations" in the accompanying financial statements. During the third quarter of 2002, the Company sold its Terminix operations in the United Kingdom and the financial results have been

reclassified from "Continuing Operations" to "Discontinued Operations" for all periods presented.

The Company continues to carry certain assets on its financial statements relating to these operations. Management is actively selling the remaining equipment and collecting the outstanding receivables. The Company believes that the remaining assets are presented at their net realizable value. In addition, reserves and accrual balances remain on the financial statements relating to these operations. Cash payments incurred for the wind-down of LandCare construction contracts, lease termination costs, workers compensation and health claims as well as professional service fees have been made in the first nine months of 2002.

As part of the overall strategic review, the Company recorded a charge for asset impairments and other items in the fourth quarter of 2001 which included accruals for residual value guarantees on leased properties, severance for former executives and terminated employees, and other costs. At December 31, 2001, the accrual balance was $36 million. During the second quarter of 2002, the Company completed the sale of its ownership interest in five assisted living facilities. These properties were financed through a synthetic lease arrangement, whereby, the Company guaranteed the residual value of the properties. At year-end, a $13.5 million reserve was established representing the amount by which the residual value guarantees exceeded the value of bids to purchase the facilities at that time. The final sales price was significantly greater than these bid levels and the Company realized a gain of $3.6 million in the second quarter of 2002 from the sale on the assisted living properties.

The following table below summarizes the activity during the nine months ended September 30, 2002 for the remaining liabilities from the discontinued operation and the reserves for items recorded in the fourth quarter of 2001. The Company believes that the remaining reserves continue to be adequate and reasonable.

(IN THOUSANDS)	Balance at December 31, 2001	Cash Payments or Other		Income/ (Expense)	Balance Septembe 2002
Remaining liabilities from discontinued operations					
LandCare Construction	$34,100	$21,400		$(2,100)	$14,8
Certified Systems, Inc.	23,800	7,500		(3,500)	19,8
Management Services	7,400	1,000		3,500	2,9
International businesses	19,600	19,600	(1)	(12,900)	12,9
Other	16,100	6,300		-	9,8
Reserves related to strategic actions in the fourth quarter of 2001	$36,000	$13,700		$3,600	$18,7

(1) The liabilities of this business assumed by the buyer of the sold operations totaled $19.6 million. During 2002, the Company recorded accruals in connection with sold operations and a cash adjustment to the purchase price of the 2001 dispositions.....

The Company recorded a $3.2 million charge in the second quarter of 2002 relating to the severance and termination agreement of a key executive. This severance will be paid out over three years.

NOTE 8: Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of shares outstanding for the

period. The weighted average common shares for the diluted earnings per share calculation includes the incremental effect related to outstanding options whose market price is in excess of the exercise price. Shares potentially issuable under convertible securities have

been considered outstanding for purposes of the diluted earnings per share calculations. In computing diluted earnings per share, the after-tax interest expense related to convertible debentures is added back to net income in the numerator, while the diluted shares in the denominator include the shares issuable upon conversion of the debentures. The effects of outstanding stock options whose market price is in excess of the exercise price and shares potentially issuable under convertible securities have not been included for the nine months ended September 30, 2001, as their effect would have been anti-dilutive.

The following table reconciles both the numerator and the denominator of the basic earnings per share from continuing operations computation to the numerator and the denominator of the diluted earnings per share from continuing operations computation.

(IN THOUSANDS, EXCEPT PER SHARE DATA)	Three Months Ended September 30, 2002			T Ended S
CONTINUING OPERATIONS:	INCOME	SHARES	EPS	INCOME
Basic earnings per share	$66,988	301,093	$0.22	$45,042
Effect of dilutive securities,net of tax:				
Options		4,356		
Convertible securities	1,195	8,200		1,195
Diluted earnings per share	$68,183	313,649	$0.22	$46,237

	Nine Months Ended September 30, 2002			Ende
CONTINUING OPERATIONS:	INCOME	SHARES	EPS	INCOME
Basic earnings per share	$150,283	300,805	$0.50	$95,51
Effect of dilutive securities, net of tax:				
Options		6,150		
Convertible securities	3,585	8,200		
Diluted earnings per share	$153,868	315,155	$0.49	$95,51

NOTE 9: In the Condensed Consolidated Statements of Cash Flows, the caption Cash and Cash Equivalents includes investments in short-term, highly-liquid securities having a maturity of three months or less. Supplemental information relating to the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2002 and 2001 is presented in the following table:

	(IN THOUSANDS) 2002	2001
CASH PAID OR (RECEIVED) FOR:		
Interest expense.....................	$ 68,369	$ 106,645
Interest and dividend income..........	$ (8,195)	$ (6,659)
Income taxes.........................	$ 36,629	$ (7,277)

The decrease in interest paid in 2002 is primarily due to reduced debt levels reflecting debt retirements utilizing the proceeds from the sale of Management Services. The increase in interest income received is also due to the proceeds received from the Management Services sale as the Company maintained significant cash levels throughout the year. The tax payment in 2002 resulted from the gain on the sale of the Management Services business which compared to the prior year tax refund of $21 million related to prior year over-payments.

NOTE 10: Total comprehensive income was $70.8 million and $48.8 million for the three months ended September 30, 2002 and 2001, respectively, and $141.7 million and $100.9 million for the nine months ended September 30, 2002 and 2001, respectively. Total comprehensive income includes primarily net income, changes in unrealized gains and losses on marketable securities and translation balances.

NOTE 11: On March 23, 2001, the Company entered into an agreement which provides for the ongoing revolving sale of a designated pool of accounts receivable of TruGreen and Terminix. At September 30, 2002, there were no outstanding receivables sold to third parties under this agreement. However, the Company may sell its receivables in the future which would provide an alternative funding source.

NOTE 12: In the second quarter of 2002, the Company recorded an extraordinary loss on early debt extinguishment of $9.2 million after-tax or $.03 per diluted share resulting from the repurchase of approximately $218 million in ServiceMaster corporate bonds pursuant to a tender offer. In the first quarter of 2001, the Company repurchased approximately $35 million of its public debt securities and recorded an extraordinary gain of $6.0 million after-tax or $.02 per diluted share. The Company intends to adopt SFAS 145 beginning in fiscal 2003. Adoption of this Statement will result in the reclassification of the extraordinary gain/loss into income from continuing operations.

NOTE 13: The Company maintains minority investors in the combined ARS/AMS entity as well as in Terminix. Members of management acquired, at fair market value, equity interests in ARS. The Company and the equity investors have respective options to acquire or sell the minority interests in the future at a price based on fair market value. The future acquisition of this minority interest will be recorded as additional purchase cost at the time of payment. At Terminix, the minority ownership reflects an interest issued to the prior owners of the Allied Bruce Terminix Companies in connection with that acquisition. This equity security is exchangeable into eight million ServiceMaster common shares. The

ServiceMaster shares are included in the shares used for the calculation of diluted earnings per share.

In January 2001, Jonathan P. Ward, President and Chief Executive Officer of ServiceMaster, purchased from ServiceMaster a 5.50% convertible debenture due January 9, 2011, with a face value of $1.1 million. ServiceMaster financed the purchase of the debenture with a 5.50% full recourse loan due January 9, 2011. In May 2001, Mr. Ward purchased a second 5.50% convertible debenture due May 10, 2011, with a face value of $1.1 million. ServiceMaster financed 50% of the purchase price of this second debenture with a 5.50% full recourse loan due May 10, 2011. Each debenture becomes convertible into 20,000 shares of ServiceMaster common stock on December 31 on each of the years 2001 through 2005.

NOTE 14: The business of the Company is conducted through five operating segments: TruGreen, Terminix, American Home Shield, ARS/AMS and Other Operations. Due to the Company's sale of its Management Services business unit and its exit from other businesses in 2001, certain operations have become more significant for segment reporting purposes. As a result, the Company has expanded its business segment reporting which will allow for better ongoing visibility into the components of the business. The companies that previously were reported in the Home Maintenance & Improvement segment have been further broken out into American Home Shield and the combination of ARS/AMS. The franchise operations, ServiceMaster Clean and Merry Maids, formerly in the Home Maintenance & Improvement segment, are reported in the Other Operations segment. In accordance with Statement of Financial Accounting Standards No. 131, the Company's reportable segments are strategic business units that offer different services. The TruGreen segment provides residential and commercial lawn care and landscaping services through the TruGreen ChemLawn and TruGreen LandCare companies. As a result of the decision in the fourth quarter of 2001 to exit the LandCare Construction business, the results of the construction operations are now included in discontinued operations for all periods. The Terminix segment provides termite and pest control services to residential and commercial U.S. customers. The American Home Shield segment provides home warranties to consumers that cover heating, ventilation, air conditioning (HVAC), plumbing and certain appliances. This segment also includes home inspection services provided by AmeriSpec. The American Residential Services, (ARS) and American Mechanical Services (AMS) segment provides HVAC and plumbing services provided under the ARS, AMS and Rescue Rooter brand names. The Other Operations segment includes the franchise operations of ServiceMaster Clean and Merry Maids, which provide disaster restoration and cleaning services as well as the Company's headquarters operations which provides various technology, marketing, finance and other support services to the business units.

Segment information is presented below. As discussed in Note 2 in the Notes to the Condensed Consolidated Financial Statements, the information for 2002 and 2001 has been restated.

SFAS 142, "Goodwill and Other Intangible Assets", eliminates the amortization of goodwill and intangible assets with indefinite lives beginning in 2002. The table below also presents "Proforma" information for 2001 which eliminates amortization expense related to goodwill and intangible assets with indefinite lives, so that these periods are presented on a comparable basis to the 2002 information.

(IN THOUSANDS)	Three Months Ended Sept. 30, 2002 Reported	Three Mo Ended Sep 2001 Report
Operating Revenue:		
TruGreen	$418,715	$414,
Terminix	235,414	212,
American Home Shield	121,639	104,
ARS/AMS	192,721	215,
Other Operations	42,172	35,
Total Operating Revenue	$1,010,661	$981,

Operating Income:		
TruGreen	$76,204	$70,
Terminix	25,359	19,
American Home Shield	19,715	8,
ARS/AMS	7,736	13,
Other Operations	(4,019)	(5,3
Total Operating Income	$124,995	$106,

	As of Sept. 30, 2002	As of Dec. 31, 20
Identifiable Assets:		
TruGreen	$1,122,330	$1,082,13
Terminix	847,881	823,33
American Home Shield	367,064	323,22
ARS/AMS	495,329	519,02
Other Operations (and discontinued businesses)	597,040	873,52
Total Identifiable Assets	$3,429,644	$3,621,24

	Nine Months Ended Sept. 30, 2002 Reported	Nine Months Ended Sept. 30, 2001 Reported
Operating Revenue:		
TruGreen	$1,082,137	$1,074,099
Terminix	712,339	640,450
American Home Shield	323,995	277,486
ARS/AMS	549,891	630,468
Other Operations	111,499	101,676

Total Operating Revenue	$2,779,861	$2,724,179
Operating Income:		
TruGreen	$150,648	$131,599
Terminix	107,584	82,479
American Home Shield	40,904	20,802
ARS/AMS	15,041	32,338
Other Operations	(14,810)	(10,454)
Total Operating Income	$299,367	$256,764

The following table summarizes the previously amortized goodwill and trade names by segment that, beginning on January 1, 2002 are no longer amortized.

	September 30, 2002	December 31, 2001
TruGreen	$913,987	$910,573
Terminix	708,408	705,608
American Home Shield	72,085	72,085
ARS/AMS	347,971	347,863
Other Operations	108,704	106,599
Total	$2,151,155	$2,142,728

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THIRD QUARTER 2002 COMPARED TO THIRD QUARTER 2001

CONSOLIDATED REVIEW

The Company has restated its financial statements for 2001 as well as the previously reported 2002 quarterly results. See Note 2 of the Notes to the Condensed Consolidated Financial Statements for the description of the restatement and the financial statement impact. This Management Discussion and Analysis reflects the impacts of the restatement.

Revenue for the third quarter was $1.01 billion, three percent above 2001, and operating income was $125 million. The Company reported income from continuing operations in 2002 of $67 million and income from discontinued operations of $1.1 million. Net income was $68 million in 2002 and $53 million in 2001 and diluted earnings per share were $.22 in 2002 and $.17 in 2001.

Diluted earnings per share from continuing operations were $.22 in 2002 compared with $.15 in 2001. As discussed further in Note 4 of the Notes to the Condensed Consolidated Financial Statements, Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", requires that beginning in 2002, goodwill and trade names no longer be amortized. SFAS 142 does not permit the restatement of the 2001 financial information to reflect the impact of SFAS 142. The diluted earnings per share equivalent of reduced amortization expense under SFAS 142 is $.03 ($15 million pretax) for the third quarter of 2001.

Third quarter operating income in 2002 was $125 million compared to $107 million in 2001. The 2001 figure includes $15 million of amortization expense that has been eliminated under SFAS 142. Operating margins after adjusting for the amortization expense eliminated under SFAS 142 was 12.4 percent of revenue in 2002, consistent with 2001. The increase in operating income reflects continued strong performance at American Home Shield, solid performance from Terminix and the TruGreen lawn care operations and $6 million of licensing fees received in the sale of the Terminix United Kingdom operations. The increase in operating income is partially offset by continuing challenges in the heating, ventilation and air conditioning (HVAC) and plumbing businesses of ARS and AMS, as well as increased expenditures related to Company-wide operational initiatives and overhead support.

Cost of services rendered and products sold increased two percent for the quarter and decreased as a percentage of revenue to 67.9 percent in 2002 from 68.5 percent in 2001. This decrease reflects a change in mix of the business as TruGreen ChemLawn, Terminix, and American Home Shield increased in size in relationship to the overall business of the Company. These businesses generally operate at higher gross margin levels than the rest of the business, but also incur somewhat higher selling and administrative expenses as a percentage of revenue. Selling and administrative expenses increased seven percent and increased as a percentage of revenue to 19.6 percent from 18.8 percent in 2001. The increase in selling and administrative expenses reflects the change in business mix discussed above, increased expenditures for marketing leadership and sales initiatives, as well as enterprise-wide expenditures in procurement, technology and initiatives to measure and improve customer and employee satisfaction.

Interest expense decreased from the prior year, primarily due to reduced debt levels as a portion of the proceeds received from sales of the Management Services and certain European pest control businesses were used to pay down debt. Interest and investment income decreased primarily reflecting one time venture capital gains realized in 2001 and a reduced level of investment gains realized on the American Home Shield investment portfolio. As of September 30, 2002, there was an unrealized loss of approximately $6 million on the American

Home Shield investment portfolio which has been reflected in other comprehensive income. Minority interest and other expense reflected a lower level of expense as 2001 included approximately $1 million of losses relating to the sale of accounts receivables under the Company's securitization program.

The tax provision in 2002 reflects a lower effective tax rate than 2001 based on benefits received through the consolidation for tax purposes of the ServiceMaster Home Service Center. As a result of the Company's acquisition of the minority interest, it was able to reorganize the subsidiary in 2002 and utilize prior year net operating losses of this subsidiary operation.

SEGMENT REVIEW

SEGMENT RESULTS FOR 2002 REFLECT THE ELIMINATION OF GOODWILL AND TRADE NAME AMORTIZATION REQUIRED UNDER SFAS 142. THEREFORE, FOR COMPARATIVE PURPOSES, 2001 RESULTS HAVE BEEN PRESENTED ON A PROFORMA BASIS AS IF SFAS 142 HAD BEEN IN EFFECT FOR 2001 THEREBY EXCLUDING THE AMORTIZATION EXPENSE AFFECTED BY THE NEW ACCOUNTING STANDARD. (SEE THE BUSINESS SEGMENT REPORTING IN NOTE 14 IN THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS). MANAGEMENTS DISCUSSION AND ANALYSIS FOCUSES ON THE 2002 REPORTED AND THE 2001 PROFORMA AMOUNTS.

The TruGreen segment includes lawn care operations performed under the TruGreen ChemLawn brand name and landscape maintenance services provided under the TruGreen LandCare brand name. This segment's results for both 2002 and 2001 exclude the discontinued TruGreen LandCare Construction business. The TruGreen segment reported revenue of $419 million, one percent above 2001. Operating income decreased one percent to $76 million from $77 million (proforma) in 2001, reflecting solid improvement in the lawn care operations offset by increased expenditures in the landscape operations related to sales and retention initiatives. Revenue in the lawn care business improved two percent over 2001, reflecting growth in customer counts from increased sales and improved retention rates. Solid growth in the sale of ancillary services was supported by the higher level of full program customers. Operating income margins in the lawn care operations were comparable to 2001. Revenue in the landscape maintenance operations declined one percent reflecting a volume decrease in the core maintenance business, offset in part by solid growth in the utility line clearing business. Despite the volume decline, the base of maintenance business consists of more profitable contracts with stronger customers and improved pricing. Margins in the landscaping operations declined primarily reflecting lower labor and material costs offset by increased insurance costs and investments to support sales and retention initiatives. This business has hired a senior sales leader and is expanding and developing its sales force. In addition, management continues to focus on labor efficiency programs and improving the results of the bottom quartile of its branches.

The Terminix segment, which includes the domestic termite and pest control services, reported an 11 percent increase in revenue to $235 million from $212 million in 2001 and operating income growth of five percent to $25 million from $24 million (proforma) in 2001. Revenue growth reflects the impact of the 2001 acquisition of Sears Termite & Pest Control as well as new sales and improved customer retention in both the termite and pest control business. Operating income margins declined reflecting the near-term expenses associated with the rollout of Terminix's new branch information system, increased direct marketing expenditures and investments in Six Sigma, offset in part by the prior year acquisition and improved branch efficiencies related to labor and material costs.

The American Home Shield segment, which provides home warranties to consumers that cover HVAC, plumbing and other appliances, reported a 17 percent increase in revenue to $122 million from $104 million in 2001. The increase in revenue reflected strong growth in the real estate sales channel, significant growth in direct sales to consumers and continued improvement in customer retention. Operating income increased 110 percent to $20 million from $9 million (proforma) in 2001. Operating income margins improved significantly reflecting various initiatives to improve the cost structure and modest weather conditions in several regions, which resulted in a reduced level of claims.

The ARS/AMS segment provides direct HVAC and plumbing services under the American Residential Services (ARS), Rescue Rooter, and American Mechanical Services (AMS) (for commercial accounts) brand names. The segment reported revenue of $193 million, a decrease of ten percent from $215 million in 2001. Operating income decreased to $8 million compared to $16 million (proforma) in 2001. A decline in call volume for air conditioning and plumbing repairs and reduced construction activity continued to affect the industry and resulted in the segment's decline in revenue and profit. ARS has hired a senior operations leader and is realigning its field operating structure to narrow the span of control in troubled locations. Management is developing specific turnaround plans for each location, including improving the quality and depth of management through internal and external recruiting and creating a management

development program. ARS is continuing to rebuild its marketing and sales strategies by centralizing its marketing planning and placement, improving the lead and sales tracking system, and reducing reliance on yellow pages advertising.

The Other Operations segment includes the Company's ServiceMaster Clean, Merry Maids, and international operations as well as its headquarters functions. Reported segment revenue of $42 million in 2002 compared with $36 million in 2001. The increase in revenue largely reflects the impact of a $6 million licensing fee received in 2002. In the third quarter of 2002, the Company sold its Terminix operations in the United Kingdom and entered into a two-year licensing agreement with the buyer for the use of the Terminix trade name in the United Kingdom. This agreement was valued at $6 million and accordingly a like amount was allocated from the purchase price. This segment reported an operating loss of $4 million in 2002. The reduced operating loss reflects continued growth in profits in ServiceMaster Clean and Merry Maids and the impact of the trade name license fee, partially offset by increased expenditures in 2002 related technology and major operational initiatives to improve operating efficiency and build greater customer and employee satisfaction.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2002 AS COMPARED TO SEPTEMBER 30, 2001

CONSOLIDATED REVIEW

Revenue for the nine months in 2002 increased two percent to $2.8 billion and operating income was $299 million. The Company reported income from continuing operations in 2002 of $150 million, income from discontinued operations of $1 million, and a $9 million extraordinary loss from the early extinguishment of debt. Net income was $142 million in 2002 and $118 million in 2001 and diluted earnings per share were $.46 in 2002 and $.39 in 2001.

Diluted earnings per share from continuing operations were $.49 in 2002 compared

with $.32 in 2001. As discussed in the three-month comparison, the diluted earnings per share equivalent of reduced amortization expense under SFAS 142 are $.10 ($46 million pretax) for the nine months of 2001.

Nine month operating income in 2002 was $299 million compared to $257 million in 2001. The 2001 figure includes $46 million of amortization expense that has been eliminated under SFAS 142. Operating margins after adjusting for the amortization expense eliminated under SFAS 142 decreased to 10.8 percent of revenue in 2002 from 11.1 percent in 2001. The decline in operating income reflects strong increases at American Home Shield and Terminix offset by reduced volume in the HVAC and plumbing businesses of ARS and AMS and increased expenditures related to Company-wide operational initiatives and overhead support.

Cost of services rendered and products sold increased one percent for the nine months and decreased as a percentage of revenue to 68.2 percent in 2002 from 69.1 percent in 2001. Selling and administrative expenses increased nine percent and increased as a percentage of revenue to 20.8 percent from 19.5 percent in 2001. The increase in selling and administrative expenses reflects strong growth in operations that have higher gross margin levels than the rest of the business, but also incur somewhat higher selling and administrative expenses as a percentage of revenue, as well as increased expenditures for initiatives to measure and improve customer and employee satisfaction.

Interest expense decreased from the prior year, reflecting reduced debt levels resulting from the pay down of debt with the proceeds received from the sales of the Management Services and certain European pest control businesses as well as strong cash flows from operations. The decrease in interest and investment income reflects one-time venture capital gains realized in 2001 and a reduced level of investment gains in the American Home Shield investment portfolio. Minority interest and other expense increased from the prior year as 2001 included minority interest income related to the ServiceMaster Home Service Center initiative. In the first quarter of 2001 and until May 2001, the operating losses totaling $6.1 million of ServiceMaster Home Service Center had been offset through minority interest income (below the operating income line) because of investments in the venture made by Kleiner Perkins Caufield & Byers. In December 2001, the Company acquired the minority interest in the ServiceMaster Home Service Center held by Kleiner Perkins and management.

The tax provision in 2002 reflects a lower effective tax rate based on benefits received through the consolidation for tax purposes of the ServiceMaster Home Service Center. As a result of the Company's acquisition of the minority interest, it was able to reorganize the subsidiary in 2002 and utilize prior year net operating losses of this subsidiary operation.

In the second quarter of 2002, the Company repurchased a portion of its public debt securities and recorded an extraordinary loss of $.03 per diluted share ($9 million after-tax) resulting from the early extinguishment of debt. In the first quarter of 2001, the Company recorded a $.02 extraordinary gain ($6 million after-tax) resulting from the repurchase of certain ServiceMaster corporate debt.

KEY PERFORMANCE INDICATORS

The table below presents selected metrics related to customer counts and customer retention for the three most profitable businesses of the Company.

These measures are presented on a rolling, twelve month basis in order to avoid seasonal anomalies.

	KEY PERFORMANCE INDICATORS As of September 30,	
	2002	2001
TRUGREEN CHEMLAWN -		
Growth in Full Program Contracts	2%	-4%
Customer Retention Rate	62.4%	60.1%
TERMINIX -		
Growth in Pest Control Customers	11%	13%
Pest Control Customer Retention Rate	76.7%	76.6%
Growth in Termite Customers	8%	19%
Termite Customer Retention Rate	89.5%	89.1%
AMERICAN HOME SHIELD -		
Growth in Warranty Contracts	16%	15%
Customer Retention Rate	53.0%	52.1%

SEGMENT REVIEW

SEGMENT RESULTS FOR 2002 REFLECT THE ELIMINATION OF GOODWILL AND TRADE NAME AMORTIZATION REQUIRED UNDER SFAS 142. THEREFORE, FOR COMPARATIVE PURPOSES, 2001 RESULTS HAVE BEEN PRESENTED ON A PROFORMA BASIS AS IF SFAS 142 HAD BEEN IN EFFECT FOR 2001 THEREBY EXCLUDING THE AMORTIZATION EXPENSE AFFECTED BY THE NEW ACCOUNTING STANDARD. (SEE THE BUSINESS SEGMENT REPORTING IN NOTE 14 IN THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS). MANAGEMENTS DISCUSSION AND ANALYSIS FOCUSES ON THE 2002 REPORTED AND THE 2001 PROFORMA AMOUNTS.

The TruGreen segment reported revenue of $1.08 billion, an increase of one percent over the prior year. Operating income was $151 million in 2002, comparable to the 2001 proforma amount. Revenue in the lawn care operations increased two percent over 2001. Customer contracts have increased two percent over the prior twelve months compared with a four percent decline for the year ended 2001, reflecting the benefit of new marketing strategies as well as the impact of improved customer retention. In addition to telemarketing, which is the primary channel used by TruGreen ChemLawn to sell its services, the business has expanded expenditures in direct mail and television advertising leading to higher sales of new customers. Quality and other satisfaction initiatives have resulted in improving retention of existing customers. The customer retention rate improved 230 basis points to 62.4 percent compared to the same period in 2001. Operating income margins in the lawn care operations increased as the business is beginning to see margin leverage resulting from top-line growth and the success of its quality of service and Six Sigma initiatives. Revenue in the landscaping operations declined two percent reflecting a decrease in snow removal services due to mild winter weather and a decrease in the core maintenance business. Despite the decline in the maintenance business, the base of contracts is more profitable reflecting lower job costs, improved pricing, and a stronger base of customers. This business has strengthened and expanded its

sales operations. Operating income margins in the landscaping business declined primarily as a result of a decreased volume of higher margin snow removal

business, increased workers compensation claims, and increased expenditures for field operations training. In the fourth quarter, sales of enhanced services will be a priority along with the reduction of seasonal labor levels.

The Terminix segment reported an 11 percent increase in revenue to $712 million from $640 million in 2001 and operating income growth of 11 percent to $108 million from $97 million (proforma) in 2001. Revenue growth was driven by the acquisition in 2001 of Sears Termite & Pest Control as well as solid internal growth. Terminix has continued to show favorable comparisons in both termite and pest control customer retention, reflecting increased focus on quality, training, and customer service processes in the branches. Operating income margins declined slightly compared to 2001 reflecting increased expenditures for marketing and health insurance, offset in part by the continuing migration to higher margin products, improved labor efficiencies and lower material costs. The fourth quarter will be the first time in which the year over year comparisons include the Sears acquisition in both years. As expected by the Company, there has been a substantial decrease in profitable pest control customers from the Sears name in certain markets, as the Company has not been able to replace terminations with new sales at the same rate in these markets. As a result, the Company expects to see a reduction in revenue growth and retention rates in the fourth quarter. In addition, operating income margins in the fourth quarter will be impacted by the near-term expenses associated with the rollout of Terminix's new branch information system. The rollout of this system to the branches will continue through 2004, and the system will be an important tool in the Company's efforts to improve sales productivity, customer service, cost efficiency and regulatory compliance.

The American Home Shield segment reported a 17 percent increase in revenue to $324 million from $277 million in 2001 and operating income growth of 80 percent to $41 million compared to $23 million (proforma) in 2001. Revenue growth reflected increases in all sales channels, complemented by improved customer retention. Operating income margins improved as the segment benefited from strong volume growth, improved management of service costs and reduced incidence of claims resulting, in part, from less extreme weather trends.

The ARS /AMS segment reported a 13 percent decrease in revenue to $550 million from $630 million in 2001 and 62 percent decrease in operating income to $15 million compared to $39 million (proforma) in 2001. A soft economic environment combined with mild weather led to lower demand for heating, air conditioning and plumbing repairs and replacement service. These operations also experienced lower construction activity in both the residential and commercial sectors. As noted in the three-month comparison, this business continues to focus on new sales and marketing strategies that place less reliance on yellow pages advertising. ARS is also realigning its field operating structure and developing specific turnaround plans for troubled locations.

Other Operations revenue increased to $111 million from $102 million in 2001, reflecting the $6 million in licensing fees received in the sale of the Terminix United Kingdom operations and solid growth in the franchise operations. The combined franchise operations reported a three percent increase in revenue and solid profit growth, supported by strong demand for disaster restoration services at ServiceMaster Clean and acquisition growth at Merry Maids. This segment reported an operating loss of $15 million compared with a loss of $8 million (proforma) in 2001, reflecting increased expenditures on enterprise-wide initiatives including procurement, marketing, and technology.

FINANCIAL CONDITION

Net cash provided from operations for the first nine months was $245 million, $102 million in excess of net income, and reflects an improvement of $46 million over the previous year, before the impact of the Company's accounts receivable securitization program and tax refunds in 2001. Net cash provided from

operations is 62 percent higher than earnings for the nine months and represents a 23 percent increase over the $199 million that was reported last year. This increase was driven, in part, by a $45 million reduction in the use of working capital, primarily at TruGreen ChemLawn and American Home Shield as a result of better receivables and payables management. Management believes that funds generated from operations and other existing resources will continue to be adequate to satisfy ongoing working capital needs of the Company.

Cash and marketable securities totaled approximately $242 million at September 30, 2002. During the second quarter of 2002, the Company completed the last major phase of the debt reduction program announced in October 2001, when through a tender offer, the Company repurchased $218 million of its publicly traded debt. As a result of continued strong cash flows and the application of the net proceeds received from the Company's 2001 dispositions, total debt was reduced by $313 million during the nine month period. This represents a reduction in debt outstanding of approximately $1.1 billion over the last two years and the Company's lowest level in over five years. The debt repurchase allowed the Company the opportunity to lengthen its maturity profile by focusing the majority of the repurchase on debt with shorter maturities. Approximately 60% of the Company's debt now matures beyond seven years and 40% beyond fifteen years. The Company's first public bond maturity is not due until 2005.

The Company maintains a three-year revolving credit facility for $490 million, which will expire in December 2004. As of September 30, 2002 the Company had issued approximately $130 million of letters of credit under the facility and had unused commitments of approximately $360 million. The Company also has $550 million of senior unsecured debt and equity securities available for issuance under an effective shelf registration statement. In addition, the Company has an agreement to ultimately sell, on a revolving basis, certain receivables to unrelated third party purchasers. At September 30, 2002, there were no receivables outstanding that had been sold to third parties. The agreement is a 364-day facility that is renewable at the option of the purchasers. The Company may sell up to $65 million of its eligible receivables to these purchasers in the future and therefore has immediate access to cash proceeds from these sales. The amount of eligible receivables varies during the year based on seasonality of the business and will at times limit the amount available to the Company. The Company also maintains operating lease facilities with banks totaling $95 million that provide for the acquisition and development of properties to be leased by the Company. There are residual value guarantees of these properties up to 82 percent of the fair market value of the properties. At September 30, 2002, there was approximately $72 million funded under these facilities. Of the $95 million in facilities, $80 million expires in October 2004 and $15 million expires in January 2008. Approximately $15 million of these leases that involve constructed properties have been included on the balance sheet as assets with related debt as of September 30, 2002 and December 31, 2001. The majority of the Company's vehicle fleet is leased through operating leases. The lease terms are non-cancelable for the first twelve month term, then are month-to-month leases, cancelable at the Company's option. There are residual value guarantees (ranging from 70 percent to 87 percent depending on the agreement) on these vehicles, which historically have not resulted in significant net payments to the lessors. At September 30, 2002, there was approximately $265 million of residual value relating to the Company's fleet.

The following table presents the Company's obligations and commitments:

(IN MILLIONS)	TOTAL	2002	2003 and 2004	2005 an 2006
Debt balances	$842	$9	$58	$161
NON-CANCELABLE OPERATING LEASES (1)	251	16	101	65
Total amount	$1,093	$25	$159	$226

(1) Includes lease payments and residual value guarantees on leased properties.

There have been no material changes in the terms of the Company's financing agreements since December 31, 2001. As described in the Company's latest Annual Report to Shareholders, the Company is party to a number of debt agreements which require it to maintain certain financial and other covenants, including limitations on indebtedness and interest coverage ratio. In addition, under certain circumstances, the agreements may limit the Company's ability to pay dividends and repurchase shares of common stock. These limitations are not expected to be a factor in the Company's future dividend and share repurchase plans. Failure by the Company to maintain these covenants could result in the acceleration of the maturity of the debt. At September 30, 2002 the Company was in compliance with the covenants related to these debt agreements and based on its operating outlook for the remainder of 2002, expects to be able to maintain compliance in the future.

The assets and liabilities relating to the discontinued companies have been classified in separate captions on the Condensed Consolidated Statements of Financial Position. In the first quarter, the Company made

approximately $70 million in tax payments relating to the sale of Management Services. There were other cash payments relating to the wind-down of the discontinued operations which were offset by cash collected on assets remaining from these operations. Assets of the discontinued operations have declined reflecting cash collections on receivables and the sale of fixed assets. The liabilities from discontinued operations have decreased reflecting cash outflows related to the wind-down of contracts, lease termination costs, workers' compensation payments and legal costs.

Receivables and inventories increased from year-end levels, reflecting general business growth and increased seasonal activity. Prepaid expenses, deferred costs and other assets increased from year-end levels, reflecting the seasonality in the lawn care operations and increased volume of contracts written at Terminix and American Home Shield. The lawn care operations incur incremental selling expenses at the beginning of the year that directly relate to successful sales in which the revenues will be recognized in later quarters. This business also defers, on an interim basis, pre-season advertising costs and annual repairs and maintenance procedures that are performed in the first quarter. These costs are deferred and recognized in proportion to the contract revenue over the production season, and are not deferred beyond the calendar year-end. The Company also capitalizes sales commissions and other direct contract acquisition costs relating to termite and pest control contracts as well as home warranty contracts. Deferred revenue grew reflecting increases in customer prepayments for termite and pest control services and strong growth in

warranty contracts written at American Home Shield.

Capital expenditures which include recurring capital needs and information technology projects are higher than prior year levels reflecting the payments of the residual value guarantees relating to leases for the five assisted living facilities sold in the second quarter. See Note 7 for additional details. The Company has no material capital commitments at this time.

Total shareholders' equity increased to $1.3 billion at September 30, 2002 compared to $1.2 billion at December 31, 2001, reflecting earnings which were offset by cash dividends. Cash dividends paid directly to shareholders totaled $91 million or $.305 per share for the nine months ended September 30, 2002. In October 2002, the Company paid a fourth quarter cash dividend of $.105 per share and declared a first quarter 2003 cash dividend of $.105 per share payable on January 31, 2003. This quarterly dividend payment provides for an annual payment for 2002 of $.41 per share, a 2.5% increase over 2001. The Company approves its actual dividend payment on a quarterly basis and continually reviews its dividend policy, share repurchase program and other capital structure objectives. Through September 30, 2002, the Company has completed share repurchases totaling $15 million, compared to $1 million last year. Decisions relating to any future share repurchases will take various factors into consideration such as the Company's commitment to maintain investment grade credit ratings, general business conditions, and other strategic investment opportunities.

FORWARD LOOKING STATEMENTS

THE COMPANY'S FORM 10-Q/A FILING CONTAINS STATEMENTS CONCERNING FUTURE RESULTS AND OTHER MATTERS THAT MAY BE DEEMED TO BE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THE COMPANY INTENDS THAT THESE FORWARD-LOOKING STATEMENTS, WHICH LOOK FORWARD IN TIME AND INCLUDE EVERYTHING OTHER THAN HISTORICAL INFORMATION, BE SUBJECT TO THE SAFE HARBORS CREATED BY SUCH LEGISLATION. THE COMPANY NOTES THAT THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES THAT COULD AFFECT ITS RESULTS OF OPERATIONS, FINANCIAL CONDITION OR CASH FLOWS. FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN A FORWARD-LOOKING STATEMENT INCLUDE THE FOLLOWING (AMONG OTHERS): EXTREME WEATHER CONDITIONS THAT AFFECT THE DEMAND FOR THE COMPANY'S SERVICES; COMPETITION IN THE MARKETS SERVED BY THE COMPANY; LABOR SHORTAGES OR INCREASES IN WAGE RATES; UNEXPECTED INCREASES IN OPERATING COSTS, SUCH AS HIGHER INSURANCE, HEALTH CARE OR FUEL PRICES; INCREASED GOVERNMENTAL REGULATION OF TELEMARKETING; GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES, ESPECIALLY AS THEY MAY AFFECT HOME SALES OR CONSUMER SPENDING LEVELS; TIME AND EXPENSES ASSOCIATED WITH INTEGRATING AND WINDING DOWN BUSINESSES; AND OTHER FACTORS DESCRIBED FROM TIME TO TIME IN DOCUMENTS FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION.

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

The economy and its impact on discretionary consumer spending, labor wages, fuel costs, insurance costs and medical inflation rates could be significant to future operating earnings.

The Company does not hold or issue financial instruments for trading or speculative purposes. The Company has entered into specific financial arrangements in the normal course of business to manage certain market risks, with a policy of matching positions and limiting the terms of contracts to relatively short durations. The effect of financial instrument transactions is not material to the Company's financial statements.

The Company generally maintains the majority of its debt at fixed rates (over 95% of total debt at December 31, 2001 and September 30, 2002) and, therefore, its exposure to interest rate fluctuations is not significant to the Company's results of operations. The payments on the approximately $72 million of funding outstanding under the Company's real estate operating lease facilities as well as its cancelable vehicle fleet and equipment operating leases are tied to floating interest rates. However, the Company does not expect interest rate fluctuations to be significant to the Company's results of operations.

The Company has several debt and lease agreements where the interest rate or rent payable under the agreements automatically adjust based on changes in the Company's credit ratings. While the Company is not currently expecting a change in its credit ratings, based on amounts outstanding at September 30, 2002, a one rating category improvement in the Company's credit ratings would reduce expense on an annualized basis by approximately $.7 million. A one rating category reduction in the Company's credit ratings would increase expense on an annualized basis by approximately $1.3 million.

The following table summarizes information about the Company's fixed rate debt instruments as of December 31, 2002 and presents the principal cash flows and related weighted-average interest rates by expected maturity dates. The fair value of the Company's fixed rate debt was approximately $880 million at December 31, 2002.

	Expected Maturity Date						
(In millions)	2003	2004	2005	2006	2007	There-after	Total
Fixed rate debt	$31	$24	$151	$11	$59	$559	$835
Avg. Rate	4.2%	4.8%	8.2%	6.0%	6.7%	7.5%	7.2%

CONTROLS AND PROCEDURES

The Company's Chairman and Chief Executive Officer, Jonathan P. Ward, and the Company's Chief Financial Officer, Steven C. Preston, have evaluated the Company's disclosure controls and procedures within 90 days of the filing of this report.

Messrs. Ward and Preston have concluded that the Company's disclosure controls and procedures provide reasonable assurance that the Company can meet its disclosure obligations. The Company's disclosure controls and procedures are based upon a roll-up of financial and non-financial reporting that is consolidated in the principal executive office of the Company in Downers Grove,

Illinois. The reporting process is designed to ensure that information required to be disclosed by the Company in the reports that it files or submits with the Commission is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

25

PART II. OTHER INFORMATION

ITEM 6(A): EXHIBITS

Exhibit 99.1 Certification of Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

Exhibit 99.2 Certification of Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

ITEM 6(B): REPORTS ON FORM 8-K

A report on Form 8-K was filed on August 14, 2002 reporting under "Item 9. Regulation FD Disclosure". In this filing, the Company reported that on August 13, 2002 it had filed sworn statements of its Chief Executive Officer and Chief Financial Officer (the "Sworn Statements") with the Securities and Exchange Commission (the "Commission") pursuant to the Commission's Order of June 27, 2002. These Sworn Statements were included as exhibits to the Form 8-K.

26

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 14, 2003

THE SERVICEMASTER COMPANY
(Registrant)

By: /S/STEVEN C. PRESTON

Steven C. Preston

Executive Vice President and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jonathan P. Ward, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of The ServiceMaster Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/S/ JONATHAN P. WARD

Jonathan P. Ward
Chairman and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Steven C. Preston, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of The ServiceMaster Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries,

is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/S/ STEVEN C. PRESTON

Steven C. Preston
Executive Vice President
and Chief Financial Officer