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SERVICEMASTER CO
Form 11-K
June 11, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

Annual Report Pursuant to Section 15(j)
Of the Securities Exchange Act of 1934

X Annual Report Pursuant to Section 15(d)

Of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2001

or

Transition Report Pursuant to Section 15(d)

Of the Securities Exchange Act of 1934
For the Transition Period from _____ to _____

Commission File Number 1-14762

SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN
Full Title of Plan

THE SERVICEMASTER COMPANY
2300 Warrenville Road
Downers Grove, Illinois 60515

Name of Issuer of the
Securities Held Pursuant to the Plan
And the Address of the Principal Executive Office

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Committee and Plan administrators have duly caused this annual report to be signed by the undersigned thereunto duly authorized.

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SERVICEMASTER Profit Sharing and Retirement Plan

By: /s/Deborah A. O'Connor

Deborah A. O'Connor
Senior Vice President and Controller

By: /s/Eric R. Zarnikow

Eric R. Zarnikow
Senior Vice President and Treasurer

Date: May 31, 2002

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ServiceMaster Profit Sharing and Retirement Plan

Financial Statements and Schedules
As of December 31, 2001 and 2000
Together With Auditors' Report

Employer Identification Number 36-3858106
Plan Number 001

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SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN

December 31, 2001 and 2000

(Employer Identification Number 36-3858106, Plan Number 001)

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Benefits Administration Committee of the
ServiceMaster Profit Sharing and Retirement Plan

We have audited the accompanying statements of net assets available for benefits of the ServiceMaster Profit Sharing and Retirement Plan as of December 31, 2001 and 2000, and the related statement of changes in net assets available for benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's Benefits Administration Committee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted

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in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the ServiceMaster Profit Sharing and Retirement Plan as of December 31, 2001 and 2000, and the changes in net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) and Schedule of Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's Benefits Administration Committee. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen
Chicago, Illinois
May 31, 2002

SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

As of December 31, 2001 and 2000

(Employer Identification Number 36-3858106, Plan Number 001)

| ASSETS: | 2001 | 2000 |
|-----------------------------------|---------------|---------------|
| Investments (Note 3) | \$407,959,315 | \$358,759,484 |
| Non-interest-bearing cash | 221,892 | 49,311 |
| Receivable--employer contribution | 10,750,357 | 11,164,390 |

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| | | |
|-----------------------------------|---------------|---------------|
| | ----- | ----- |
| NET ASSETS AVAILABLE FOR BENEFITS | \$418,931,564 | \$369,973,185 |
| | ===== | ===== |

The accompanying Notes to Financial Statements and Schedules are an integral part of these statements.

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SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Year Ended December 31, 2001

(Employer Identification Number 36-3858106, Plan Number 001)

ADDITIONS:

Additions to net assets attributed to-

Investment income-

| | |
|---|---------------|
| Net appreciation in fair value of investments | \$ 12,963,925 |
| Interest and dividend income | 10,381,291 |
| | ----- |
| Total investment income | 23,345,216 |

Contributions-

| | |
|-------------|------------|
| Participant | 29,204,725 |
| Employer | 10,750,357 |
| Rollover | 1,142,733 |
| | ----- |

Total contributions 41,097,815

Total additions 64,443,031

DEDUCTIONS:

Deductions from net assets attributed to-

| | |
|-------------------------------|--------------|
| Benefits paid to participants | (34,513,772) |
| Other expenses | (38,864) |
| | ----- |

Total deductions (34,552,636)

TRANSFERS TO THE PLAN (Note 1) 19,067,984

Net increase 48,958,379

NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year 369,973,185

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End of year

\$418,931,564
=====

The accompanying Notes to Financial Statements and Schedules
are an integral part of this statement.

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SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS AND SCHEDULES

December 31, 2001 and 2000

1. DESCRIPTION OF PLAN

The ServiceMaster Profit Sharing and Retirement Plan (the "Plan") is a defined contribution plan established by The ServiceMaster Company (the "Company") and its affiliates and subsidiaries to whom the Plan has been extended to provide eligible employees with a program to save for retirement. The Plan was amended and restated effective as of July 1, 1999. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

2001 PLAN CHANGES

During 2001, the Benefits Administration Committee (the "Committee") resolved to merge the following plans into the Plan effective between February 15, 2001, through December 31, 2001:

| | |
|--|------------|
| Pennington Lawn Service, Inc. Profit Sharing and 401(k) Plan | \$ 204,919 |
| ARS 401(k) Plan | 15,296,677 |
| C&C Mechanical Retirement Savings Plan | 800,509 |
| Tenet Healthcare Corporation Retirement Savings Plan | 785,045 |
| The Southern Tree & Landscape Companies 401(k) Profit Sharing Plan | 649,996 |
| R.L. Company, Inc. Employee Retirement Plan | 693,814 |
| ABASH, Inc. 401(k) Plan | 97,342 |
| Able Air 401(k) Plan | 136,465 |
| Redwood Retirement Savings Plan | 101,127 |
| Showcase Landscape Inc. Employee Savings & Investment Plan | 193,279 |

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| | |
|---|--------------|
| L. Care USA Inc. 401(k) Profit Sharing Plan and Trust | 55,593 |
| MDI/RPM 401(k) Plan | 53,218 |
| | ----- |
| Total transfers to the Plan | \$19,067,984 |
| | ===== |

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 the year. The Management Services segment was sold to ARAMARK Corporation on November 30, 2001. As of that date, employees of this segment were no longer eligible to contribute to the Plan. Eligible participants of the Management Services segment did receive a matching contribution from ServiceMaster for the 2001 plan year. During the first quarter of 2002, the account balances of these participants totaling approximately \$142 million were transferred to an ARAMARK-sponsored plan.

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ELIGIBILITY

Full and part-time nonunion employees who have completed one year of service and are at least 18 years of age are eligible to participate in the Plan. Effective July 1, 2001, the Plan was amended to reduce the service period requirement from one year to 90 days. Leased employees and employees who are or who become covered by a collective bargaining agreement, which do not allow for Plan participation, are not eligible to participate in the Plan.

PARTICIPANT CONTRIBUTIONS

Participants may elect to contribute a minimum of 1% up to a maximum of 15% of pretax annual compensation, as defined in the Plan, subject to certain limitations. The first 4% of pretax compensation (base contribution) contributed to the Plan is eligible for a discretionary employer matching contribution. Participants may also contribute amounts representing distributions from other qualified plans. Participants direct the investment of their contributions into various investment options offered by the Plan, which currently consist of ServiceMaster Company common stock, six mutual funds and three common/collective trust funds.

EMPLOYER CONTRIBUTIONS

The Company's contribution is discretionary and the amount of contribution from Company profits is determined each year by the Board of Directors after a review of the overall financial performance of ServiceMaster and the key business units. The matching contribution may differ for different employee groups and, historically, has ranged from 55% to 70% of a participant's base contribution. One-half of the Company matching contribution is invested directly in the ServiceMaster Company common stock fund and the other one-half is invested according to the participants' direction. The Board of Directors approved a Company contribution for the year ended December 31, 2001.

PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution, (b) Plan earnings (c)

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and forfeitures. The participant's accounts are charged with administrative fees, where applicable. Allocations are based on participant contributions or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

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VESTING

Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's contribution is based on the following schedule, except for in the event of death or permanent disability, in which case the participant becomes immediately vested:

| Completed Years of Service | Percent Vested |
|------------------------------------|-------------------|
| ----- | ----- |
| Less than 2 years of service | 0% |
| 2 years of service but less than 3 | 25 |
| 3 years of service but less than 4 | 50 |
| 4 years of service but less than 5 | 75 |
| 5 years of service or more | 100 |
| | ===== |

FORFEITURES

Forfeitures are used first to reinstate all rehired participants' forfeitures and then are allocated to eligible participants in the same manner as employer profit sharing contributions.

PARTICIPANT LOANS

Participants may borrow from their fund accounts a minimum of \$500 up to a maximum of the lesser of: (a) \$50,000 or (b) 50% of their vested account balance (limited to the value of the participant's contributions and earnings thereon), minus their highest outstanding loan balance in the previous 12 months. A participant's loan is secured by the balance in the participant's account and bears interest at the prime interest rate as listed in The Wall Street Journal on the first business day of the month in which the loan is issued, plus 1%.

BENEFIT PAYMENTS

A participant may elect to have the value of their vested account (minus any outstanding loan balance) distributed to them upon permanent disability, upon reaching normal retirement age (65), or upon termination of employment. A participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in their account, or monthly, quarterly, or annual installments for a specified number of years not to exceed the participant's life expectancy and that of their beneficiary. At the time of distribution, shares of ServiceMaster stock in the participant's account can be taken in kind or in cash.

TERMINATION OF THE PLAN

The Company currently intends to continue the Plan indefinitely. However, the Company has the right under the Plan to discontinue contributions and terminate the Plan at any time, subject to the provisions of ERISA. If the

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Plan is terminated, participants will become fully vested in their Company contributions account balances.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Plan are prepared under the accrual method of accounting.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Plan's Benefits Administration Committee to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. These estimates could differ from actual results.

INVESTMENT VALUATION AND INCOME RECOGNITION

The Plan's investments, other than the Putnam Stable Value Fund, are stated at fair value based on quoted market prices or estimated fair value as reported by the Plan's trustee. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year-end.

The Putnam Stable Value Fund invests primarily in guaranteed investment contracts or funding agreements and security-backed investment contracts or separate accounts issued or wrapped by insurance companies, banks, or other financial institutions (collectively referred to herein as "Investment Contracts"). Investment Contracts are carried at cost plus accrued interest ("Book Value"). Investment Contracts will normally be held to maturity, and meet the fully benefit responsive requirements of the AICPA Statement of Position 94-4, "Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Pension Plans." The Book Value of Investment Contracts will be adjusted to reflect any issuer defaults or other evidence of impairment under an investment contract should they occur. The aggregate average crediting interest rate of the Investment Contracts as of December 31, 2001 and 2000, was 6.36% and 6.42%, respectively. The aggregate average yield for the year ended December 31, 2001, was 6.4%. As of December 31, 2001 and 2000, 83.4% and 87.1%, respectively, of the Putnam Stable Value Fund's assets were invested in Investment Contracts, with the remainder of the assets invested in high-quality money market instruments. There are no reserves against contract value for credit risk of the contract issuers or otherwise. The Plan's interest in the estimated fair value of the underlying fund assets approximates contract value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

PAYMENT OF BENEFITS

Benefit payments are recorded when paid.

ADMINISTRATIVE EXPENSES

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Administrative expenses are paid by the Plan to the extent not paid by the Company.

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3. INVESTMENTS

The following presents investments that represent 5% or more of the Plan's net assets as of December 31, 2001 and 2000:

| | 2001 | |
|--|---------------|-------|
| | ----- | ----- |
| Putnam Bond Index Fund, 4,873,343 and 5,287,916 shares, respectively | \$ 57,944,046 | \$ |
| Putnam Investors Fund, 2,697,542 and 1,834,597 shares, respectively | 31,453,334 | |
| The George Putnam Fund of Boston CL Y, 3,665,683 and 2,859,395 shares, respectively | 61,473,500 | |
| The Putnam Fund for Growth & Income CL Y, 1,415,741 and 1,151,131 shares, respectively | 25,143,550 | |
| Putnam S&P 500 Index Fund, 861,717 and 771,205 shares, respectively | 23,998,828 | |
| Putnam Stable Value Fund, 43,273,907 and 41,580,768 shares, respectively | 43,273,907 | |
| ServiceMaster Company common stock, 9,704,300 and 9,475,214 shares, respectively | 133,919,334* | |

*Includes both participant and nonparticipant-directed amounts.

During 2001, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$12,963,925 as follows:

| | | |
|-------------------------------|----------------|--|
| Mutual funds | \$(11,614,431) | |
| Common collective trust funds | 1,473,519 | |
| Common stock | 23,104,837 | |
| | ----- | |
| | \$12,963,925 | |
| | ===== | |

The Plan provides for various investments that, in general, are exposed to various risks such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

4. NONPARTICIPANT-DIRECTED INVESTMENT

As of December 31, 2001, investment in the Plan is participant-directed, except that one-half of the Company's matching contribution is invested directly in The ServiceMaster Company common stock. (As discussed in Note 7, in the second quarter of 2002, the Company eliminated the requirement

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that one-half of the Company's matching contribution be invested directly into the ServiceMaster Company common stock.) Participants, at their discretion, may also direct their investment to The ServiceMaster Company common stock. The following information includes both participant and nonparticipant-directed investment balances. Information about the net assets of The ServiceMaster Company common stock fund as of December 31, 2001 and 2000, and the significant components of the changes in the net assets for the year ended December 31, 2001, is as follows:

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| | December 31 | |
|---|------------------------|-----------------------------|
| | ----- 2001 ----- | ----- 2000 ----- |
| Net assets- | | |
| The ServiceMaster Company common stock | \$133,919,334 | \$108,964,963 |
| | ===== | ===== |
| | | Year Ended Dec. 31, 2001 |
| | | ----- |
| Changes in net assets- | | |
| Additions- | | |
| Contributions | | \$ 8,578,612 |
| Interest and dividend income | | 3,900,870 |
| Transfers into the Plan | | 606,920 |
| Net appreciation | | 23,104,837 |
| Deductions- | | |
| Benefits paid to participants | | (7,751,119) |
| Net transfers from participant-directed investments | | (3,484,111) |
| Other expenses | | (1,638) |
| | | ----- |
| Net change in net assets | | \$24,954,371 |
| | | ===== |

5. TAX STATUS OF THE PLAN

The Plan received a favorable determination letter from the Internal Revenue Service dated February 26, 1996. The Plan was amended and restated effective July 1, 1999. However, the plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the plan administrator believes that the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

6. RELATED-PARTY TRANSACTIONS

The Plan invests in shares of mutual funds and interests in common collective trust funds managed by Putnam Fiduciary Trust Company ("PFTC"). PFTC acts as trustee and record keeper for the Plan. The Plan also invests in Company stock and allows loans to participants. These transactions qualify as party-in-interest transactions, which are exempt from the prohibited transaction rules.

7. SUBSEQUENT EVENT

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In the second quarter of 2002, the Plan eliminated the requirement that one-half of the Company matching contribution be invested directly in the ServiceMaster Company common stock fund. Participants are permitted to invest past and future matching contributions in any of the investment funds available within the Plan. In addition, three additional mutual funds were added as investment options.

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Schedule I

SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN

SCHEDULE H, LINE 4i--SCHEDULE OF ASSETS
(HELD AT END OF YEAR)

December 31, 2001

(Employer Identification Number 36-3858106, Plan Number 001)

| (a) | (b) Identity of Issue/ (c) Description of Investment | (d) Cost | (e) Current Value |
|-------------------------------------|---|---------------|----------------------|
| MUTUAL FUNDS: | | | |
| * | Putnam Investors Fund | N/A | \$ 31 |
| * | The George Putnam Fund of Boston CL Y | N/A | 61 |
| * | The Putnam Fund for Growth & Income CL Y | N/A | 25 |
| | Vanguard Life Strategy Income Fund | N/A | 2 |
| | Vanguard Life Strategy Conservative Growth Fund | N/A | 4 |
| | Vanguard Life Strategy Growth Fund | N/A | 11 |
| COMMON COLLECTIVE TRUST FUNDS: | | | |
| * | Putnam Bond Index Fund | N/A | 57 |
| * | Putnam S&P 500 Index Fund | N/A | 23 |
| * | Putnam Stable Value Fund | N/A | 43 |
| EMPLOYER SECURITIES--common shares: | | | |
| * | The ServiceMaster Company common stock | \$106,164,668 | 133 |
| GUARANTEED INVESTMENT CONTRACT: | | | |
| | Massachusetts Mutual Life Insurance Company, 4.9% | 420,934 | |
| * | PARTICIPANT LOANS, 6.5% to 10.5% | N/A | 11 |
| | | | \$407 |

*Represents a party-in-interest.

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Cost information is omitted for all investments that are fully participant directed.

The accompanying Notes to Financial Statements and Schedules are an integral part of this schedule.

Schedule II

SERVICEMASTER PROFIT SHARING AND RETIREMENT PLAN

SCHEDULE H, LINE 4j--SCHEDULE OF REPORTABLE TRANSACTIONS (a)

For the Year Ended December 31, 2001

(Employer Identification Number 36-3858106, Plan Number 001)

| (A) IDENTITY OF PARTY INVOLVED | (B) DESCRIPTION OF ASSET | (C) PURCHASE PRICE | (D) SELLING PRICE | (G) COST OF ASSET | SALES |
|--------------------------------|------------------------------------|--------------------|-------------------|-------------------|-----------|
| | | | | | (H) C O T |
| The ServiceMaster Company | Employer securities- common shares | \$18,512,387 | \$17,269,768 | \$16,881,776 | |

(a) Represents transactions or a series of transactions related to nonparticipant-directed investments in excess of 5% of the fair value of Plan assets at the beginning of the year.

The accompanying Notes to Financial Statements and Schedules are an integral part of this schedule.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, dated May 31, 2002, included in this Form 11-K, into the ServiceMaster Profit Sharing and Retirement Plan's previously filed Registration Statement File No. 333-89037.

/s/ Arthur Andersen
Chicago, Illinois
May 31, 2002