ALLERGAN INC
Form DEFN14A
September 24, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN

PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant ¨ Filed by a party other than the Registrant x

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14-a6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Allergan, Inc.

(Name of Registrant as Specified In Its Charter)

Pershing Square Capital Management, L.P.

PS Management GP, LLC

PS Fund 1, LLC

William A. Ackman

William F. Doyle

Ben Hakim

Jordan H. Rubin

Roy J. Katzovicz

Valeant Pharmaceuticals International, Inc.

Valeant Pharmaceuticals International

J. Michael Pearson

Howard B. Schiller

Ari S. Kellen

Laurie W. Little

Betsy S. Atkins

Cathleen P. Black

Fredric N. Eshelman

Steven J. Shulman

David A. Wilson

John J. Zillmer

(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PROXY STATEMENT

IN CONNECTION WITH A SPECIAL MEETING

OF SHAREHOLDERS OF ALLERGAN, INC.

PROXY STATEMENT

OF

PS FUND 1, LLC

To the Shareholders of Allergan, Inc.:

This proxy statement (this Proxy Statement) and the accompanying WHITE proxy card (WHITE Proxy Card) are being furnished to you as a shareholder of Allergan, Inc., a Delaware corporation, with its principal executive offices at 2525 Dupont Drive, Irvine, CA 92612 (the Company and/or Allergan), by and on behalf of PS Fund 1, LLC, a Delaware limited liability company (PS Fund 1, we, our or us), which is managed by Pershing Square Capital Management, L.P. (Pershing Square), in connection with the solicitation of revocable proxies by PS Fund 1 for use at the special meeting, scheduled for December 18, 2014 (including any adjournments or postponements thereof and any meeting held in lieu thereof), of shareholders of Allergan for the purposes described below (the Special Meeting). Only holders of record at the close of business on October 30, 2014 (the Record Date) will be entitled to vote in person or by proxy at the Special Meeting. We will inform you of the time and location of the Special Meeting promptly following the date on which they are set in accordance with the Company s Amended and Restated Certificate of Incorporation, effective May 9, 2014 (the Charter), and the Company s Amended and Restated Bylaws, effective May 9, 2014 (the Bylaws), and the Delaware General Corporation Law (DGCL).

The Company is calling the Special Meeting as required by a settlement of a case we brought in the Delaware Court of Chancery after we delivered requests for a Special Meeting from holders of more than the percentage of shares required (the Requisite Percentage) to call a Special Meeting.

The date of this Proxy Statement is September 24, 2014. This Proxy Statement and the accompanying WHITE Proxy Card are first being sent or given to shareholders on or about September 26, 2014.

We are soliciting your proxy for the Special Meeting regarding the proposals (the Proposals) set forth in the section of this Proxy Statement titled Proposals for the Special Meeting.

On April 22, 2014, Valeant Pharmaceuticals International, Inc. (Valeant) first made an offer to the Board of Directors of Allergan (the Board) proposing a business combination of Allergan and Valeant. On May 30, 2014, Valeant publicly announced a revised proposal to merge with Allergan pursuant to which each share of common stock of the Company, par value $0.01 per share (Company Common Stock), would be exchanged for $72.00 in cash and 0.83 shares of Valeant common stock (and has indicated it remains willing to add a contingent value right (CVR) relating

to sales of Allergan s DARPin® product if Allergan were to engage in negotiations with Valeant to work out the exact terms of the CVR). Please refer to the section of this Proxy Statement titled Background and Past Contacts for more detailed information.

From April 10, 2014 (the day before Pershing Square began its rapid accumulation program) to September 23, 2014 (the last business day prior to the filing of this Proxy Statement), the Company s stock price has increased by approximately 45%. We believe the market has spoken, and that shareholders see substantial value in Valeant s revised proposal. To date, the Board has refused to engage with Valeant in any way regarding a merger with Valeant.

Therefore, PS Fund 1 is asking the Company s shareholders to vote **FOR** each of the Proposals by using one of the voting methods set forth below.

Voting Methods

Voting by Mail. A WHITE Proxy Card is enclosed for your use. Whether or not you expect to attend the Special Meeting, please sign, date and mail your WHITE Proxy Card promptly in the enclosed postage paid envelope provided.

Voting by Telephone. If you live in the United States, you may vote your proxy toll-free 24 hours a day, 7 days a week up until 11:59 P.M. Eastern Time on the day prior to the Special Meeting by calling the toll-free telephone number on the WHITE Proxy Card. Please refer to the voting instructions on the WHITE Proxy Card. If you vote by telephone, please do not return your WHITE Proxy Card by mail.

Voting via the Internet. If you wish to vote via the Internet, you may submit your proxy from any location in the world 24 hours a day, 7 days a week, up until 11:59 P.M. Eastern Time on the day prior to the Special Meeting by visiting the website www.firstcoastresults.com/allergan. Please refer to the voting instructions on the WHITE Proxy Card. If you vote through the Internet, please do not return your WHITE Proxy Card by mail.

Vote in person by attending the Special Meeting. Written ballots will be distributed to shareholders who wish to vote in person at the Special Meeting. If you hold your shares through a bank, broker or other nominee, you must obtain a legal proxy from such custodian in order to vote in person at the Special Meeting.

If you hold your shares through a bank, broker or other nominee and you do not intend to vote in person at the Special Meeting, only such nominee can vote your shares, and only after receiving specific voting instructions from you. Please contact your bank, broker or nominee and instruct them to vote a WHITE Proxy Card **FOR** each of the Proposals thereon.

If PS Fund 1 receives WHITE Proxy Cards that have no explicit voting instructions, PS Fund 1 intends to vote such proxies **FOR** each of the Proposals thereon.

Pursuant to the WHITE Proxy Cards, we are requesting authority (i) to initiate and vote for the Proposals, (ii) to oppose and vote against any other matters which PS Fund 1 does not know, a reasonable time before the date of the Special Meeting, are to be presented at the Special Meeting, (iii) to adjourn or postpone the Special Meeting for any reason and (iv) to oppose and vote against any proposal to adjourn or postpone the Special Meeting.

If you have any questions, require assistance in voting your WHITE Proxy Card, or need additional copies of this Proxy Statement, please contact our proxy solicitor at:

D.F. King & Co., Inc.

48 Wall Street

New York, NY 10005

U.S. Toll-free: (800) 859-8511

Banks and brokers: (212) 269-5550

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SOLICITATION OF PROXIES FOR THE SPECIAL MEETING. In addition to delivering printed versions of this Proxy Statement and the WHITE Proxy Card to all shareholders by mail, this Proxy Statement and WHITE Proxy Card are also available on the Internet. You have the ability to access and print this Proxy Statement and the WHITE Proxy Card at http://www.advancingallergan.com. As a shareholder of Allergan, you may receive the Company s proxy statement with respect to the Special Meeting (the Company s Proxy Statement) and the accompanying proxy card. Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Please make certain that the latest dated proxy card you return is the WHITE Proxy Card.

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THIS SOLICITATION OF PROXIES IS BEING MADE BY PS FUND 1, AND NOT ON BEHALF OF THE COMPANY OR THE BOARD.

YOUR VOTE IS IMPORTANT TO US, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN. WE URGE YOU TO VOTE **FOR** THE PROPOSALS BY COMPLETING, SIGNING, DATING AND RETURNING THE ENCLOSED WHITE PROXY CARD. YOU MAY ALSO VOTE BY TELEPHONE USING THE TOLL-FREE NUMBER ON THE WHITE PROXY CARD OR VIA THE INTERNET USING THE URL PROVIDED ON THE WHITE PROXY CARD.

BACKGROUND AND PAST CONTACTS

On September 10, 2012, J. Michael Pearson, Valeant s Chairman of the Board and Chief Executive Officer, spoke to David Pyott, Allergan s Chairman of the Board, President and Chief Executive Officer, about possibly combining the two companies. Mr. Pyott informed Mr. Pearson that he would discuss the possibility with the Board.

On September 25, 2012, Mr. Pyott called Mr. Pearson and indicated that he had spoken with the Board about a possible business combination with Valeant, and Allergan was not interested in a transaction at that time. As part of its general review of strategic opportunities, Valeant s management continued to review numerous transaction alternatives with various pharmaceutical businesses and assets, including, from time to time, Allergan.

In September of 2013, Pershing Square hired William F. Doyle as a Senior Advisor.

On January 14, 2014, Mr. Doyle, a senior advisor at Pershing Square, spoke with Mr. Pearson, at a health care conference. They discussed Mr. Doyle s work with Pershing Square and it was suggested that they have a subsequent discussion regarding the potential of Valeant and Pershing Square jointly engaging in merger and acquisition transactions. On January 31, 2014, Messrs. Pearson and Doyle had a follow-up meeting in which they exchanged public information about Valeant and Pershing Square. Messrs. Doyle and Pearson did not specifically discuss Allergan at either meeting.

On February 4, 2014, Mr. Pearson and G. Mason Morfit, then a director of Valeant, met with Mr. Doyle and William A. Ackman, the Chief Executive Officer of Pershing Square. They primarily discussed Valeant and Valeant s business model. They also discussed what Pershing Square could do to encourage large public pharmaceutical companies to create more value for their stockholders, including by entering into different types of transactions with Valeant, though the structure that Valeant eventually used in connection with its offer for Allergan was not specifically discussed. Allergan was one of several companies mentioned, but was not discussed in detail.

On or around February 6, 2014, Mr. Ackman and Mr. Pearson had a telephone call in which they discussed, conceptually, a potential transaction structure in which Valeant would identify a target and disclose it confidentially to Pershing Square, after which Pershing Square could decide whether it was interested in working with Valeant with respect to such target and, if it was not, Pershing Square would agree not to make purchases of securities in such target. No specific targets were discussed on the telephone call. If Pershing Square decided that it was interested in working with Valeant with respect to a particular target identified by Valeant at a later date, then Pershing Square would conduct independent due diligence on the target, confirm its interest in working with Valeant to pursue a potential combination of Valeant and the target, and proceed to develop a strategy to purchase equity in the target. Around the same time, Mr. Pearson and Mr. Pyott agreed to meet the following weekend to follow up on their September 2012 discussions regarding the possibility of combining the two companies.

On February 7, 2014, Sullivan & Cromwell LLP (Sullivan & Cromwell), Valeant s counsel, sent Pershing Square and Kirkland & Ellis LLP (Kirkland & Ellis), Pershing Square s counsel, a draft confidentiality agreement that did not disclose the identity of Allergan. Between February 7, 2014 and February 9, 2014, representatives of Sullivan & Cromwell and Kirkland & Ellis exchanged drafts of and negotiated the confidentiality agreement.

On February 9, 2014, Valeant and Pershing Square entered into the confidentiality agreement, after which, Mr. Pearson called Mr. Ackman by telephone and informed him of Valeant s interest in a potential transaction with Allergan. Later that day, the board of directors of Valeant (the Valeant Board), met telephonically and discussed, among other things, pursuing the acquisition of Allergan and doing so with Pershing Square.

On February 10, 2014, in connection with Allergan senior management s meetings with analysts, Sanford B. Bernstein & Co. published a report of its discussions with Mr. Pyott, reporting that an acquisition of Allergan by Valeant was not a good fit and shareholders would hesitate to take Valeant paper. That same day, Bank of America Merrill Lynch analyst Gregg Gilbert issued a note stating that Allergan would not be interested in a transaction with Valeant.

On February 11, 2014, Pershing Square formed a new Delaware limited liability company, PS Fund 1, and Pershing Square, L.P., Pershing Square II, L.P., Pershing Square International, Ltd. and Pershing Square Holdings, Ltd (collectively, the Pershing Square Funds), which are investment funds managed by Pershing Square, entered into the original limited liability company agreement for PS Fund 1.

On February 13, 2014, representatives of Valeant and Pershing Square met to discuss a potential transaction involving Allergan. Representatives of Sullivan & Cromwell and Kirkland & Ellis also attended. Later that day, Sullivan & Cromwell sent Kirkland & Ellis a draft of an amended confidentiality agreement. Between February 13, 2014 and February 20, 2014, representatives of Sullivan & Cromwell and Kirkland & Ellis exchanged drafts of and negotiated the amended confidentiality agreement. Over that time, the parties negotiated to expand the categories of information covered by the confidentiality agreement from including the identity of Allergan, the terms of the confidentiality agreement and information about the potential transaction only to also include confidential information about Valeant in connection with Pershing Square s due diligence investigation on Valeant.

As a result of Mr. Pyott s published statements to analysts, on February 14, 2014, the planned meeting between Messrs. Pearson and Pyott was cancelled.

On February 20, 2014, Valeant and Pershing Square entered into the amended confidentiality agreement, dated as of February 9, 2014. That same day, Kirkland & Ellis sent Sullivan & Cromwell a draft letter agreement related to the purchase of equity in Allergan. Between February 20, 2014 and February 25, 2014, representatives of Valeant, Pershing Square and their respective counsel exchanged drafts of and negotiated the letter agreement. Over that time, the parties negotiated the terms and conditions upon which PS Fund 1 would purchase Allergan equity securities, including the $75.9 million limit on the number of shares of Allergan common stock that could be purchased for Valeant s account and the manner in which such shares and profit and loss would be allocated to Valeant; the timing of Valeant s contribution to PS Fund 1 upon notice from Pershing Square that PS Fund 1 had crossed the 4% ownership level; the flexibility that Valeant would retain through the addition of Valeant s right to approve purchases in excess of 5%; the extent to which Valeant would consult with Pershing Square regarding a potential acquisition of Allergan; the terms and conditions upon which Valeant could elect to cause Pershing Square to purchase $400 million of Valeant common shares immediately prior to the consummation of an acquisition of Allergan; the value of the Valeant common shares that Pershing Square would hold following consummation and the related holding period; and the events upon which PS Fund 1 would be dissolved.

During this same time, Valeant provided Pershing Square with operational information, including detailed product and segment sales, profit and loss, as well as budget and other financial information relating to Valeant s

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historical 2013 business performance, 2014 year-to-date business performance and 2014 outlook. Because the historical information provided to Pershing Square has subsequently been reflected in Valeant s quarterly results, and the forecast information provided to Pershing Square was consistent with Valeant s published guidance at the time, but has since been superseded by Valeant s current guidance, Valeant believes that such information would not be material to Allergan shareholders and has not made public disclosure of the details of such information.

On February 21, 2014, the Valeant Board met in Toronto and discussed a potential transaction involving Allergan. Messrs. Ackman and Doyle attended a portion of the meeting, during which, among other things, Pershing Square s role in a potential transaction was discussed.

On February 25, 2014, Pershing Square and Valeant entered into an agreement (the Letter Agreement) pursuant to which they agreed that a joint venture entity, PS Fund 1, would acquire shares of Company Common Stock and derivative instruments referencing Company Common Stock. Pursuant to the Letter Agreement, the parties thereto agreed, among other things, that:

Valeant would not, while Valeant, Pershing Square and/or PS Fund 1 may be deemed a group, acquire beneficial ownership of Allergan equity, except in a business combination transaction with Allergan or as a result of transactions by Pershing Square, PS Fund 1 or any of their respective affiliates;

PS Fund 1 would dissolve following the earliest to occur of several events, including the consummation of a business combination transaction with Allergan or at such time that Valeant informs Pershing Square or Allergan that it is no longer interested in pursuing a business combination transaction with Allergan;

Income, gain and loss on $75.9 million in value of shares of Company Common Stock purchased by PS Fund 1 would be allocated to Valeant and the remaining net profit realized by PS Fund 1 would be allocated to funds advised by Pershing Square, except that Valeant would have a right to 15% of the net profits otherwise allocable to funds advised by Pershing Square if, before dissolution and at a time when a Valeant business combination proposal for Allergan is outstanding, a proposal for a third party business combination with Allergan is outstanding or made;

Valeant would consult with Pershing Square before making any material decisions relating to a business combination with Allergan;

Pershing Square would direct the management of PS Fund 1 (including the manner and timing of purchases and sales of Allergan equity) and would generally decide how PS Fund 1 votes any securities it owns, except that until the Termination Time (as defined in the Letter Agreement) PS Fund 1 would vote all of its shares of Company Common Stock in favor of a proposal by Valeant to acquire Allergan and other proposals supported by Valeant and against proposals reasonably likely to impair the ability of Valeant to consummate a business combination with Allergan, and, subject to limited exceptions, would not sell or otherwise reduce its economic ownership in Allergan equity;

At the election of Valeant, immediately prior to consummation of a Valeant business combination with Allergan, Pershing Square would purchase, for $400 million, Valeant common shares at a per share price

reflecting a 15% discount to the then current market price;

If Valeant and Allergan consummate a business combination transaction that permits shareholders of Allergan to elect to receive Valeant common shares, Pershing Square would cause PS Fund 1 to elect to receive Valeant common shares for all shares of Company Common Stock over which it controls that election; and

If Valeant and Allergan consummate a business combination transaction, Pershing Square would, on the date of consummation, hold Valeant common shares with a then current value of at least $1.5 billion and, for a period of at least one year after that consummation, it will not sell Valeant common shares unless after giving effect to the sale it continues to own at least $1.5 billion in value of Valeant common shares (and during that one year period it would not hedge its investment in that minimum number of shares).

Also on February 25, 2014, PS Fund 1 began acquiring securities of Allergan. Following the acquisition by PS Fund 1 of 597,431 shares of Company Common Stock, Valeant contributed $75.9 million to PS Fund 1 in respect of such shares. The Pershing Square Funds thereafter contributed to PS Fund 1 the remainder of the funds needed to fund the acquisition of securities of, and derivatives referencing, the Company. Between February 25 and April 21, 2014, representatives of Valeant and Pershing Square and their counsel participated in at least weekly phone calls to update Valeant on PS Fund 1 s trading.

On February 26, 2014, Sullivan & Cromwell sent Pershing Square and Kirkland & Ellis a draft of an amended and restated limited liability company agreement for PS Fund 1, including a Valeant entity as a member, and generally reflecting the terms of the Letter Agreement. Between February 25, 2014 and April 3, 2014, representatives of Sullivan & Cromwell and Kirkland & Ellis exchanged drafts of and negotiated the amended and restated limited liability company agreement of PS Fund 1.

On March 11, 2014 and March 12, 2014, the Valeant Board met and discussed various matters, including a potential transaction involving Allergan.

On March 17, 2014, representatives of Valeant and Pershing Square met to discuss the terms of a potential transaction with Allergan and to continue Pershing Square s due diligence of Valeant s business which also involved visits to certain Valeant operations and other oral and documentary due diligence.

On April 1, 2014, representatives of Valeant and Pershing Square met again to discuss Valeant s and Allergan s operations and the process for accomplishing the proposed transaction.

On April 3, 2014, Valeant Pharmaceuticals International (Valeant USA), Pershing Square and each of the Pershing Square Funds entered into the amended and restated limited liability company agreement of PS Fund 1, dated as of April 3, 2014, which generally reflected the terms of the Letter Agreement.

On April 7, 2014, the Valeant Board held a meeting in Toronto and discussed, among other things, pursuing an acquisition of Allergan and doing so with Pershing Square.

On April 8, 2014, PS Fund 1 reached beneficial ownership of 4.99% of Allergan s outstanding stock and, as required by the Letter Agreement, stopped purchasing equity in Allergan pending Valeant approval to cross the 5% threshold. On April 10, 2014, Valeant provided approval for PS Fund 1 to purchase equity derivatives referencing Allergan that would result in PS Fund 1 beneficially owning more than 5% of Allergan s outstanding stock.

On April 11, 2014, PS Fund 1 crossed the 5% Schedule 13D beneficial ownership threshold and began a rapid accumulation program. By April 21, 2014, PS Fund 1 had acquired beneficial ownership of approximately 9.7% of the outstanding shares of Company Common Stock.

Between April 13, 2014 and April 21, 2014, representatives of Valeant, Pershing Square and their advisors met and discussed the terms of Valeant s initial proposal and their investor presentations in support of the proposal.

On April 21, 2014, Pershing Square and Valeant each filed a Schedule 13D disclosing their beneficial ownership of shares in Company Common Stock. Pershing Square s Schedule 13D disclosed that Pershing Square had beneficially acquired for the account of PS Fund 1 an aggregate of 28,878,538 shares of Company Common Stock for total consideration of $3.217 billion, which had been contributed by the Pershing Square Funds and by Valeant USA pursuant to the Letter Agreement. That same evening, the Valeant Board met telephonically to determine whether to proceed with a proposal to acquire Allergan, and after deciding to do so, the appropriate terms of Valeant s proposal. The Valeant Board approved the terms of the proposal and authorized Valeant to deliver a merger proposal letter to Allergan the next morning.

On April 22, 2014, Valeant made a public proposal to Mr. Pyott and the Board to acquire Allergan for a price comprised of $48.30 in cash and 0.83 Valeant common shares for each share of Company Common Stock based on the fully diluted number of shares of Company Common Stock outstanding. Pursuant to the terms of the proposal, Allergan shareholders would receive a substantial premium over Allergan s unaffected stock price of $116.63 on April 10, 2014 (the day before Pershing Square began its rapid accumulation program) and would own approximately 43% of the combined company.

Later that day, Valeant and Pershing Square held an investor conference in which representatives of Valeant and Pershing Square delivered presentations describing the benefits of Valeant s proposal. Beginning on April 22, 2014, representatives of Valeant met with Allergan stockholders and Valeant shareholders to discuss Valeant s proposal.

On April 22, 2014, Allergan issued a press release in which it confirmed receipt of the proposal from Valeant and stated that the Board, in consultation with its financial and legal advisors, would carefully review and consider the proposal and pursue the course of action that it believes is in the best interests of the Company s shareholders. The Company also adopted a shareholder rights plan (commonly referred to as a Poison Pill), effective April 22, 2014.

On April 23, 2014, Mr. Ackman emailed Matthew Maletta, Allergan s Associate General Counsel and Secretary, to request an opportunity to speak with Michael R. Gallagher, the lead independent director of the Board, and Mr. Pearson spoke briefly with Mr. Pyott by telephone.

Mr. Maletta arranged a telephone call between Mr. Ackman and Mr. Gallagher, but later noted that Mr. Pyott and Jim Hindman, SVP of Investor Relations for Allergan, would be joining Mr. Gallagher on the call. While Mr. Ackman welcomed the opportunity to have a discussion with Mr. Pyott on April 24, 2014, Mr. Ackman s purpose for the call was to speak with Mr. Gallagher, without management present, as the lead director who Mr. Ackman expected, based on Allergan s proxy disclosures, to be the Board s independent representative for shareholders in considering the Valeant proposal.

During the April 24, 2014 call, Mr. Ackman requested the opportunity to speak with Mr. Gallagher in executive session, which Mr. Gallagher rejected. Mr. Ackman then asked for Mr. Gallagher s contact information so Mr. Ackman could contact Mr. Gallagher directly in the future. Mr. Gallagher was unwilling to provide Mr. Ackman with his contact information because Mr. Gallagher explained that he did not believe it was appropriate to speak to Mr. Ackman alone. Mr. Ackman then offered to speak with Mr. Gallagher with the Board s counsel present on the call, and Mr. Gallagher also refused this request.

On May 1, 2014, early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, was granted with respect to the acquisition by PS Fund 1 of certain shares of Company Common Stock. Later that day, PS Fund 1 exercised its American-style call options to purchase Company Common Stock and also paid the applicable forward purchase price under the forward purchase contracts to purchase Company Common Stock. As a result, PS Fund 1 became Allergan s largest shareholder. In total, Pershing Square contributed approximately $3.624 billion to PS Fund 1 to fund the acquisition of Company Common Stock through the purchase and ultimate settlement of derivative instruments.

On May 5, 2014, in response to news reports stating that the Company had begun to approach alternative business combination partners, Mr. Ackman sent a letter to Mr. Gallagher, encouraging the Board to begin discussions with Valeant regarding its proposal. Among other things, Mr. Ackman s letter highlighted Pershing Square s belief that (i) the strength of Allergan s negotiating position with Valeant comes, in part, from the potential that Allergan may negotiate a more valuable transaction with a large global pharmaceutical company, (ii) the list of global pharmaceutical companies with the financial capacity to buy Allergan is limited, and even more limited when factors such as strategic fit and antitrust risk are considered, and (iii) unless Allergan were to identify and engage with a large global pharmaceutical company for a transaction in the very near future, the

odds of a transaction with such a counterparty are likely to decrease over time, the market and Valeant will likely learn of the lack of interest from alternative companies, and Allergan s negotiating leverage with Valeant will decline. Indeed, in the days that followed such letter, news outlets reported that several global pharmaceutical companies, including Sanofi, Johnson & Johnson and Shire, had been contacted by Allergan and had declined to engage in a business combination transaction.

On May 8, 2014, Valeant reported its First Quarter 2014 Financial Results. On its earnings call with analysts, Howard B. Schiller, Valeant s Executive Vice President and Chief Financial Officer, discussed Valeant s meetings with Allergan stockholders and Valeant shareholders. Mr. Schiller announced that, while Valeant was waiting for a response to its proposal from the Board, Valeant and Pershing Square would commence a referendum to determine whether Allergan stockholders are supportive of a transaction with Valeant, although the referendum proposal was ultimately commenced only by Pershing Square.

On May 12, 2014, Mr. Pyott sent a letter to Mr. Pearson stating that the Board had rejected Valeant s proposal.

Later on May 12, 2014, Mr. Ackman sent a letter (the 220 Request) to Mr. Maletta, pursuant to Section 220 of the DGCL requesting a complete record or list of the holders of Company Common Stock.

On May 13, 2014, Valeant issued a public letter to Allergan stockholders in response to Allergan s rejection of the proposal. Valeant announced that it would hold a webcast on May 28, 2014 to discuss why it believed that its proposal offered substantially superior value to Allergan s standalone strategy. Valeant also announced that, based on feedback from Allergan s stockholders, Valeant planned to improve its proposal during the May 28 webcast in order to demonstrate its commitment to complete the transaction.

Also on May 13, 2014, Pershing Square filed a preliminary proxy statement with the U.S. Securities and Exchange Commission (the SEC) announcing a meeting of Allergan stockholders in order to conduct a stockholder referendum in which stockholders would be given the opportunity to vote on a non-binding resolution (with the same terms as Proposal 7 described in this Proxy Statement) to request that the Board promptly engage in good faith discussions with Valeant regarding Valeant s proposal.

Also on May 13, 2014, Mr. Ackman spoke briefly by telephone with Mr. Pyott. Mr. Pyott only afforded 15 minutes for the call despite Mr. Ackman s understanding that Mr. Pyott had spent considerably more time with other Allergan shareholders and despite the fact that Pershing Square is Allergan s largest shareholder. During the call, Mr. Ackman asked several questions concerning Allergan s rejection of the Valeant proposal, and why the Board did not meet with Valeant before doing so. Mr. Pyott would not answer these questions, but simply told Mr. Ackman that the Valeant proposal substantially undervalued Allergan. At the end of the call, Mr. Ackman again requested the opportunity to meet with Allergan s independent directors. Mr. Pyott said that he was the only member of the Board that was authorized to speak with shareholders and rejected Mr. Ackman s request to meet with the full Board.

On May 19, 2014, Mr. Ackman sent a letter to Mr. Gallagher, the designated point of contact for corporate governance issues relating to Allergan. Mr. Ackman stated that, because Mr. Pyott stood to lose his leadership position if Valeant s proposal were consummated, Mr. Pyott would be unable to engage in unconflicted discussions with Valeant and Pershing Square regarding that proposal. Mr. Ackman also expressed his displeasure that Allergan had rejected Valeant s proposal without conducting any private due diligence.

Later on May 19, 2014, Mr. Gallagher sent a letter to Mr. Ackman in which he confirmed receipt of Mr. Ackman s prior letter and stated his disagreement with Mr. Ackman s assertion regarding Mr. Pyott s disabling conflict of interest in respect of Valeant s proposal.

Also on May 19, 2014, representatives of Latham & Watkins LLP (Latham), on behalf of Allergan, sent a letter to representatives of Kirkland & Ellis, in response to the 220 Request, in which Latham stated that Allergan would make available to Pershing Square and certain of its affiliates such information set forth in the 220 Request that was currently available to Allergan.

On May 20, 2014, Valeant held its annual stockholder meeting. After the official business of the meeting concluded, Mr. Pearson made a presentation to Valeant shareholders during which he addressed, among other things, Valeant s proposal and Valeant s plans for its May 28 webcast. On May 20, 2014 and May 21, 2014, the Valeant Board met and discussed various matters, including the Allergan transaction.

On May 21, 2014, Mr. Ackman sent a letter to Mr. Gallagher confirming receipt of Mr. Gallagher s May 19 letter and stating that Pershing Square was encouraged to hear that the Board had an open mind and would show a high degree of professionalism in its review of Valeant s proposal, but that no effort had been made by the Board to reach out to Pershing Square or sit down with Valeant to discuss its proposal. Furthermore, Mr. Ackman noted Allergan s negative characterization of Valeant s proposal despite the immediate and long-term value that Valeant s proposal represented for Allergan s shareholders.

Later on May 21, 2014, Mr. Gallagher sent a letter to Mr. Ackman confirming receipt of Mr. Ackman s prior letter and stating that the Board would carefully review any revised offer announced by Valeant.

On May 27, 2014, Allergan filed a presentation with the SEC in which it criticized Valeant s business model and management team despite the fact that Allergan had failed to conduct any private due diligence on Valeant.

Later on May 27, 2014, representatives of Kirkland & Ellis sent a letter to representatives of Latham requesting that Latham produce those documents set forth in the 220 Request which were currently available to Allergan and to provide a list of those documents which Allergan would not be able to produce.

On May 28, 2014, executives of Valeant held an investor presentation in New York City during which Valeant publicly announced an improved proposal and Valeant s willingness to sit down with the Board and Allergan management to engage in meaningful discussions regarding that proposal. Representatives of Valeant also presented on Valeant s business model and refuted Allergan s claims from its May 27 press release and presentation.

Also on May 28, 2014, Mr. Pearson sent a letter to Mr. Pyott outlining the improved proposal, which increased the cash component of Valeant s proposal by $10.00 per share of Company Common Stock to $58.30, and included a CVR tied to sales of Allergan s DARPin® representing an additional $25.00 of value per share of Company Common Stock. In addition, Valeant committed to invest up to $400 million to develop DARPin® and pay to Allergan shareholders 40% of the net sales of DARPin® after recovery of Valeant shareholders investment in DARPin® development expenses.

On May 28, 2014, Allergan confirmed receipt of Valeant s revised proposal. Allergan stated that the Board would carefully review and consider the revised proposal and pursue the course of action that the Board believes is in the best interests of Allergan and all of its stockholders. However, Allergan s May 27 press release and presentation suggested that Allergan would not be willing to negotiate with Valeant.

On May 29, 2014, at the Sanford C. Bernstein Strategic Decisions Conference in New York City, numerous large Allergan shareholders expressed to Mr. Ackman their support of a merger between Allergan and Valeant. These investors suggested that, if Valeant raised its offer to $180 in value per share of Company Common Stock based on Valeant s current trading price, they would be supportive of a transaction.

On the morning of May 30, 2014, Mr. Ackman spoke by telephone with Mr. Pearson and conveyed to Mr. Pearson the substance of his conversations with other Allergan shareholders from the day before.

Mr. Ackman indicated that, if Valeant would raise its bid for Allergan so that its value (based on then current prices) approximated $180 per share of Company Common Stock, Pershing Square would accept a fixed exchange ratio of 1.22659 based on Allergan and Valeant closing prices on May 29, 2014. After considering Pershing Square s proposal, Mr. Pearson contacted Mr. Ackman and said that he would recommend to the Valeant Board that Valeant raise its offer for Allergan on the terms discussed with Mr. Ackman, which the Valeant Board approved at a telephone meeting later that day.

Later in the afternoon on May 30, 2014, Valeant announced that it was making a revised proposal for Allergan under which each Allergan share would be exchanged for $72.00 in cash and 0.83 Valeant common shares, based on the fully diluted number of Allergan shares outstanding. The revised proposal also referenced Valeant s continued willingness to include the CVR if Allergan were to engage in negotiations with Valeant to work out the exact terms. Under the revised proposal, Allergan stockholders would continue to be able to elect cash and/or Valeant stock, subject to proration. Pershing Square also separately agreed to exchange its Allergan shares for Valeant shares at a 1.22659 exchange ratio, based on closing stock prices of Allergan and Valeant on May 29, 2014, and receive no cash consideration.

Also on May 30, 2014, Mr. Pearson sent a letter to Mr. Pyott outlining the revised proposal to raise its offer for Allergan.

Allergan confirmed the receipt of Valeant s revised offer on May 30, 2014. Allergan stated that the Board would carefully review and consider the revised proposal and pursue the course of action that the Board believes is in the best interests of Allergan and all of its stockholders and referenced its position set forth in its May 27 presentation. Allergan s May 27 press release and presentation indicated that Allergan would likely not be willing to negotiate with Valeant.

On June 2, 2014, Valeant held an investor meeting and webcast to discuss its revised offer and announce its intention to commence an exchange offer on the terms of its revised offer. On the same day, Pershing Square filed a preliminary solicitation statement in respect of the Proposals. Pershing Square also indicated that it would no longer pursue its previously announced stockholder referendum in light of its plans to call a special meeting and in response to feedback Pershing Square received from other Allergan shareholders who urged Pershing Square to focus on calling a special meeting due to the more formal nature of the Special Meeting and the fact that certain proposals to be voted on at the Special Meeting would be binding on the Company.

On June 6, 2014, Pershing Square sent a letter (the June 6 Letter) to Arnold A. Pinkston, Executive Vice President, General Counsel and Assistant Secretary of Allergan, in which it asked Allergan to confirm, among other things, that actions taken in support of the PS Fund 1 solicitation and any subsequent application to the Delaware Court of Chancery that might be filed seeking an order requiring Allergan to hold a meeting for the election of directors would not result in Pershing Square being deemed an Acquiring Person under Allergan s Poison Pill.

On June 10, 2014, Allergan announced that Mr. Pyott had sent a letter to Mr. Pearson, stating that the Board had rejected Valeant s proposal.

On June 11, 2014, Pershing Square received a letter from Allergan s counsel in which it declined to provide the confirmation requested in the June 6 Letter, other than to note that the mere solicitation and receipt of one or more revocable proxies by Pershing Square from other Allergan stockholders for the purpose of requesting a special meeting would not in and of itself result in Pershing Square being deemed an Acquiring Person under Allergan s Poison Pill.

On June 12, 2014, PS Fund 1 commenced an action in the Delaware Court of Chancery seeking declaratory and other equitable relief, including a declaration that (i) the actions by PS Fund 1 and other Allergan stockholders solely for the

purpose of exercising the right to call a special meeting in compliance with the requirements of the Bylaws will not trigger Allergan s Poison Pill, or alternatively (ii) the relevant provisions of

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Allergan s Poison Pill are invalid as a matter of law because they are inconsistent with the right to call a special meeting that is granted to stockholders in the Charter (the Poison Pill Lawsuit). On the same day, PS Fund 1 filed a motion seeking to expedite the resolution of the litigation. On June 19, 2014, the Delaware Court of Chancery granted the motion to expedite and set a hearing date for July 7, 2014.

On June 18, 2014, Valeant commenced an exchange offer (the Exchange Offer) pursuant to which Valeant is offering to exchange, for each share of Company Common Stock, at the election of the applicable Allergan shareholder:

- $72.00 in cash and 0.83 common shares of Valeant (the Standard Election Consideration);

- an amount in cash equal to the implied value of the Standard Election Consideration (based on the average of the closing prices of common shares of Valeant as quoted on the New York Stock Exchange (the NYSE) on each of the five NYSE trading days ending on the 10th business day preceding the date of expiration of the exchange offer); or

- a number of Valeant common shares having a value equal to the implied value of the Standard Election Consideration (based on the average of the closing prices of Valeant common shares as quoted on the NYSE on each of the five NYSE trading days ending on the 10th business day preceding the date of expiration of the exchange offer),

subject in each case to the election and proration procedures described in the offer to exchange and in the related letter of election and transmittal.

On June 23, 2014, Allergan filed a Schedule 14D-9 with the SEC in which it recommended that Allergan shareholders not tender their shares of Company Common Stock in the Exchange Offer.

On June 24, 2014, Allergan issued a press release stating that its board of directors rejected Valeant s offer.

On June 24, 2014, Valeant filed a proxy statement on Schedule 14A for the calling of a special meeting of Valeant shareholders to approve the issuance of Valeant common shares in connection with an acquisition of Allergan.

On June 27, 2014, Pershing Square issued a press release announcing that it had entered into a settlement with Allergan resolving the Poison Pill Lawsuit and confirming that Pershing Square s actions in connection with the solicitation and receipt of revocable proxies to call a Special Meeting does not trigger Allergan s Poison Pill. The court order effecting the settlement was signed on June 28, 2014 and filed with the SEC by Pershing Square on June 30, 2014.

On July 7, 2014, Pershing Square first announced its slate of qualified, independent nominees for the Board and identified the sitting Allergan directors that it proposes to remove at the Special Meeting. The biographies of the nominees are set forth in the section of this Proxy Statement titled Information Regarding the Nominees.

On July 11, 2014, PS Fund 1 filed definitive solicitation materials with the SEC to solicit support for the calling of the Special Meeting.

On July 16, 2014, Pershing Square sent an open letter to the Board, criticizing the incumbent directors for their unwillingness to engage in a dialogue with Valeant. The July 16 letter also set forth Pershing Square s belief that the Company s attacks on the value of Valeant s currency were unsubstantiated and that there existed a disconnect between

Mr. Pyott criticizing Valeant s offer as inadequate while having recently sold shares of Company Common Stock at prices well below that of Valeant s offer.

On July 17, 2014, Pershing Square hosted a webcast in which it highlighted some of its beliefs regarding governance failings of Allergan, explained their doubts that Allergan could create superior shareholder value as a stand-alone entity and shared their views on the benefits of an Allergan-Valeant combination.

On July 21, 2014, Valeant and Pershing Square submitted a complaint letter with the SEC regarding what we believe to be attempts to mislead investors by Allergan and to negatively influence the market price of Valeant s common shares by continuing to make what we believe to be false and misleading statements regarding Valeant s business despite Valeant s public statements correcting this misinformation. A similar complaint was filed with the Autorité des marchés financiers in Québec on July 23, 2014.

On August 1, 2014, Allergan filed a lawsuit in the United States District Court for the Central District of California alleging that Valeant, Pershing Square and Mr. Ackman violated various federal securities laws (the Securities Lawsuit).

On the same day, Valeant and Pershing Square issued a joint press release in which they responded to the lawsuit, giving their firmly held view that the claims are baseless and Allergan s true purpose in bringing the litigation is to attempt to interfere with shareholders efforts to call a special meeting, and expressing confidence that this attempt to delay or avoid the special meeting will not succeed.

On August 8, 2014, Pershing Square filed its answer in response to Allergan s complaint in the Securities Lawsuit.

On August 21, 2014, the United States District Court for the Central District of California denied Allergan s motion to expedite proceedings in connection with its request for declaratory relief in the Securities Lawsuit.

On August 22, 2014, Pershing Square delivered to Allergan Special Meeting requests in excess of the Requisite Percentage necessary to cause Allergan to call the Special Meeting pursuant to the Charter and Bylaws.

On the same day, Pershing Square, PS Fund 1 and Valeant filed a lawsuit against Allergan in the Delaware Court of Chancery, challenging the bylaw requirements related to the calling of a special meeting of shareholders and seeking declaratory relief to require Allergan to schedule the Special Meeting within a reasonable period of time and before Allergan executes, consummates or reaches any binding agreement or understanding as to an alternative transaction (the Bylaws Litigation).

On August 26, 2014, Allergan announced that it had established a record date for shareholders entitled to vote at the Special Meeting of October 27, 2014.

On the same day, Allergan asked the United States District Court for the Central District of California to set an expedited schedule for discovery and filed a motion for a preliminary injunction against Valeant, Pershing Square and Mr. Ackman in the federal securities litigation.

Between September 3, 2014 and September 12, 2014, Pershing Square submitted written requests from additional Allergan shareholders which, in combination with the written requests submitted on August 22, 2014, represent approximately 35.68% of the outstanding common stock of Allergan. On September 4, 2014, Allergan and its independent inspector confirmed that Pershing Square had delivered requests that comply as to form with Allergan s bylaws from stockholders owning more than 25% of Allergan common stock.

On September 9, 2014, Mr. Ackman sent an open letter to the Board, highlighting that six of Allergan s top ten shareholders had submitted requests for a special meeting. Additionally, Mr. Ackman criticized the Board s incumbent directors for what he believed to be false and misleading attacks on Valeant s business and for what he believed to be baseless claims against Mr. Ackman, Pershing Square and Valeant in California.

On September 15, 2014, Pershing Square, PS Fund 1 and Valeant entered into an agreement with Allergan settling the Bylaws Litigation and confirming that the Special Meeting will be held on December 18, 2014, the Record Date will be set for the close of business on October 30, 2014, and that Allergan will take no action to delay, postpone or not

hold the Special Meeting on December 18, 2014 or seek to invalidate any requests thereof. On the same day, Allergan issued a press release communicating the terms of the settlement.

PROPOSALS FOR THE SPECIAL MEETING

PS Fund 1 is soliciting your proxy for the Special Meeting in support of the following Proposals:

> ***Proposal 1*****: RESOLVED, that the following six members of the current Board, Deborah Dunsire, M.D., Michael R. Gallagher, Trevor M. Jones, Ph.D., Louis J. Lavigne, Jr., Russell T. Ray and Henri A. Termeer, as well as any other person or persons elected or appointed to the Board without shareholder approval after the Company s 2014 annual meeting and up to and including the date of the Special Meeting (other than any Group Nominee set forth herein), be and hereby are removed from office as directors of the Company.**

Article 7 of the Charter, along with Section 141(k) of the DGCL, provides that any director or the entire Board may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of the Company s directors.

If Proposal 1 passes, only three directors will remain on the Board. We are seeking to remove Messrs. Deborah Dunsire, M.D., Michael R. Gallagher, Trevor M. Jones, Ph.D., Louis J. Lavigne, Jr., Russell T. Ray and Henri A. Termeer because we believe that they have not acted in the best interests of shareholders with respect to Valeant s proposal to acquire the Company as evidenced by the Board s failure to engage in good faith discussions with Valeant regarding its proposal to merge with Allergan, its adoption of a poison pill in the face of such proposal and its designation of Mr. Pyott as the only member of the Board authorized to speak with shareholders.

We believe that the incumbent Board is disserving you. On April 22, 2014, Valeant first made an offer to the Board proposing a business combination of Allergan and Valeant. On May 30, 2014, Valeant publicly announced a revised proposal to merge with Allergan pursuant to which each share of Company Common Stock would be exchanged for $72.00 in cash and 0.83 shares of Valeant common stock (and has indicated it remains willing to add a CVR relating to sales of Allergan s DARPin® product if Allergan were to engage in negotiations with Valeant to work out the exact terms of the CVR). From April 10, 2014 (the day before Pershing Square began its rapid accumulation program) to September 23, 2014 (the last business day prior to the filing of this Proxy Statement), the Company s stock price has increased by approximately 45%. Despite this, the Board has stubbornly refused to engage in discussions with Valeant regarding its proposal. In addition, Mr. Gallagher, Allergan s lead independent director (whose re-election at Allergan s 2014 annual meeting was recommended against by Institutional Shareholder Services (ISS)) has rejected Pershing Square s requests to discuss Valeant s proposal without management present. At the present time, Valeant s exchange offer cannot be consummated until the Board removes or renders inapplicable certain obstacles to the consummation of the exchange offer, such as the poison pill, which the Board could unilaterally eliminate. To date, ISS has not issued a recommendation on this Proposal 1 with respect to the removal of Allergan directors.

We have, in accordance with SEC requirements, provided shareholders with a way to vote for removal of less than all of the directors listed in the foregoing resolution by checking the FOR REMOVAL EXCEPT box on the WHITE Proxy Card and writing below that box the name(s) of the director(s) that the shareholder does not wish to remove.

A proxy marked WITHHOLD AUTHORITY for the removal of all of the directors or FOR REMOVAL EXCEPT with respect to any specific director will not be considered to have been voted for or against the removal of any such director.

We strongly urge you to vote ***FOR*** *Proposal 1 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 2**:** **RESOLVED, that the shareholders of Allergan hereby request that the Board elect or appoint the following individuals to serve as directors of the Company, regardless of whether Proposal 1 is passed: Betsy S. Atkins, Cathleen P. Black, Fredric N. Eshelman, Ph.D., Steven J. Shulman, David A. Wilson and John J. Zillmer (individually a Group Nominee and**

collectively, the Group Nominees); provided, however, that if at any time prior to the date of the Special Meeting one or more Group Nominees are no longer willing or, as a result of death or incapacity, able to serve as directors of the Company and a majority of the then-remaining Group Nominees select replacements, those replacements (rather than the individuals they replaced), along with the Group Nominees who have not been replaced, shall then be considered the Group Nominees for all purposes.

Pursuant to Article II, Section 6 of the Bylaws, such a proposal requesting that the Board elect or appoint such individuals as directors requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at such Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

Each Group Nominee named in this Proposal 2 has consented to be named in this Proxy Statement and to serve as a director of the Company, if elected. If the Group Nominees are elected, they intend to discharge their duties as directors of the Company consistent with all applicable legal requirements, including the general fiduciary obligations imposed upon corporate directors. Each of the Group Nominees is a highly experienced, independent member of the business community. We believe that the Group Nominees will act in your and Allergan s best interests. Although the Group Nominees have not made any commitment to us if elected other than that they will serve as a director and exercise their independent judgment in accordance with their fiduciary duties in all matters before the Board, we believe that the Group Nominees, if elected, are more likely than the incumbent Board, due to their independence from Allergan management, Valeant and Pershing Square (determined under the standards set forth in the New York Stock Exchange Listed Company Manual with respect to each of Allergan, Valeant and Pershing Square, as if, in the case of Valeant and Pershing Square, such standards related to Valeant and Pershing Square rather than Allergan). A vote for the Group Nominees is your message as the owners of Allergan that you are in favor of pursuing a possible acquisition of Allergan by Valeant in order to maximize the value of Allergan. The election of the Group Nominees to the Board will not preclude their consideration of any competing bids or proposals for the acquisition of Allergan.

If elected, each Group Nominee named in this Proposal 2 would serve as a director until the Company s annual meeting in 2015. This Proposal 2 is nonbinding in nature and thus the Board will be under no legal obligation to take any action with respect to the shareholders request to appoint new directors (which action is necessary to effect such request), no matter how many votes are cast in favor of this Proposal 2. Because shareholders have the right to elect directors, we believe that, upon removal of directors, the shareholders and not the remaining directors should be able to select replacements. Voting for Proposal 2 will send a message to the remaining directors as to the appropriate representatives of shareholders on the Board.

We have, in accordance with SEC requirements, provided shareholders with a way to vote for inclusion of less than all of the Group Nominees in the request contemplated by the foregoing resolution by checking the FOR ALL EXCEPT box on the WHITE Proxy Card and writing below that box the name(s) of the Group Nominee(s) that the shareholder does not wish to request the Board to elect or appoint.

A proxy marked WITHHOLD AUTHORITY with respect to all Group Nominees or FOR ALL EXCEPT with respect to any specific Group Nominee will not be considered to have been voted for or against the request that the Board elect or appoint such Group Nominee.

In the event that Proposal 1 passes and the above-named directors are removed from the Board creating six vacancies, but Proposal 2 does not pass or Proposal 2 passes but the Board refuses to implement the shareholders wishes and does not elect or appoint the Group Nominees, then pursuant to Article III, Section 5 of the Bylaws, Article 8 of the Charter and Section 223 of the DGCL, such vacancies may be filled by a majority vote of the then-remaining directors, even though less than a quorum.

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In the event that, at the time of filling any board vacancy, the directors then in office constitute less than a majority of the whole Board and those directors do not fill the vacancies with the Group Nominees, we intend to exercise our rights pursuant to Section 223(c) of the DGCL which provides that the Delaware Court of Chancery may summarily order an election to be held to fill any such vacancies or to replace the directors chosen by the directors then in office. For additional information on our rights under Section 223(c) of the DGCL, see the section of this Proxy Statement titled Information Regarding the Nominees.

We strongly urge you to vote ***FOR*** *Proposal 2 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 3**: RESOLVED, that Article II, Section 3 of the Bylaws be, and hereby is, amended to read as set forth in Section 3(A) of Exhibit E to the Solicitation Statement filed by PS Fund 1, LLC (PS Fund 1) on July 11, 2014 (the Solicitation Statement), in order to provide simplified mechanics for calling and determining the place, date and hour of any special meeting called at the request of the Company s shareholders.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

In order to simplify the mechanics for calling a special meeting, we are proposing amendments to the Bylaws that would eliminate certain procedural and informational requirements for calling a special meeting which are set forth in the language marked as struck out in Article II, Section 3 of Exhibit E to the Solicitation Statement (and reproduced here as Exhibit A to this Proxy Statement) that were originally adopted at the time of the Company s 2013 annual meeting of shareholders. These requirements were summarized at the time of their adoption, in the Company s Proxy Statement on Schedule 14A, filed with the SEC on March 8, 2013, as follows:

no business may be conducted at the special meeting except as set forth in the Company s notice of meeting; no stockholder special meeting request may be made during the period commencing 90 days prior to the first anniversary of the date of the immediately preceding annual meeting and ending on the date of the final adjournment of the next annual meeting; a special meeting request cannot cover business substantially similar to what was covered at an annual or special meeting held within one year, subject to certain exceptions; a special meeting will not be held if similar business is to be covered at an annual or special meeting called by the Board but not yet held; and the requesting stockholder s notice must provide certain information regarding the business proposed to be conducted, and as to the stockholder giving notice and any person or entity acting in concert with the stockholder giving notice.

In the event that Proposal 3 passes, the Bylaw provisions quoted immediately above would be eliminated. We believe the elimination of these Bylaw provisions is an important step in improving the corporate governance of Allergan by streamlining the procedures by which shareholders may exercise their right to call a special meeting. We believe that the procedure requiring that written requests for a special meeting be made by the actual holders of record of 25% of the outstanding shares of Company Common Stock (as opposed to beneficial owners) is highly unusual. In addition, the time and cost burdens associated with collecting the level of information required to be provided (which is largely irrelevant to any legitimate concern Allergan may have) serves to deter participation by all but the largest stockholders as they will be the stockholders which may most easily comply given their existing legal departments and other resources. Those burdensome procedural and informational requirements include the obligation to provide extensive disclosure of each Proposing Person (as defined in the Bylaws) and can be difficult to interpret. Furthermore, requesting shareholders are required to make

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representations, including that they intend to hold their shares through the date of the special meeting (failing which their requests are automatically revoked to the extent of any sale), and to update and supplement their information following submission of the written request. We believe that the cumulative effect of these Bylaw provisions is to make it substantially more difficult for shareholders to exercise the right to call a special meeting purportedly granted in the Company s Charter and Bylaws.

We strongly urge you to vote ***FOR*** *Proposal 3 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 4**: RESOLVED, that Article II, Section 3 of the Bylaws be, and hereby is, amended to add a new clause at the end (which shall be designated clause (B) if Proposal 3 above is passed and shall be designated clause (E) if Proposal 3 above is not passed) to read as set forth in Section 3(B) of Exhibit E to the Solicitation Statement, in order to provide mechanics for calling a special meeting if no directors or less than a majority of directors are then in office.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

In the event that Proposal 1 passes and the above-named directors are removed from the Board creating six vacancies, but Proposal 2 does not pass or Proposal 2 passes but the Board refuses to implement the shareholders wishes and does not elect or appoint the Group Nominees, then, as discussed above, pursuant to Article III, Section 5 of the Bylaws, Article 8 of the Charter and Section 233(a) of the DGCL, such vacancies may be filled by a majority vote of the then-remaining directors, even though less than a quorum.

We are proposing amendments to the Bylaws that would facilitate the shareholders right to call a special meeting to elect the replacements of the removed directors in the event that, at the time of filling any board vacancy, the directors then in office constitute less than a majority of the whole Board, as contemplated by Section 223 of the DGCL. The text of the proposed amendment is reproduced as Exhibit A to this Proxy Statement. We believe that best practices would allow shareholders to replace directors removed by them and that shareholders should not be required to call another special meeting or wait until the following annual meeting to do so. We believe it is important for Allergan shareholders to send a strong message to the incumbent Board in this regard by insisting on shareholders concurrent right to fill vacancies.

We strongly urge you to vote ***FOR*** *Proposal 4 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 5: **RESOLVED, that Article II, Section 9 of the Bylaws be, and hereby is, amended to read as set forth in Section 9 of Exhibit E to the Solicitation Statement, in order to provide simplified mechanics for nominating directors or proposing business at any annual meeting.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

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In order to simplify the mechanics for nominating directors or proposing business at any annual meeting, we are proposing amendments to the Bylaws that would remove informational and procedural requirements for proposing business and nominating directors, which are set forth in the language marked as struck out in Article II, Section 9 of Exhibit E to the Solicitation Statement (and reproduced here as Exhibit A to this Proxy Statement), such as:

- the shareholder must provide detailed information regarding the business proposed to be conducted, as to the shareholder and any person or entity acting in concert with the shareholder, and as to each nominee, including the disclosure by the shareholder and each nominee of any Disclosable Interests (as defined in the Bylaws), which requirements require greater disclosure than that required by the federal proxy rules and Delaware law;

- the shareholder must make representations regarding its intention to hold its shares through the date of the meeting, and must appear in person or by qualified representative to present the matters at the meeting; and

- the requesting shareholder must update and supplement all such information as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement.

For reasons similar to those discussed under Proposal 3, we believe that simplifying these procedures is necessary to provide shareholders with meaningful rights to participate in the governance of the Company, consistent with the rights provided to shareholders in the Company s Charter.

We strongly urge you to vote ***FOR*** *Proposal 5 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 6**: RESOLVED, that, if Proposal 1 is passed, Article III, Section 2 of the Bylaws be, and hereby is, amended to read as set forth in Article III, Section 2 of Exhibit E to the Solicitation Statement, in order to fix the authorized number of directors of the Company at nine directors.**

Pursuant to Article II, Section 6 of the Bylaws, the amendment of the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present. According to Article 6 of the Charter, directors can only be elected at the annual meeting of shareholders.

If Proposal 1 is passed, and Proposal 2 passes and the Board implements the shareholders wishes and elects or appoints the Group Nominees, this Proposal 6 is designed to prevent the Board from taking other actions to nullify those actions, including by appointing to the Board several new directors affiliated with Company management. The text of the proposed amendment is reproduced as Exhibit A to this Proxy Statement. The approval of Proposal 6 is conditioned on the approval of Proposal 1.

We believe that, if Proposal 1 is passed and Proposal 2 passes, Allergan shareholders will be sending a message that they desire the Group Nominees to control the Board. However, if the incumbent Board expands the size of the Board, the desire of Allergan shareholders will be thwarted. For example, if the incumbent Board expands the size of the Board to 13, and the Board implements the shareholders wishes and elects or appoints the Group Nominees, the

Group Nominees elected will constitute six of the 13 directors on the Board and therefore will be unlikely to be able to effect a change in the direction of the Board. Regardless of the incumbent Board s motivation in so doing, we believe that any expansion of the Board would merely serve to disenfranchise you and delay your right to have a Board that advances your best interests.

We strongly urge you to vote ***FOR*** *Proposal 6 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 7**: RESOLVED, that any amendment to the Bylaws adopted without shareholder approval after the Company s 2014 annual meeting and up to and including the date of the Special Meeting that changes the Bylaws in any way from the version that was publicly filed with the SEC on March 26, 2014 and became effective as of May 9, 2014 (other than any amendment to the Bylaws set forth herein) be, and hereby are, repealed.**

Pursuant to Article VII, Section 3 of the Bylaws, the repeal of amendments to the Bylaws requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at the Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

This Proposal 7 is designed to prevent the Board from taking actions to amend the Bylaws to attempt to nullify or delay the actions taken by, or proposed to be taken by, the shareholders pursuant to the Proposals or to create new obstacles to the consummation of the transactions contemplated by Valeant s proposal. The text of the proposed amendment is reproduced as Exhibit A to this Proxy Statement.

We strongly urge you to vote ***FOR*** *Proposal 7 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

Proposal 8**: RESOLVED, that the shareholders of Allergan hereby request that the Board promptly engage in good faith discussions with Valeant regarding Valeant s offer to merge with the Company, without in any way precluding discussions the Board may choose to engage in with other parties potentially offering higher value.**

Pursuant to Article II, Section 6 of the Bylaws, such a proposal requesting that the Board promptly engage in good faith discussions with Valeant regarding Valeant s proposal requires the vote of a majority in voting interest of the shareholders present in person or by proxy and entitled to vote at such Special Meeting on such matter, a quorum (which is a majority in voting interest of the shares of the Company) being present.

This Proposal 8 is designed to provide shareholders with the ability to demonstrate, in a coordinated and powerful manner, their support for the Company to engage in a meaningful dialogue with Valeant. While there are numerous ways the Board could implement this Proposal 8, examples of such meaningful engagement could include, without limitation, and in each case conducted in good faith:

the participation in one or more substantive, face-to-face meetings between the chief executive and other senior-level officers of the Company and representatives of Valeant to address the terms of Valeant s offer to merge with the Company;

members of the Board making themselves available for face-to-face meetings with representatives of Valeant to discuss the terms of Valeant s offer;

discussions between the financial advisors of the Company and the financial advisors of Valeant;

discussions between the legal advisors of the Company and the legal advisors of Valeant, including in respect of the proposed merger agreement between the companies; and

the Company undertaking preliminary due diligence activities with respect to Valeant, including entering into a confidentiality agreement that would allow it to receive non-public information from Valeant.

This Proposal 8 is non-binding in nature and thus the Board will be under no legal obligation to take any action with respect to the shareholders request to engage with Valeant, no matter how many votes are cast in favor of this Proposal 8.

We strongly urge you to vote ***FOR*** *Proposal 8 by signing, dating and returning the enclosed WHITE Proxy Card in the enclosed postage paid envelope. You may also vote by telephone using the toll-free number on the WHITE Proxy Card or over the Internet using the Internet address on the WHITE Proxy Card.*

VOTING PROCEDURES

Record Date; Vote Per Share

Allergan has one class of voting shares outstanding and, as of July 31, 2014, there were 297,183,809 shares of Company Common Stock outstanding as reported in the Quarterly Report filed on Form 10-Q filed by the Company with the SEC on August 5, 2014 (the Company 10-Q). Only holders of record on the Record Date are entitled to receive notice of the Special Meeting and to vote the shares of Company Common Stock that they held on the Record Date at the Special Meeting. Each share of Company Common Stock will have one vote on each matter to be voted on at the Special Meeting. The Record Date has been set for the close of business on October 30, 2014. To the extent you sell your shares on or prior to the Record Date for the Special Meeting, you will not have the right to vote on the Proposals at the Special Meeting.

Quorum; Abstentions

In order to constitute a quorum for the conduct of business at the Special Meeting, a majority of the outstanding shares of Company Common Stock entitled to vote must be present or represented by proxy at the Special Meeting. Shares that abstain from voting or withhold authority on any Proposal or that are represented by broker non-votes (as discussed below), will be treated as shares that are present and entitled to vote at the Special Meeting for purposes of determining whether a quorum is present.

A vote to ABSTAIN or WITHHOLD AUTHORITY with respect to a Proposal will have the same effect as a vote against the Proposal. In the case of Proposal 1, the voting standard is a majority of the shares outstanding, and votes from shareholders to ABSTAIN or WITHHOLD AUTHORITY for the Proposal will have the same effect as a vote against the Proposal. In the case of Proposals 2-8, the voting standard is a majority in voting interest of shareholders present, in person or by proxy, and entitled to vote at the Special Meeting. Votes from shareholders to ABSTAIN or WITHHOLD AUTHORITY , which will be treated as votes from shareholders present but not in favor of a Proposal, will have the same effect as a vote against the Proposal.

Broker Non-Votes

If you hold your shares through a bank, broker or other nominee (that is, in street name) and do not provide voting instructions to your bank, broker or other nominee, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote. In this case, a broker non-vote occurs. Shares constituting broker non-votes are not counted or deemed to be present or represented for the purpose of determining whether shareholders have approved a matter, but they are counted as present for the purpose of determining a quorum at the Special Meeting.

Broker non-votes with respect to a Proposal will have the same effect as a vote against the Proposal. In the case of Proposal 1, the voting standard is a majority of the shares outstanding, and broker non-votes will have the same effect as a vote against the Proposal. In the case of Proposals 2-8, the voting standard is a majority in voting interest of shareholders present, in person or by proxy, and entitled to vote at the Special Meeting. Broker non-votes , which will be treated as votes from shareholders present but not in favor of a Proposal, will have the same effect as a vote against the Proposal.

The solicitation of proxies with respect to the Proposals described in this Proxy Statement are non-routine matters and brokers and other nominees do not have discretionary authority to vote your shares on non-routine matters. Therefore, unless you provide specific voting instructions to your broker or other nominee, they will not have discretionary authority to vote your shares at the Special Meeting and your shares will not be voted for or against any of the Proposals.

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If your shares are held in street name, your broker or other nominee will have enclosed a voting instruction card with this Proxy Statement. We strongly encourage you to vote your shares by following the instructions provided on the voting instruction card.

Revocation of Proxies

Shareholders who have executed and delivered a WHITE Proxy Card may revoke it at any time before the proxy is exercised by:

- delivering an instrument revoking the earlier proxy, or a duly executed later dated proxy for the same shares, to D.F. King at 48 Wall Street, New York, NY 10005; or

- filing with the Company s Corporate Secretary prior to the Special Meeting either a notice of revocation or a duly executed later dated proxy for the same shares; or

- if you have voted by telephone or through the Internet, calling the same toll-free number or by accessing the same web site and following the instructions provided on the WHITE Proxy Card; or

- voting in person at the Special Meeting.

Written ballots will be distributed to shareholders who wish to vote in person at the Special Meeting. If you hold your shares through a bank, broker or other nominee, you must obtain a legal proxy from such custodian in order to vote in person at the Special Meeting (the power of the proxy holders will be suspended if you attend the Special Meeting in person, although attendance at the meeting will not by itself revoke a previously granted proxy).

We strongly urge you not to sign any proxy card sent to you by Allergan. If you have already voted any proxy card that the Company may have sent you, you can change your vote by signing, dating and returning the WHITE Proxy Card to D.F. King at its address set forth below or by making use of the Internet and telephone voting facilities described above. If you hold your shares through a bank, broker or other nominee, you will need to contact your bank, broker or nominee and follow their instructions if you want to revoke a proxy or change your vote. Only your latest signed and dated proxy will count at the Special Meeting.

SOLICITATION OF PROXIES; EXPENSES

PS Fund 1 will bear the entire expense of preparing and mailing this Proxy Statement and the total expenditures relating to the solicitation of WHITE Proxy Cards to vote at the Special Meeting, including, without limitation, costs, if any, related to advertising, printing, fees of attorneys, financial advisors, solicitors and accountants, public relations, transportation and litigation. We may solicit your proxy by telephone, email, facsimile, and personal solicitation, in addition to mail. Banks, brokerage houses and other custodians, nominees and fiduciaries will be requested to forward PS Fund 1 s proxy materials to customers for whom such persons hold shares of Company Common Stock, and PS Fund 1 will reimburse them for their reasonable out-of-pocket expenses for doing so.

D.F. King, our proxy solicitation firm, has been retained to assist in this solicitation and will receive customary fees for its services, plus reimbursement of reasonable out-of-pocket expenses. D.F. King will be indemnified against certain liabilities and expenses, including certain liabilities under the federal securities laws. The firm will utilize approximately 75 persons in its solicitation efforts.

PS Fund 1 currently estimates that its solicitation expenses will amount to not less than $1 million. PS Fund 1 does not intend to seek reimbursement from Allergan for the costs and expenses incurred in connection with this Proxy Statement.

CERTAIN INFORMATION REGARDING THE COMPANY

The Company is a Delaware corporation with its principal executive offices at 2525 Dupont Drive, Irvine, California.

The Company is subject to the informational filing requirements of the Exchange Act and in accordance therewith it files periodic reports, proxy statements and other information with the SEC. Reports, proxy statements and other information filed by the Company with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information regarding the public reference facilities may be obtained from the SEC by calling (202) 551-8090. The Company s filings with the SEC are also available to the public without charge on the SEC s website (http://www.sec.gov).

Except as otherwise noted herein, the information concerning the Company contained in this Proxy Statement has been taken from or based upon publicly available documents and records on file with the SEC and other public sources. Although we do not have any knowledge that would indicate that any statement contained herein based upon such documents and records is untrue, we have not independently verified the accuracy or completeness of such information and do not take any responsibility for the accuracy or completeness of the information contained in such documents and records, or for any failure by the Company to disclose events that may affect the significance or accuracy of such information. For information regarding the security ownership of the directors and the management of the Company, please refer to Annex A attached to this Proxy Statement.

INFORMATION REGARDING THE NOMINEES

In the event that the Company s shareholders approve the proposal to remove from office, without cause, the following six members of the current Board: Deborah Dunsire, M.D., Michael R. Gallagher, Trevor M. Jones, Ph.D., Louis J. Lavigne, Jr., Russell T. Ray and Henri A. Termeer, and any person or persons appointed by the Board without shareholder approval after the 2014 annual meeting and up to and including the date of the Special Meeting, Proposal 2 requests that the Board appoint or elect the Group Nominees. Each of the Group Nominees has consented to being named and to serve as a director if elected. We reserve the right to request the appointment or election of substitute persons for any of the Group Nominees named herein. The information herein regarding a particular Group Nominee has been furnished to PS Fund 1 by such Group Nominee.

Name, Address, Age and Employment History. Set forth below are the name, age, business address, present principal occupation, and employment and material occupations, positions, offices, or employments for the past five years of each of the proposed Group Nominees.

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
Betsy Atkins Business Address: 10 Edgewater Drive	**61**	Betsy Atkins is a business executive and entrepreneur with substantial public company board experience and is known for her early stage investments in Yahoo! (NASDAQ: YHOO) and eBay (NASDAQ: EBAY) and service as Chairman and Chief Executive Officer of Clear Standards, Inc., a leading provider of SaaS energy management software and sustainability solutions, which was acquired by SAP AG, from 2008 to 2009.

Coral Gables, Florida 33133-6966

Ms. Atkins has been the Chief Executive Officer of Baja LLC, an independent venture capital firm focused on technology, renewable energy and life sciences, since 1994.

Ms. Atkins co-founded successful high tech and consumer companies, including Ascend Communications (formerly

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
		NASDAQ: ASDN). She is the former Chairman of the Board of Directors of Third Screen Media, a company that enables advertising on mobile phones and which was eventually sold to AOL. Ms. Atkins was the CEO of NCI Inc., a food manufacturer creating functional food products, from 1991 through 1993. She has also served on the Board of Directors of Human Genome Sciences Inc. (NASDAQ: HGSI), HealthSouth Corporation (NYSE: HLS), Vonage Holdings Inc., Towers Watson & Co. (NYSE: TW), Reynolds American Inc. (NYSE: RAI), SunPower Corporation (NASDAQ: SPWR) and Chico s FAS, Inc. (NYSE: CHS).
		Ms. Atkins serves as a director of Polycom, Inc. (NASDAQ: PLCM) since April 1999 and is currently Chairman of the Compensation Committee and a member of the Nominating and Governance Committee. She has been a director of Schneider Electric, SA. since April 2011. Ms. Atkins also serves as a director for HD Supply Holdings, Inc. (NASDAQ: HDS) since September 2013 and is a member of the Compensation Committee and Nominating and Governance Committee. Ms. Atkins served as a director for Wix.com Ltd. (NASDAQ: WIX) through July 2014, where she was a member of the Audit Committee and had been Chair of the Compensation Committee since October 2013. Ms. Atkins is also a director for Ciber Inc. (NYSE: CBR) since July 2014 and is a member of the Compensation and Governance Committee.
		Ms. Atkins is a member of the Council on Foreign Relations as well as a member of the Florida International University Medical School Board of Trustees. Ms. Atkins received her bachelor s degree from the University of Massachusetts and also studied at Trinity College, Oxford.
Cathleen P. Black Business Address: 110 East 25th Street New York, NY 10010	**70**	Cathleen P. Black is a business executive who served as President, and later as Chairman, of Hearst Magazines over a 15 year period from January 1996 until December 2010. Moreover, Ms. Black served from 1995 until 2010 as an independent director of International Business Machines Corp. (NYSE: IBM), a provider of information technology products and services, and from 1992 until 2010 as a director of The Coca-Cola Company (NYSE: KO), a multinational beverage and beverage concentrate company.

Ms. Black has served as a Senior Advisor at RRE Ventures LLC, an early stage venture capital firm, since 2011. She has served on the boards of two of RRE Ventures LLC s portfolio companies, Yieldbot Inc. and Bark & Co., Inc., as an independent board member and is also a board member of PubMatic, Inc., an advertising technology platform. Ms. Black also served as a director of Vibrant Media Inc., a global leader of incontent contextual technology, from October 2012 until 2013. Prior to those experiences, Ms. Black served as President,

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
		and later as Chairman, of Hearst Magazines, a division of the Hearst Corporation and one of the world s largest publishers of monthly magazines, from January 1996 until December 2010. Moreover, Ms. Black served as President of USA Today from October 1983 until June 1991 and was a board member of its parent company, Gannett Co., Inc. (NYSE: GCI).
		Further, Ms. Black served as a director of NYC2012 Inc., a nonprofit organization created to promote New York City as a location for the 2012 Summer Olympics and as President of the Newspaper Association of America. Between January 2011 and April 2011, Ms. Black also served New York City as Chancellor of New York City Schools.
		Ms. Black is a member of the Council on Foreign Relations, a trustee emeritus of The University of Notre Dame and a trustee of the Kent School.
		Ms. Black holds a bachelor s degree from Trinity College in Washington, D.C.
Fredric N. Eshelman Business Address: 6814 Towles Road Wilmington, NC 28409	**66**	Dr. Fredric N. Eshelman, a pharmacist by training, built Pharmaceutical Product Development, Inc. (NASDAQ: PPDI) from a one-person start-up into a 10,000-employee global contract research organization which was sold in 2011 for approximately $4 billion. He also founded and served from 2009 as Executive Chairman of Furiex Pharmaceuticals, Inc. (NASDAQ: FURX) until its sale in July 2014 to Forest Laboratories LLC for approximately $1.1 billion in cash and contingent value rights worth up to an additional $360 million.
		Dr. Eshelman is a principal at Eshelman Ventures, LLC, which is a fund that invests primarily in early-stage healthcare. He served as the Chief Executive Officer of Pharmaceutical Product Development, Inc. until 1989 and from July 1990 until July 2009, Vice Chairman of its board of directors from July 1993 until July 2009 and Executive Chairman from July 2009 until its sale to private equity in 2011. From 1989 until he rejoined Pharmaceutical Product Development, Inc. in 1990, Dr. Eshelman was Senior Vice

President of Development at Glaxo, Inc. and served on the board of its United States subsidiary of Glaxo Holdings plc. Dr. Eshelman currently serves as director on several private company boards. Dr. Eshelman also served on the board of Princeton Pharma Holdings LLC from February 2008 until May 2010, when it was acquired by Valeant Pharmaceuticals International, Inc.

Dr. Eshelman has served on the University of North Carolina System Board of Governors, including its Audit Committee. He also has served as a director of the North Carolina Biotechnology Center and the University of North Carolina at Wilmington Board of Trustees. Moreover, Dr. Eshelman currently serves as an adjunct professor at University of North Carolina at Chapel Hill.

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
		He has received numerous awards including the Davie and the Outstanding Service Awards from University of North Carolina at Chapel Hill, the NC Biotechnology Award, and the Outstanding Alumnus awards from both the University of North Carolina and University of Cincinnati Schools of Pharmacy. The University of North Carolina Eshelman School of Pharmacy was so named to reflect his many contributions to the University of North Carolina and the profession of pharmacy.
		Dr. Eshelman received his bachelor s degree in pharmacy from the University of North Carolina at Chapel Hill and his doctor of pharmacy (Pharm.D.) from the University of Cincinnati. He completed his hospital residency at Cincinnati General Hospital and completed the Owner/President Management program at Harvard Business School.
Steven J. Shulman	**63**	Steven J. Shulman has extensive experience as a public company board member and turn-around executive.
Business Address:		
1433 Nighthawk Pointe		Mr. Shulman serves as the Managing Director of Shulman Ventures Inc., a private equity investment firm. Mr. Shulman has also served as a strategic advisor to Water Street Healthcare Partners, a private equity firm focused exclusively on health care, since 2008.
Naples, FL 34105		
		Mr. Shulman has served as Chairman of CareCentrix, Inc. since 2008, Access MediQuip, LLC since 2009 and Accretive Health, Inc. (NYSE: AH) since 2014. Mr. Shulman has also served as a director of HealthMarkets, Inc. since 2006, Facet Technologies since 2011, Oasis Outsourcing since 2012, MedImpact since 2013 and Quantum Health since 2013. Mr. Shulman has previously served on numerous other privately held company boards.
		Mr. Shulman served as Chairman of Health Management Associates Inc. (NYSE: HMA) from 2013 until January 2014. He also served as Chairman and Chief Executive Officer of Magellan Health Services, Inc. (NASDAQ: MGLN) from 2003 until 2009.

Mr. Shulman founded and served as Chairman and Chief Executive Officer at Internet Healthcare Group, LLC, an early stage health care services and technology venture fund, from 1999 until 2003. Mr. Shulman also served as the Chairman, President and Chief Executive Officer of Prudential Healthcare, Inc. from 1997 until 1999.

Mr. Shulman co-founded and served as a director of Value Health, Inc. (NYSE: VH), a specialty managed care company in 1987, which went public in 1991 and was sold in 1997. During this time, he served in a number of senior operating positions including as President of Pharmacy & Disease Management Group.

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
		Earlier in his career, Mr. Shulman held various leadership positions at Cigna Corporation (NYSE: CI) from 1983 to 1987 and at Kaiser Permanente from 1974 to 1983.
		Mr. Shulman served on the Board of Trustees of the Crohn s and Colitis Foundation of America as well as the University of Hartford s Art School. In addition, he serves on the Deans Council at SUNY at Stony Brook.
		Mr. Shulman received his bachelor s degree in economics and his masters in health services administration from the State University of New York at Stony Brook. He also completed the Advanced Management program at Stanford University Graduate School of Business.
David A. Wilson	**73**	David A. Wilson is a widely-recognized leader in the field of accounting with significant management experience.
Business Address: 4551 Gulf Shore Blvd. N Unit 402, Naples, FL 34103		Mr. Wilson is the former President and Chief Executive Officer of the Graduate Management Admission Council, a not-for-profit education association dedicated to creating access to graduate management and professional education, which provides the Graduate Management Admission Test (GMAT), and which position he held from 1995 through December 2013. Mr. Wilson served as Senior Advisor to the Graduate Management Admission Council from December 2013 until June 2014.
		Mr. Wilson has served as a director of CoreSite Realty Corporation (NYSE: COR), an owner-developer and operator of strategically located data centers, since 2010, and is a member of the Compensation Committee and chair of the Audit Committee. He has also served Barnes & Noble, Inc. (NYSE: BKS) as a director and as chair of its Audit Committee since October 2010.
		Mr. Wilson served as a director at Terra Industries Inc. (formerly NYSE: TRA), a producer and marketer of nitrogen products, from November 2009 until April 2010 where he served as member of the Audit Committee. Mr. Wilson also served as a director and member of the Audit Committee at Laureate Education, Inc. (formerly Sylvan Learning Systems, Inc.) (NASDAQ: LAUR), an operator of

an international network of licensed campus-based and online universities and higher education institutions, from 2002 until 2007. Mr. Wilson also chaired two special committees for Laureate Education, Inc., one for the sale of its Sylvan Learning Centers to Apollo Global Management, LLC from 2002 to 2003 and another for the management buyout to take Laureate Education, Inc. private from 2006 to 2007, and also served on a special committee for Barnes & Noble, Inc. to explore strategic alternatives from 2011 to 2012.

From 1978 to 1994, Mr. Wilson worked in various capacities for Ernst & Young LLP (and its predecessor, Arthur Young &

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
		Company), including Audit Principal, Audit Partner, Managing Partner, National Director of Professional Development, Chairman of Ernst & Young s International Professional Development Committee and as a director of the Ernst & Young Foundation. Mr. Wilson has had full responsibility for managing teams responsible for the planning, review and execution of audit engagements.
		Mr. Wilson served as a faculty member at Queen s University (1968 to 1970), the University of Illinois at Urbana Champaign (1970 to 1972), the University of Texas (1972 to 1978), where he was awarded tenure, and Harvard University s Graduate School of Business (1976 to 1977).
		Mr. Wilson has a Bachelor of Commerce from Queen s University, Canada, a Masters of Business Administration (M.B.A.) from the University of California, Berkeley and a doctorate in accounting (Ph.D) from the University of Illinois. Mr. Wilson has also been a Chartered Accountant (Ontario), a Fellow Chartered Accountant (Ontario) and a Certified Public Accountant (Texas), although he no longer holds a license to practice accounting. Mr. Wilson remains a member in good standing with American Institute of Certified Public Accountants and the Institute of Chartered Accountants of Ontario.
		Mr. Wilson beneficially owns 50 shares of Allergan, Inc., of which he has sole voting and investment power, all of which were purchased on April 16, 2014. Mr. Wilson has Net Long Beneficial Ownership of such shares, as such term is defined in the Bylaws.
John J. Zillmer	**59**	John J. Zillmer is a well-known business executive with broad experience leading large industrial organizations.
Business Address: 30 Basset Hunt Lane Glenmoore, PA 19343		Mr. Zillmer is the former Executive Chairman of Univar, Inc., a leading global distributor of industrial and specialty chemicals and related services, which position he held from May 2012 to December 2012. He served as director, President and Chief Executive Officer of Univar, Inc. from September 2009 to May 2012.

Prior to joining Univar, Inc., Mr. Zillmer was Chairman and Chief Executive Officer of Allied Waste Industries, Inc., the nation s second-largest waste management company, from May 2005 until December 2008, at which time Allied Waste Industries, Inc. merged with Republic Services, Inc. (NYSE: RSG).

From May 2000 to January 2004, Mr. Zillmer served as Executive Vice President of ARAMARK Corporation (NYSE: ARMK), a leading foodservice, facilities and uniforms provider, and as President of its Food and Support Services Group. From 1986 to 2000, Mr. Zillmer served in various management positions in roles of increasing responsibility with ARAMARK Corporation.

Name (Citizenship); Business Address	Age	Present Principal Occupation or Employment; Five Year Employment History
		Mr. Zillmer has served as a director of Reynolds American Inc. (NYSE: RAI), the second-largest tobacco company in the United States, since July 2007. He has been the Chair of its Governance and Nominating Committee since 2013 and has served on its Compensation Committee since 2008. Mr. Zillmer has served as a director of Ecolab Inc. (NYSE: ECL), the global leader in water, hygiene and energy technologies and services, since May 2006. He has been a member of its Governance Committee since 2007 and, its Compensation Committee since 2011 and served on its Audit Committee from 2007 to 2010. Mr. Zillmer has also served as director and Chair of the Compensation and Governance Committee of Veritiv Corporation (NYSE: VRTV), a North American leader in business-to-business distribution solutions, since June 2014. He has also served as director of Liberty Capital Partners, Investment Arm, a private equity and venture capital firm specializing in startups, early stage, growth equity, buyouts, and acquisitions, since June 2004.
		Mr. Zillmer received his Master of Business Administration (M.B.A.) from Northwestern University.

Additional Information About the Group Nominees. Each Group Nominee named herein is independent under the Board s independence guidelines, the applicable rules of the NYSE, and the independence standards applicable to the Company under paragraph (a)(1) of Item 407 of Regulation S-K under the Exchange Act. Furthermore, all of the six candidates are independent of and unaffiliated with PS Fund 1, Pershing Square and Valeant.

Each Group Nominee named herein has consented to be named in this Proxy Statement and to serve as a director of the Company, if elected. The consent of each Group Nominee is attached to the Solicitation Statement as Exhibits F-1 through F-6 (and is attached to this Proxy Statement as Exhibits B-1 through B-6). If these Group Nominees are elected, they have indicated that intend to discharge their duties as directors of the Company consistent with all applicable legal requirements, including the general fiduciary obligations imposed upon corporate directors. If elected, each of these Group Nominees would serve as a director until the Company s annual meeting in 2015 and until a successor has been duly elected.

PS Fund 1 does not intend to compensate the Group Nominees in connection with their nomination. If elected, the Group Nominees will be entitled to such compensation from the Company as may be determined by the Company for non-employee directors, and which is described in the Company s Definitive Proxy Statement on Schedule 14A, as filed with the SEC on March 26, 2014 for its 2014 annual meeting (the Company Proxy Statement). We expect that, if elected, the Group Nominees will be indemnified for service as a director of the Company to the same extent indemnification is provided to the current directors of the Company and that the Group Nominees will be covered by the Company s director and officer liability insurance.

Information regarding the amount of each class of securities of the Company beneficially owned by the participants in this solicitation and certain other matters is set forth in the section of the Proxy Statement titled Certain Information Regarding the Participants. Except as set forth in this Proxy Statement, none of the Group Nominees beneficially own any shares of capital stock or other securities of the Company. Information regarding purchases and sales in the

securities of the Company effected during the past two years by participants in this solicitation is set forth in Annex B attached to this Proxy Statement. Except as set forth in Annex B, there have been no purchases and sales in the securities of the Company in the past two years by any Group Nominee.

In connection with the Special Meeting, PS Fund 1 has entered into customary indemnification agreements with each Group Nominee with respect to the nomination of such individual as a director of the Company. The indemnification agreement provides, among other things, that (i) PS Fund 1 will reimburse each Group Nominee for reasonable out-of-pocket expenses arising from or in connection with such person s participation in this solicitation; and (ii) PS Fund 1 will, subject to limited exceptions and to the extent permitted by applicable law, indemnify and hold each Group Nominee harmless from and against all losses, claims, damages, liabilities and expenses (including, without limitation, attorneys fees) incurred by such Group Nominee and also advance expenses in the event such person becomes a party to litigation arising out of or relating to this solicitation (but not in such Group Nominee s capacity as a director of the Company if elected).

Other than as disclosed herein, there are no agreements, arrangements or understandings between any Group Nominee and PS Fund 1 or any other person or persons with respect to the nomination of such Group Nominee.

Other than as disclosed herein, (i) no Group Nominee or any associate of a Group Nominee is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries in any material proceeding, (ii) there is no event that occurred during the past 10 years with respect to any of the Group Nominees that is required to be described under Item 401(d) or 401(f) of Regulation S-K, and (iii) no Group Nominee has any Disclosable Interest as such term is defined in Article II, Section 3 of the Bylaws (except that the term Proposing Person where it appears in sections (A)(1) and (2) of Section 3 of the Bylaws shall be deemed to refer to such Group Nominee).

The Company has published non-binding Guidelines on Significant Corporate Governance Issues (the Guidelines), which in part state that when a Board member reaches the age of 73, he shall not be eligible for re-nomination to the Board and shall retire from the Board effective immediately prior to the Company s first annual meeting of shareholders following such Board member s 73rd birthday. One of the Group Nominees, Mr. David Wilson, is currently 73 years old. In accordance with the Guidelines and without any waiver thereof, he is eligible for election at a special meeting because he turned 73 years old in June of 2014, and accordingly would have been eligible for re-nomination at the 2014 annual meeting of Allergan shareholders held in May 2014 had he been a director and would have been eligible to serve as a director of the Company if elected until the 2015 annual meeting of Allergan shareholders. Also, the age limitation in the Guidelines only applies to re-nomination and not to an initial election. Finally, the Guidelines can be amended or waived. Indeed the Guidelines state that [t]hese guidelines are not rigid rules. Nor is it intended that publication of these guidelines be interpreted as a representation that they will be strictly followed in each instance. The Board will continue to assess the appropriateness and efficacy of these guidelines and it is likely that changes or exceptions to these Guidelines will be considered from time to time. If the Group Nominees are elected prior to the 2015 annual meeting of Allergan shareholders, the Board may choose to waive or amend the Guidelines as they relate to Mr. Wilson. If the Board chooses to maintain the Guidelines and apply the age limit with respect to Mr. Wilson, his service on the Board would terminate at the 2015 annual meeting of Allergan shareholders.

Filling of Vacancies. The Charter and the Bylaws currently permit the Company s shareholders to remove its directors with or without cause, but further provide that any vacancies on the Board will be filled solely by the affirmative vote of a majority of the remaining directors then in office, and do not permit the Company s shareholders to fill any vacancies on the Board. Therefore, the Board s action is necessary to effect the shareholders request to appoint or elect the Group Nominees, but the Board has no obligation to take any action with respect to such request. However, in the event that, at the time of filling any board vacancy, the directors then in office constitute less than a majority of the whole board, Section 223(c) of the DGCL provides that the Delaware Court of Chancery may, upon the application of any shareholder or shareholders holding at least 10 percent of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or to replace the directors chosen by the directors then in office. If the Board ignores the request to fill vacancies as contemplated in Proposal 2, Pershing Square reserves its right to petition the Delaware Court of Chancery under Section 223(c) of the DGCL to order a new election. In addition, we are proposing the amendments to the Bylaws described in Proposal 4 that would

facilitate the shareholders

right to call a special meeting to elect the replacements of the removed directors in the event that, at the time of filling any board vacancy, the directors then in office constitute less than a majority of the whole Board, as contemplated by Section 223(c) of the DGCL. In the event we choose to pursue our rights under Section 223(c) of the DGCL, we will join with other Allergan shareholders to meet the 10 percent requirement of Section 223(c) of the DGCL in a manner consistent with the court order effecting the settlement of litigation relating to Allergan s shareholder rights plan, between Pershing Square and Allergan dated as of June 28, 2014.

CERTAIN INFORMATION REGARDING THE PARTICIPANTS

PS Fund 1 and certain other persons listed below are participants in this solicitation.

The business address of the Pershing Square Participants (as defined below) is 888 Seventh Avenue, 42nd Floor, New York, NY 10019. The business address of Valeant is 2150 St. Elzéar Blvd. West Laval, Quebec, Canada, H7L 4A8, and the business address of Valeant USA is 400 Somerset Corporate Boulevard, Bridgewater, New Jersey 08807. The business address of the Valeant Officer Participants (as defined below) is 2150 St. Elzéar Blvd. West Laval, Quebec, Canada, H7L 4A8. The business address of each Group Nominees in set forth in the section this Proxy Statement titled Information Regarding the Nominees.

PS Fund 1 and Valeant have been shareholders of the Company since February 25, 2014 and May 7, 2014, respectively. As of September 23, 2014, the amount of each class of securities of the Company beneficially owned by each of the participants in this solicitation is as follows:

	Ownership of Company Common Stock	Percent of Class(1)
Pershing Square Capital Management, L.P.	28,878,638(2)	9.7%
PS Management GP, LLC	28,878,638(2)	9.7%
PS Fund 1, LLC	28,878,638(2)	9.7%
William A. Ackman	28,878,638(2)	9.7%
William F. Doyle	0	0
Ben Hakim	0	0
Jordan H. Rubin	0	0
Roy J. Katzovicz	0	0
Valeant Pharmaceuticals International, Inc.	28,878,638(2)	9.7%
Valeant Pharmaceuticals International	28,878,638(2)	9.7%
J. Michael Pearson	0	0
Howard B. Schiller	0	0
Ari S. Kellen	0	0
Laurie W. Little	0	0
Betsy Atkins	0	0
Cathleen P. Black	0	0
Fredric N. Eshelman	0	0
Steven J. Shulman	0	0
David A. Wilson	50	0.0%
John J. Zillmer	0	0
Total	28,878,638(2)(2)	9.7%

(1) Based on 297,183,809 shares of Company Common Stock outstanding as of July 31, 2014, as reported in the Company 10-Q.

(2) The total number of shares beneficially owned by the Pershing Square Participants and the Valeant Participants include 28,878,538 shares of Common Stock owned by PS Fund 1, LLC and 100 shares of Common Stock

owned by Valeant USA.

Pershing Square Participants

Pershing Square serves as investment advisor to PS Fund 1 with respect to 28,878,538 shares of Company Common Stock held for the accounts of this fund and may be deemed to have beneficial ownership of such shares of Company Common Stock for purposes of Rule 13d-3 under the Exchange Act (Rule 13d-3).

Pershing Square is an investment adviser founded in 2003 and registered with the SEC. Pershing Square is a concentrated, research-intensive, fundamental value investor in the public markets.

PS Management GP, LLC, a Delaware limited liability company (PS Management), serves as the general partner of Pershing Square and may be deemed to be the beneficial owner of such shares of Company Common Stock owned by Pershing Square for purposes of Rule 13d-3. William A. Ackman is the Chief Executive Officer of Pershing Square and managing member of PS Management and may be deemed to be the beneficial owner of such shares of Company Common Stock owned by Pershing Square for purposes of Rule 13d-3.

PS Fund 1 is a Delaware limited liability company formed by Pershing Square to purchase certain securities of the Company. Valeant USA contributed $75.9 million of its working capital to PS Fund 1 for such purpose and, together with the capital contributions from the Pershing Square Funds, PS Fund 1 acquired 28,878,538 shares of Company Common Stock.

In addition, William A. Ackman, William F. Doyle, Ben Hakim, Jordan H. Rubin and Roy J. Katzovicz (together with Pershing Square, PS Management, and PS Fund 1, the Pershing Square Participants), may be deemed participants under SEC rules in this solicitation. All five of these individuals are presently employed at Pershing Square, located at 888 7th Avenue, 42nd Floor, New York, NY 10019, and their titles are as follows: William A. Ackman, Founder and CEO; William F. Doyle, Senior Advisor; Ben Hakim, Partner; Jordan H. Rubin, Partner; Roy J. Katzovicz, Partner and Chief Legal Officer.

Valeant Participants

Valeant is a corporation continued under the laws of British Columbia, Canada. Valeant USA is a Delaware corporation and a wholly owned subsidiary of Valeant. Valeant and Valeant USA are multinational, specialty pharmaceutical and medical device companies that develop, manufacture, and market a broad range of branded, generic and branded generic pharmaceuticals, over-the-counter products, and medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment, and aesthetics devices).

In addition, J. Michael Pearson, Chairman and Chief Executive Officer of Valeant, Howard B. Schiller, Director, Executive Vice President and Chief Financial Officer of Valeant, Ari S. Kellen, Executive Vice President and Company Group Chairman of Valeant, and Laurie W. Little, Senior Vice President, Investor Relations of Valeant (the Valeant Officer Participants and, together with Valeant and Valeant USA, the Valeant Participants), may be deemed participants under SEC rules in this solicitation.

Group Nominees

Each of the Group Nominees may be deemed participants under SEC rules in this this solicitation. The name and present principal occupation or employment of each Group Nominee is set forth in the section this Proxy Statement titled Information Regarding the Nominees. David A. Wilson, a Group Nominee, beneficially owns 50 shares of the Company Common Stock, of which he has sole voting and investment power, that were purchased on April 16, 2014.

Section 13(d) Group

Each of Pershing Square, PS Management, PS Fund 1, William A. Ackman, Valeant and Valeant USA, as a member of a group for the purposes of Rule 13d-5(b)(1) under the Exchange Act, is deemed to be a beneficial owner of the 28,878,638 shares of Company Common Stock held by each of the members of the group combined, or 9.7% of the issued and outstanding Company Common Stock based on 297,183,809 shares of Company Common Stock outstanding as of July 31, 2014, as reported in the Company 10-Q, and each entity or individual may be deemed to beneficially own the shares of each other entity or individual in the reporting group. Each member of the group

disclaims beneficial ownership of such shares of Company Common Stock, except to the extent it exercises voting or dispositive power with respect to those shares. Such shares include 100 shares of Company Common Stock with respect to which Valeant exercises sole voting and dispositive power.

Transactions in the Securities of the Company

For information regarding purchases and sales of securities of the Company during the past two years by the participants in this solicitation, please refer to Annex B attached to this Proxy Statement. Except as set forth on Annex B, there have been no purchases or sales in the securities of the Company in the past two years by such parties.

Additional Information Regarding the Participants

Except as set forth in this Proxy Statement (including the annexes, exhibits and any other attachments hereto), (i) during the past 10 years, no participant in this solicitation has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors); (ii) no participant in this solicitation owns beneficially, directly or indirectly, any securities of the Company; (iii) no participant in this solicitation owns any securities of the Company of record but not beneficially; (iv) no participant in this solicitation has purchased or sold any securities of the Company during the past two years; (v) no part of the purchase price or market value of the securities of the Company owned by any participant in this solicitation is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities; (vi) no participant in this solicitation is, or within the past year was, a party to any contract, arrangements or understandings with any person with respect to any securities of the Company, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies; (vii) no associate of any participant in this solicitation owns beneficially, directly or indirectly, any securities of the Company; (viii) no participant in this solicitation owns beneficially, directly or indirectly, any securities of any subsidiary of the Company; (ix) no participant in this solicitation or any of his, her or its associates or immediate family members was a party to, or had a direct or indirect material interest in, any transaction, or series of similar transactions, since the beginning of the Company s last fiscal year, or is a party to any currently proposed transaction, or series of similar transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $120,000; (x) no participant in this solicitation or any of his, her or its associates has any arrangement or understanding with any person with respect to any future employment by the Company or its affiliates, or with respect to any future transactions to which the Company or any of its affiliates will or may be a party; (xi) no participant in this solicitation has a substantial interest, direct or indirect, by securities holdings or otherwise in any matter to be acted on at the Special Meeting; and (xii) no participant in this solicitation has a family relationship with any director, executive officer, or person nominated or chosen by the Company to become a director or executive officer.

For the purposes of the foregoing, (i) the term associates shall have the meaning ascribed to that term in Rule 14a-1 of Regulation 14A under the Exchange Act and (ii) the terms immediate family member and family relationship shall have the meanings ascribed to those terms in Item 404(a) and Item 401(d), respectively, of Regulation S-K under the Exchange Act.

CERTAIN EFFECTS RELATED TO THIS SOLICITATION

According to the Company 10-Q, Allergan had approximately $3.190 billion of cash and cash equivalents on its balance sheet for the fiscal period ended June 30, 2014 and long-term debt of approximately $2.092 billion.

Based upon a review of the Company s public filings with the SEC, pursuant to the Company s Amended and Restated Credit Agreement, dated as of October 28, 2011 (the Credit Agreement), the Proposals could potentially result in an Event of Default (as defined in the Credit Agreement), which includes a change in the majority of the Board, unless approved by the original Board members in office on the effective date of the Credit Agreement and/or their successors. An Event of Default would permit Lenders (as defined in the Credit Agreement) holding more than 50% of the commitments under the Credit Agreement to terminate the

commitments under the Credit Agreement and to declare the outstanding principal and accrued interest due and payable. The Company could also seek a waiver of such Event of Default which would require the approval of the Lenders. As reported in the Company 10-Q, the Company had no borrowings under the Credit Agreement.

Based upon a review of the Company s public filings with the SEC, the Proposals could potentially result in a Change in Control (as defined in the respective agreements) under a number of agreements with the Company s named executive officers (NEOs) and other management level employees. Under the 2014 Management Bonus Plan and the Executive Bonus Plan (applicable only to David Pyott), upon a Change in Control, participants will be paid a bonus prorated to the effective date of such Change in Control, with the Company s performance being deemed to be the greater of (i) 100% of the underlying target goals and (ii) the prorated actual year-to-date performance. The NEOs target bonus amounts are: for Mr. Pyott, 135% of his base salary ($1,365,000); for Jeffrey Edwards, 75% of his base salary ($645,000); for Scott Whitcup, 75% of his base salary ($645,000); for Julian Gangolli, 60% of his base salary ($556,000), and for Douglas Ingram, 77.5% of his base salary ($700,000). We note, however, that the target bonus amount for Mr. Pyott and Mr. Ingram and each of the base salary amounts provided herein are based on information filed with the SEC with respect to the 2013 fiscal year.

With respect to awards granted in 2010 and thereafter under the 2008 Incentive Award Plan and with respect to unvested option, restricted stock unit (RSU), and restricted stock awards granted under the Company s 2011 Incentive Award Plan, awards will be subject to double trigger change in control vesting in the event of a termination without cause or a resignation for good reason within two years after the Change in Control, provided, however, the Company may decide to cancel and cash-out the outstanding equity awards, in which case, such awards will single-trigger vest upon the Change in Control (with performance-based RSUs vesting to the extent that the Company achieves the underlying performance objectives on an abbreviated basis). Based on information filed with the SEC, the NEOs respective unvested holdings are: 734,756 options and 165,000 performance-based RSUs for Mr. Pyott; 169,431 options for Mr. Ingram; 165,565 options for Mr. Edwards; 192,315 options for Mr. Whitcup; and 137,729 options and 3,000 shares of restricted stock for Mr. Gangolli. More generally, as reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, as of December 31, 2013, there were 12,051,000 unvested options and 875,000 unvested restricted share awards (which amount includes restricted stock and RSUs).

The Company s Change in Control Policy provides employees at the vice president level or above with certain severance entitlements in the event of a termination without cause or a resignation for good reason within two years after a Change in Control of the Company (a Qualifying Termination). Under the Change in Control Policy, upon such a Qualifying Termination, participants at the CEO, President and Executive Vice President level (including the NEOs) are eligible to receive (A) a lump sum cash payment equal to three times the sum of (i) the participant s highest annual salary rate within the five-year period preceding the termination and (ii) the participant s target annual bonus for the year in which the Qualifying Termination occurs (the Cash Severance Payment) and (B) continued participation (at no cost to the participant) in medical, dental and vision benefit programs for the three-year period following the termination and outplacement benefits of a type and duration generally provided to employees at the participant s level (the Continued Employee Benefits). Based on information filed with the SEC, upon a Qualifying Termination as of June 20, 2014, each NEO would be entitled to receive a Cash Severance Payment under the Company s Change in Control Policy in an amount as follows: $9,912,300 for Mr. Pyott; $3,893,400 for Mr. Ingram; $3,486,000 for Mr. Edwards; $3,486,000 for Mr. Whitcup; and $2,750,400 for Mr. Gangolli and each NEO would be entitled to receive Continued Employee Benefits with a value as follows: $67,191 for Mr. Pyott; $103,102 for Mr. Ingram; $67,213 for Mr. Edwards; $34,789 for Mr. Whitcup; and $64,462 for Mr. Gangolli.

In the event of a Change in Control, each participant in the Company s Supplemental Executive Benefit Plan and the Supplemental Retirement Income Plan will be entitled to receive a lump sum payment in lieu of accrued benefits under each respective plan, with such lump sum payment calculated using a more favorable discount rate of 3.6%. Under the Company s Executive Deferred Compensation Plan, in the event of a Change in Control, each participant will become vested in the unvested portion of his or her plan account. Based on the

Company s public filings, we understand that all five NEOs are participants in the Supplemental Executive Benefit Plan and that Messrs. Whitcup and Gangolli were the only NEOs who participated in the Executive Deferred Compensation Plan in 2013. We are unable to confirm from the Company s public filings with the SEC to what extent any individuals are currently receiving benefits under these plans (though no NEOs are currently receiving any such benefits).

We have not independently verified if the copies of the agreements discussed above (collectively, the Filed Agreements) and publicly filed by the Company with the SEC are the same as the executed copies of the Filed Agreements, and the analyses above are based on our review of the Company s public SEC filings. While we are not aware of any, there may be other compensation or vesting provisions with other Company employees or directors may be triggered by a change in control. The discussion of the potential impact of the Proposals is based entirely upon our review of the Filed Agreements and the Company s Annual Report on Form 10-K for the year ended December 31, 2013. If the Company s shareholders approve the Proposals, prior to the acceleration of vesting of any Company equity awards (which will occur if the Company decides to cancel and cash-out the outstanding equity awards) or the payment of any compensation described above, we expect to review with counsel the original copies of all relevant agreements, award documentation and Company records associated with the creation of the potential obligations upon a change in control.

YOUR SUPPORT IS IMPORTANT

NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN, WE ARE SEEKING YOUR SUPPORT. PLEASE COMPLETE, EXECUTE AND DATE THE ENCLOSED WHITE PROXY CARD AS SOON AS POSSIBLE. IF YOU HOLD YOUR SHARES THROUGH A BANK, BROKER OR OTHER NOMINEE, ONLY SUCH NOMINEE CAN VOTE YOUR SHARES, AND ONLY AFTER RECEIVING SPECIFIC VOTING INSTRUCTIONS FROM YOU. PLEASE CONTACT YOUR BANK, BROKER OR NOMINEE AND INSTRUCT THEM TO VOTE THE WHITE PROXY CARD **FOR** EACH OF THE PROPOSALS THEREON. YOUR EXECUTED WHITE PROXY CARD SHOULD BE MAILED TO D.F. KING IN THE ENCLOSED POSTAGE-PAID ENVELOPE (TO THE ADDRESS SET FORTH ON THE ENVELOPE, WHICH IS SAME AS THE ADDRESS AT THE BOTTOM OF THIS PAGE).

WHOM YOU CAN CALL IF YOU HAVE QUESTIONS

If you have any questions or require any assistance, please contact D.F. King, proxy solicitors for PS Fund 1, at the following address and toll free telephone number:

D.F. King & Co., Inc.

48 Wall Street

New York, NY 10005

U.S. Toll-free: (800) 859-8511

Banks and brokers: (212) 269-5550

Dated: September 24, 2014

Sincerely,

PS Fund 1

ANNEX A

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT OF THE COMPANY

AND PRINCIPAL SHAREHOLDERS

Security Ownership of Directors and Executive Officers

The following information is based solely on the Company Proxy Statement, the Company 10-Q and the Company Schedule 14A Definitive Revocation Solicitation Statement, filed by the Company with the SEC on August 8, 2014, and PS Fund 1 makes no representation regarding its accuracy or completeness. The Company indicated in the Company Proxy Statement that, to the Company s knowledge, the following table summarizes information as of March 11, 2014 with respect to ownership of the outstanding shares of Company Common Stock by (i) each director, (ii) the Chief Executive Officer, Chief Financial Officer, and each of the Company s three other most highly compensated executive officers for the year ended December 31, 2013, and (iii) all directors and executive officers of the Company as a group. Unless otherwise indicated, each person in the table has sole voting and investment power of the shares listed as owned by such person. The percentages in the following table are based on 297,183,809 shares of Company Common Stock outstanding as of July 31, 2014, as reported in the Company 10-Q.

	Vested Shares of Company Common Stock Owned(1)	Rights to Acquire Shares of Company Common Stock(2)	Unvested Shares of Restricted Stock/Units	Total Shares of Company Common Stock Beneficially Owned	Percent of Class(3)
Directors:					
Deborah Dunsire, M.D.	29,111	65,123	0	94,234	*
Michael R. Gallagher	36,400	61,750	0	98,150	*
Trevor M. Jones, Ph.D.	200	54,476	0	54,676	*
Louis J. Lavigne, Jr.	14,421	3,102	0	17,523	*
Peter J. McDonnell, M.D.	0	3,102	0	3,102	*
Timothy D. Proctor	0	3,261	0	3,261	*
David E.I. Pyott	234,168	2,265,200	165,000	2,664,368	*
Russell T. Ray	22,810	57,702	0	80,512	*
Henri A. Termeer(4)	0	0	0	0	*
Other Named Executive Officers:					
Douglas S. Ingram	30,101	527,700	0	557,801	*
Jeffrey L. Edwards	20,529	207,850	0	228,109	*
Scott M. Whitcup, M.D.	20,849	556,200	0	577,049	*
Julian S. Gangolli	20,590	140,500	3,000	164,090	*
All current directors and executive officers (as a group 17 persons, including those named above)	454,077	4,348,166	178,700	4,980,943	1.676

* Beneficially owns less than 1% of the outstanding Company Common Stock.

(1) In addition to shares held in the individual s sole name, this column includes: (1) shares held by the spouse of the named person and shares held in various trusts; and (2) for executive officers, shares held in trust for the benefit of the named employee in the Company s Savings and Investment Plan and Employee Stock Ownership Plan as of March 11, 2014.

(2) This column also includes shares which the person or group has the right to acquire within sixty (60) days of March 11, 2014 as follows: (1) for executive officers, these shares include shares that may be acquired upon the exercise of stock options and vesting of restricted stock units; and (2) for non-employee directors, these shares include shares that may be acquired upon the exercise of stock options and vesting of restricted stock units, as well as shares accrued under the Company s Deferred Directors Fee Program as of March 11,

2014. Under the Company s Deferred Directors Fee Program, participants may elect to defer all or a portion of their retainer and meeting fees until termination of their status as a director. Deferred amounts are treated as having been invested in Company Common Stock such that on the date of deferral the director is credited with a number of phantom shares of Company Common Stock equal to the amount of fees deferred divided by the market price of a share of Company Common Stock as of the date of deferral. Upon termination of the director s service on the Board, the director will receive shares of Company Common Stock equal to the number of phantom shares of Company Common Stock credited to such director under the Deferred Directors Fee Program.

(3) Based on 297,183,809 shares of Company Common Stock outstanding as of July 31, 2014, as reported in the Company 10-Q.

(4) Mr. Termeer was appointed to the Board on January 24, 2014.

Security Ownership of Certain Principal Shareholders

Set forth below is the name and stock ownership of each person or group of persons known by the Company to beneficially own more than 5% of the outstanding shares of Company Common Stock, and is based on the Company Proxy Statement and information provided by the beneficial owner in subsequent public filings made with the SEC.

Name and Address of Beneficial Owners	Shares Beneficially Owned	Percent of Class(1)
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	17,416,972(2)	5.86%
Pershing Square Capital Management, L.P. 888 Seventh Avenue, 42nd Floor New York, NY 10019	28,878,638(3)	9.72%
PS Management GP, LLC 888 Seventh Avenue, 42nd Floor New York, NY 10019	28,878,638(3)	9.72%
William A. Ackman 888 Seventh Avenue, 42nd Floor New York, NY 10019	28,878,638(3)	9.72%
Valeant Pharmaceuticals International, Inc. 2150 St. Elzéar Blvd. West Laval, Quebec, Canada, H7L 4A8	28,878,638(4)	9.72%
Valeant Pharmaceuticals International 400 Somerset Corporate Boulevard Bridgewater, New Jersey 08807	28,878,638(4)	&d width="2%" valign="bottom" style="padding:0in 0in 0in 0in;width:2.5%;">

(147,368) (7,[illegible])

Notes receivable, financial investments and securities, net	(898)	3,968
Net Cash Used for Investing Activities from Continuing Operations	(57,112)	(41,357)
Cash Flows from Financing Activities from Continuing Operations:		
Borrowings of debt	10,000	

Payments of debt	(22,062)	(64,807)
Debt issuance costs paid	(30)	(369)
Net Cash Used for Financing Activities from Continuing Operations	(12,092)	(65,176)
Cash Flows from Discontinued Operations:		
Cash used for operating activities	(1,048)	(1,209)
Cash used for investing activities		(914)
Net Cash Used for Discontinued Operations	(1,048)	(2,123)
Cash Increase (Decrease) During the Period	35,672	(37,427)
Cash and Cash Equivalents at End of Period	$ 289,135	$ 368,160

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Basis of Presentation

The ServiceMaster Company is a national company serving both residential and commercial customers. Its products and services include lawn care, landscape maintenance, termite and pest control, home service contracts, cleaning and disaster restoration, house cleaning, furniture repair and home inspection. ServiceMaster provides these services through a network of company-owned locations and franchise licenses operating under the following leading brands: TruGreen, TruGreen LandCare, Terminix, American Home Shield, ServiceMaster Clean, Merry Maids, Furniture Medic and AmeriSpec. ServiceMaster is organized into six principal reportable segments: TruGreen LawnCare, TruGreen LandCare, Terminix, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters.

The condensed consolidated financial statements include the accounts of The ServiceMaster Company and its majority owned subsidiary partnerships, limited liability companies and corporations, collectively referred to as ServiceMaster , the Company , we , us or our .

The condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The Company recommends 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 Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2009. 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 presented. All intercompany transactions and balances have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of the results which might be achieved for a full year.

On March 18, 2007, ServiceMaster entered into an Agreement and Plan of Merger (the Merger Agreement) with ServiceMaster Global Holdings, Inc. (formerly CDRSVM Topco, Inc.) (Holdings) and CDRSVM Acquisition Co., Inc., an indirect wholly owned subsidiary of Holdings (Acquisition Co.). The Merger Agreement provided that, upon the terms and subject to the conditions set forth in the Merger Agreement, Acquisition Co. would merge with and into ServiceMaster, with ServiceMaster as the surviving corporation (the Merger).

On July 24, 2007 (the Closing Date), the Merger was completed, and, immediately following the completion of the Merger, all of the outstanding capital stock of Holdings, the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliated with, Clayton, Dubilier & Rice, Inc. (now operated as Clayton, Dublier & Rice, LLC, CD&R), Citigroup Private Equity LP (together with its affiliate, Citigroup Alternative Investments LLC, Citigroup), BAS Capital Funding Corporation (BAS) and J.P. Morgan Ventures Corporation (JP Morgan) (collectively, the Equity Sponsors).

Equity contributions totaling $1,431.1 million from the Equity Sponsors, together with (i) borrowings under a new $1,150.0 million senior unsecured interim loan facility (Interim Loan Facility), (ii) borrowings under a new $2,650.0 million senior secured term loan facility and (iii) cash on hand at ServiceMaster, were used, among other things, to finance the aggregate merger consideration, to make payments in satisfaction of other equity-based interests in ServiceMaster under the Merger Agreement, to settle existing interest rate swaps, to redeem or provide for the repayment of certain of the Company s existing indebtedness and to pay related transaction fees and expenses. In addition, letters of credit issued under a new $150.0 million pre-funded letter of credit facility (together with the senior secured term loan facility, the Term Facilities) were used to replace and/or secure letters of credit previously issued under a ServiceMaster credit facility that was terminated as of the Closing Date. On the Closing Date, the Company also entered into, but did not then draw under, a new $500.0 million senior secured revolving credit facility (the Revolving Credit Facility).

The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim Loan Facility were converted on a one to one basis into 10.75%/11.50% senior toggle notes maturing in 2015 (the Permanent Notes). The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of the Permanent Notes, ServiceMaster entered into a registration rights agreement (the Registration Rights Agreement), pursuant to which ServiceMaster filed with the Securities and Exchange Commission (SEC) a registration statement with respect to the resale of the Permanent Notes, which was declared effective on January 16, 2009. ServiceMaster deregistered the Permanent Notes in accordance with the terms of the Registration Rights Agreement, and the effectiveness of the registration statement was terminated, on November 19, 2009.

Note 2. Significant Accounting Policies

The Company s significant accounting policies are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The following selected accounting policies should be read in conjunction with that Annual Report on

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Form 10-K.

Revenues from lawn care and pest control services, as well as liquid and fumigation termite applications, are recognized as the services are provided. Revenues from landscaping services are recognized as they are earned based upon contractual arrangements or when services are performed for non-contractual arrangements. The Company eradicates termites through the use of baiting systems, as well as through non-baiting methods (e.g., fumigation or liquid treatments). Termite services using baiting systems, termite inspection and protection contracts, as well as home service contracts, are frequently sold through annual contracts for a one-time, upfront payment. Direct costs of these contracts (service costs for termite contracts and claim costs for home service contracts) are expensed as incurred. The Company recognizes revenue over the life of these contracts in proportion to the expected direct costs. Those costs bear a direct relationship to the fulfillment of the Company s obligations under the contracts and are representative of the relative value provided to the customer (proportional performance method). The Company regularly reviews its estimates of direct costs for its termite bait and home service contracts and adjusts the estimates when appropriate. Revenue from trade name licensing arrangements is recognized when earned.

The Company has franchise agreements in its TruGreen LawnCare, Terminix, ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids businesses. Franchise revenue (which in the aggregate represents approximately four percent of consolidated revenue from continuing operations) consists principally of continuing monthly fees based upon the franchisee s customer level revenue. Monthly fee revenue is recognized when the related customer level revenue is reported by the franchisee and collectability is reasonably assured. Franchise revenue also includes initial fees resulting from the sale of a franchise. These fees are fixed and are recognized as revenue when collectability is reasonably assured and all material services or conditions relating to the sale have been substantially performed. Total profits from the franchised operations (excluding trade name licensing) were $16.3 million and $31.6 million for the three and six months ended June 30, 2010, respectively, and $13.8 million and $29.6 million for the three and six months ended June 30, 2009, respectively. Consolidated operating income from continuing operations was $74.5 million and $83.2 million for the three and six months ended June 30, 2010, respectively, and $118.0 million and $146.7 million for the three and six months ended June 30, 2009, respectively. The Company evaluates the performance of its franchise businesses based primarily on operating profit before corporate general and administrative expenses, interest expense and amortization of intangible assets. The portion of total franchise fee income related to initial fees received from the sale of franchises was immaterial to the Company s condensed consolidated financial statements for all periods.

The Company had $520.5 million and $449.7 million of deferred revenue at June 30, 2010 and December 31, 2009, respectively. Deferred revenue consists primarily of payments received for annual contracts relating to home service contracts, termite baiting, termite inspection, pest control and lawn care services.

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

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

The cost of direct-response advertising at Terminix and TruGreen LawnCare, consisting primarily of direct-mail promotions, is capitalized and amortized over its expected period of future benefits.

The preparation of the condensed consolidated financial statements requires management to make certain estimates and assumptions required under GAAP which may differ from actual results. Disclosures in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 presented the significant areas that require the use of management s estimates and discussed how management formed its judgments. The areas discussed included revenue recognition; the allowance for uncollectible receivables; accruals for self-insured retention limits related to medical, workers compensation, auto and general liability insurance claims; accruals for home service contracts and termite damage claims; the possible outcome of outstanding litigation; accruals for income tax liabilities, as well as deferred tax accounts; the deferral and amortization of customer acquisition costs; useful lives for depreciation and amortization expense; the valuation of marketable securities; and the valuation of tangible and intangible assets.

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Note 3. Restructuring and Merger Related Charges

The Company incurred restructuring and Merger related charges of $4.2 million ($2.6 million, net of tax) and $8.1 million ($5.0 million, net of tax) for the three and six months ended June 30, 2010, respectively, and $5.6 million ($3.4 million, net of tax) and $14.4 million ($8.8 million, net of tax) for the three and six months ended June 30, 2009, respectively. Restructuring and Merger related charges were comprised of the following:

(In thousands)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
TruGreen LawnCare reorganization and restructuring(1)	$ 2,939	$	$ 5,962	$
Information technology outsourcing(2)		4,187		9,461
Terminix branch optimization(3)				3,219
Merger related charges(4)	1,005	1,154	1,136	1,448
Other	223	243	993	233
Total restructuring and Merger related charges	$ 4,167	$ 5,584	$ 8,091	$ 14,361

(1) Represents restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. For the three months ended June 30, 2010, these costs included consulting fees of $1.9 million and severance, lease termination and other costs of $1.0 million. For the six months ended June 30, 2010, these costs included consulting fees of $3.8 million and severance, lease termination and other costs of $2.2 million.

(2) On December 11, 2008, the Company entered into an agreement with International Business Machines Corporation (IBM) pursuant to which IBM provides information technology operations and applications development services to the Company. These services were phased in during the first half of 2009. For the three months ended June 30, 2009, these costs included transition fees paid to IBM of $3.4 million, employee retention and severance costs of $0.4 million and consulting and other costs of $0.4 million. For the six months ended June 30, 2009, these costs included transition fees paid to IBM of $7.2 million, employee retention and severance costs of $1.3 million and consulting and other costs of $1.0 million.

(3) Represents restructuring charges (credits) related to a branch optimization project. For the six months ended June 30, 2009, these costs included lease termination costs of $2.8 million and severance costs of $0.4 million.

(4) Includes severance, retention, legal fees and other costs associated with the Merger.

The pretax charges discussed above are reported in the Restructuring and Merger related charges line in the condensed consolidated statement of operations.

A reconciliation of the beginning and ending balances of accrued restructuring and Merger related charges is presented as follows:

(In thousands)		Accrued Restructuring and Merger Related Charges
Balance at December 31, 2009	$	12,083
Costs incurred		8,091
Costs paid or otherwise settled		(14,700)
Balance at June 30, 2010	$	5,474

Note 4. Commitments and Contingencies

A portion of the Company s vehicle fleet and some equipment are leased through operating leases. The lease terms are non-cancelable for the first twelve-month term, and then are month-to-month, cancelable at the Company s option. There are residual value guarantees by the Company (ranging from 70 percent to 84 percent of the estimated terminal value at the inception of the lease depending on the agreement) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. The fair value of the assets under all of the fleet and equipment leases is expected to substantially mitigate the Company s guarantee obligations under the agreements. At June 30, 2010, the Company s residual value guarantees related to the leased assets totaled $65.1 million for which the Company has recorded a liability for the estimated fair value of these guarantees of approximately $1.4 million in the condensed consolidated statement of financial position.

The Company maintained lease facilities with banks totaling $65.2 million, which provided for the financing of branch properties to be leased by the Company. At June 30, 2010, approximately $65.2 million was funded under these facilities, including $12.5 million of leases that were accounted for as capital leases and were included on the condensed consolidated statement of financial position as assets with related debt. The balance of the funded amount was accounted for as operating leases. In connection

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with the closing of the Merger, the Company amended these leases effective July 24, 2007. Among the modifications, the Company extended the lease terms through July 24, 2010 and made a $22.0 million investment in the lease facilities. This $22.0 million investment was included in other assets in the condensed consolidated statement of financial position. The operating lease and capital lease classifications of these leases did not change as a result of the modifications. In July 2010, the Company purchased the properties for $65.2 million. The Company s $22.0 million investment in the lease facilities was returned to the Company upon purchase, resulting in a net cash payment of $43.2 million.

In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s estimate of this shortfall was $15.9 million, which was expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $3.9 million and $9.1 million in the three and six months ended June 30, 2010, respectively, related to this shortfall. The remaining $1.3 million was recorded in July 2010.

The Company carries insurance policies on insurable risks at levels that it believes to be appropriate, including workers compensation, auto and general liability risks. The Company purchases insurance policies from third party insurance carriers, which typically incorporate significant deductibles or self-insured retentions. The Company is responsible for all claims that fall below the retention limits. As of June 30, 2010 and December 31, 2009, the Company had accrued self-insured claims of $129.3 million and $131.3 million, respectively, which are included in Accrued Liabilities self-insured claims and related expenses and other long-term obligations on the condensed consolidated statements of financial position. During the six months ended June 30, 2010 and 2009, the Company recorded provisions for uninsured claims totaling $18.7 million and $18.3 million, respectively, and the Company paid claims totaling $20.7 million and $21.7 million, respectively. In determining the Company s accrual for self-insured claims, the Company uses historical claims experience to establish both the current year accrual and the underlying provision for future losses. This actuarially determined provision and related accrual includes known claims, as well as incurred but not reported claims. The Company adjusts its estimate of accrued self-insured claims when required to reflect changes based on factors such as changes in health care costs, accident frequency and claim severity.

Accruals for home service contract claims in the American Home Shield business are made based on the Company s claims experience and actuarial projections. Termite damage claim accruals are recorded based on both the historical rates of claims incurred within a contract year and the cost per claim. Current activity could differ causing a change in estimates. The Company has certain liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Any resulting adjustments, which could be material, are recorded in the period the adjustments are identified.

As part of the American Residential Services and American Mechanical Services sale agreements in 2006, the Company continues to be obligated to third parties with respect to operating leases for which the Company has been released as being the primary obligor, as well as certain real estate leased and operated by the buyers. The Company s obligations under these agreements may be limited in terms of time and or amount, and in some cases, the Company may have recourse against the buyers for potential future payments made by the Company. At the present time, the Company does not believe it is probable that the buyers will default on their obligations subject to guarantee. The fair value of the Company s obligations related to these guarantees is not significant and no liability has been recorded.

In the ordinary course of conducting business activities, the Company and its subsidiaries become involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include, on an individual, collective and class action basis, regulatory, insured and uninsured employment, general, and commercial liability actions and environmental proceedings. Additionally, the Company has entered into settlement agreements in certain cases, including putative class actions, which are subject to court approval. If one or more of these settlements are not finally approved, the Company could have additional or different exposure. The enactment of new federal or state legislation or the promulgation of new regulation or interpretation at any level of government may also expose the

Company to potential new liabilities or costs, or may require the Company to modify its business model or business practices. At this time, the Company does not expect any of these proceedings or changes in law to have a material effect on its financial position, results of operations or cash flows; however, the Company can give no assurance that the results of any such proceedings may not be material to its financial position, results of operations and cash flows for any period in which costs, if any, are recognized.

Note 5. Goodwill and Intangible Assets

In accordance with applicable accounting standards, goodwill and intangible assets that are not amortized are subject to assessment for impairment by applying a fair-value based test on an annual basis or more frequently if circumstances indicate a potential impairment. The Company s annual assessment date is October 1. The results for the three and six months ended June 30, 2010 include a non-cash impairment charge of $46.9 million to reduce the carrying value of goodwill and trade names as a result of the Company s interim impairment testing of goodwill and indefinite-lived intangible assets.

Based on the results of operations at TruGreen LandCare in the first six months of 2010 and the revised outlook for the

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remainder of 2010, the Company has concluded there was an impairment indicator requiring the performance of an interim goodwill impairment test for the TruGreen LandCare reporting unit as of June 30, 2010. The first step of the goodwill impairment test involves a comparison of the estimated fair value of the reporting unit to its carrying amount, including goodwill. In performing the first step, the Company determined the fair value of the TruGreen LandCare reporting unit using a combination of a discounted cash flow analysis, a market-based comparable approach and a market-based transaction approach. Based on the results of the step one analysis, the Company determined that the carrying value of the TruGreen LandCare reporting unit exceeded its fair value, indicating that goodwill was potentially impaired. As a result, the Company completed the second step of the goodwill impairment test which involves calculating the implied fair value of the reporting unit s goodwill by allocating the fair value of the reporting unit to all assets and liabilities other than goodwill and comparing it to the carrying amount of goodwill. The Company determined that the implied fair value of goodwill was less that the carrying value for TruGreen LandCare by $43.0 million, which was recorded as a goodwill impairment charge in the second quarter of 2010. As of June 30, 2010, there was no remaining goodwill at TruGreen LandCare.

As a result of the aforementioned goodwill impairment indicators and in accordance with applicable accounting standards, the Company performed an impairment analysis on its indefinite lived intangible asset related to TruGreen LandCare s trade name to determine the fair value as of June 30, 2010. Based on the lower projected cash flows for TruGreen LandCare as discussed above, the Company determined the fair value attributable to the indefinite lived intangible asset was less than the carrying value for TruGreen LandCare by $3.9 million, which was recorded as a trade name impairment in the second quarter of 2010.

The Company determined that there were no impairment indicators for the goodwill or other indefinite lived intangible assets of any reporting units other than TruGreen LandCare as of June 30, 2010.

The table below summarizes the goodwill balances by segment for continuing operations:

(In thousands)	TruGreen LawnCare	TruGreen LandCare	Terminix	American Home Shield	ServiceMaster Clean	Other Operations & Headquarters	Total
Balance at Dec. 31, 2009	$ 1,178,436	$ 43,901	$ 1,361,698	$ 348,010	$ 135,713	$ 51,996	$ 3,119,754
Impairment charge		(42,984)					(42,984)
Acquisitions	4,430		8,419			504	13,353
Other(1)	(298)	(917)	(324)	(123)	(74)	(47)	(1,783)
Balance at Jun. 30, 2010	$ 1,182,568	$	$ 1,369,793	$ 347,887	$ 135,639	$ 52,453	$ 3,088,340

(1) Reflects the impact of the amortization of tax deductible goodwill and foreign exchange rate changes.

The accumulated impairment losses as of June 30, 2010 were $43.0 million associated with our TruGreen LandCare segment. There were no accumulated impairment losses as of December 31, 2009.

The table below summarizes the other intangible asset balances for continuing operations:

	As of June 30, 2010			As of December 31, 2009		
(In thousands)	**Gross**	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Trade names(1)	$ 2,376,200	$	$ 2,376,200	$ 2,380,100	$	$ 2,380,100
Customer relationships	674,898	(425,086)	249,812	669,581	(352,605)	316,976
Franchise agreements	88,000	(30,845)	57,155	88,000	(26,418)	61,582
Other	49,630	(25,036)	24,594	49,630	(21,051)	28,579
Total	$ 3,188,728	$ (480,967)	$ 2,707,761	$ 3,187,311	$ (400,074)	$ 2,787,237

(1) Not subject to amortization.

Note 6. Stock-Based Compensation

For the three and six months ended June 30, 2010, the Company recognized stock-based compensation expense of $2.2 million ($1.3 million, net of tax) and $4.3 million ($2.6 million, net of tax), respectively. For the three and six months ended June 30, 2009, the Company recognized stock-based compensation expense of $2.0 million ($1.2 million, net of tax) and $3.9 million ($2.3 million, net of tax), respectively. As of June 30, 2010, there was $15.5 million of total unrecognized compensation cost related to non-vested stock options granted by Holdings under the ServiceMaster Global Holdings, Inc. Stock Incentive Plan. These remaining costs are expected to be recognized over a weighted-average period of 2.0 years.

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Note 7. Supplemental Cash Flow Information

Supplemental information relating to the condensed consolidated statement of cash flows for the six months ended June 30, 2010 and 2009 is presented in the following table:

(In thousands)	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash paid for or (received from):		
Interest expense	$ 136,540	$ 162,652
Interest and dividend income	(2,790)	(3,626)
Income taxes, net of refunds	10,127	195

Note 8. Comprehensive Income

Total comprehensive income (loss) was $5.5 million and ($26.4) million for the three and six months ended June 30, 2010 and $41.7 million and $41.7 million for the three and six months ended June 30, 2009, respectively. Total comprehensive income primarily includes net income (loss), unrealized gain (loss) on marketable securities, unrealized gain (loss) on derivative instruments and the effect of foreign currency translation.

Note 9. Receivable Sales

The Company has entered into an accounts receivable securitization arrangement under which TruGreen LawnCare and Terminix may sell certain eligible trade accounts receivable to ServiceMaster Funding Company LLC (Funding), the Company s wholly owned, bankruptcy-remote subsidiary, which is consolidated for financial reporting purposes. Funding, in turn, may transfer, on a revolving basis, an undivided percentage ownership interest of up to $50.0 million in the pool of accounts receivable to one or both of the unrelated purchasers who are parties to the accounts receivable securitization arrangement (Purchasers). The amount of the eligible receivables varies during the year based on seasonality of the businesses and could, at times, limit the amount available to the Company from the sale of these interests.

During the six months ended June 30, 2010, there were no transfers of interests in the pool of trade accounts receivables to Purchasers under this arrangement. As of June 30, 2010 and December 31, 2009, the Company had $10.0 million outstanding under the arrangement and, as of June 30, 2010, had $40.0 million of remaining capacity available under the trade accounts receivable securitization arrangement.

The accounts receivable securitization arrangement is a 364-day facility that is renewable annually at the option of Funding, with a final termination date of July 17, 2012. Only one of the Purchasers is required to purchase interests under the arrangement. If this Purchaser were to exercise its right to terminate its participation in the arrangement, which it may do in the third quarter of each year, the amount of cash available to the Company under this agreement may be reduced or eliminated. As part of the annual renewal of the facility, which last occurred on July 20, 2010, this Purchaser agreed to continue its participation in the arrangement at least through July 19, 2011.

The Company has recorded its obligation to repay the third party for its interest in the pool of receivables as long-term debt in the condensed consolidated financial statements. The interest rates applicable to the Company s obligation are based on a fluctuating rate of interest based on the third party Purchaser s pooled commercial paper rate (0.42% at June 30, 2010). In addition, the Company pays usage fees on its obligations and commitment fees on undrawn amounts committed by the Purchasers. All obligations under the accounts receivable securitization arrangement must be repaid by July 17, 2012, the final termination date of the arrangement.

Note 10. Cash and Marketable Securities

Cash, money market funds and certificates of deposits, with maturities of three months or less when purchased, are included in the condensed consolidated statement of financial position caption Cash and cash equivalents . As of June 30, 2010 and December 31, 2009, the Company s investments consist primarily of domestic publicly traded debt and certificates of deposit totaling $98.3 million and $93.9 million, respectively, and common equity securities of $34.9 million and $38.3 million, respectively.

The aggregate market value of the Company s short-term and long-term investments in debt and equity securities was $133.2 million and $132.2 million, and the aggregate cost basis was $128.2 million and $126.7 million at June 30, 2010 and December 31, 2009, respectively.

Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income

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in the period they are realized. The Company periodically reviews its portfolio of investments to determine whether there has been an other than temporary decline in the value of the investments from factors such as deterioration in the financial condition of the issuer or the market(s) in which the issuer competes. The Company recorded gross realized gains resulting from sales of available-for-sale securities of $0.6 million ($0.4 million, net of tax) and $1.1 million ($0.7 million, net of tax) for the three and six months ended June 30, 2010, respectively, and $1.0 million ($0.6 million, net of tax) and $1.6 million ($1.0 million, net of tax) for the three and six months ended June 30, 2009, respectively. The Company recorded gross realized losses resulting from sales of available-for-sale securities of $0.1 million ($0.1 million, net of tax) and $0.1 million ($0.1 million, net of tax) for the three and six months ended June 30, 2010, respectively, and $0.2 million ($0.1 million, net of tax) and $1.4 million ($0.9 million, net of tax) for the three and six months ended June 30, 2009, respectively. The Company recorded impairment charges of $0.5 million ($0.3 million, net of tax) and $5.9 million ($3.7 million, net of tax) for the three and six months ended June 30, 2009, respectively, due to other than temporary declines in the value of certain investments. The Company had no such impairments for the three and six months ended June 30, 2010. Unrealized gains in the investment portfolio were $7.8 million and $7.7 million as of June 30, 2010 and December 31, 2009, respectively. Unrealized losses were $2.8 million and $2.2 million as of June 30, 2010 and December 31, 2009, respectively. The portion of unrealized losses which had been in a loss position for more than one year at June 30, 2010 and December 31, 2009 was approximately $0.5 million and $0.7 million, respectively. The aggregate fair value of the investments with unrealized losses totaled $13.4 million and $26.8 million at June 30, 2010 and December 31, 2009, respectively.

Note 11. Long-Term Debt

Long-term debt at June 30, 2010 and December 31, 2009 is summarized in the following table:

(In thousands)		**As of June 30, 2010**		**As of December 31, 2009**
Senior secured term loan facility maturing in 2014	$	2,570,500	$	2,583,750
10.75% /11.50% senior toggle notes maturing in 2015		1,061,000		1,061,000
Revolving credit facility maturing in 2013				
7.10% notes maturing in 2018(1)		64,587		63,624
7.45% notes maturing in 2027(1)		149,220		147,885
7.25% notes maturing in 2038(1)		60,228		59,824
Other		64,068		58,861
Less current portion		(62,137)		(64,395)
Total long-term debt	$	3,907,466	$	3,910,549

(1) The increase in the balance from December 31, 2009 to June 30, 2010 reflects the amortization of fair value adjustments related to purchase accounting, which effectively increases the stated coupon interest rates.

The Company had $70.1 million and $70.2 million of accrued interest at June 30, 2010 and December 31, 2009, respectively. Accrued interest is included in Accrued Liabilities Other on the condensed consolidated statements of financial position.

In June 2010, the Company entered into two, two-year interest rate swap agreements effective March 3, 2011. The total notional amount of the agreements was $250.0 million. Under the terms of the agreements, the Company will pay a weighted average fixed rate of interest of 1.70% on the $250.0 million notional amount and the Company will receive a floating rate of interest (based on the one month LIBOR) on the notional amount. Therefore, during the term of the swap agreements, the effective interest rate for $250.0 million of the term loans will be fixed at a rate of 1.70% plus the incremental borrowing margin described in Note 14 in the Company s Annual Report on Form 10-K for the year ended

December 31, 2009.

In June 2010, the Company entered into two, two-year interest rate swap agreements effective September 1, 2011. The total notional amount of the agreements was $200.0 million. Under the terms of the agreements, the Company will pay a weighted average fixed rate of interest of 2.22% on the $200.0 million notional amount and the Company will receive a floating rate of interest (based on the one month LIBOR) on the notional amount. Therefore, during the term of the swap agreements, the effective interest rate for $200.0 million of the term loans will be fixed at a rate of 2.22% plus the incremental borrowing margin described in Note 14 in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

In accordance with accounting standards for derivative instruments and hedging activities, these interest rate swap agreements are classified as cash flow hedges and, as such, the hedging instruments are recorded on the balance sheet as either an asset or liability at fair value, with the effective portion of the changes in fair value attributable to the hedged risks recorded in other comprehensive income.

Note 12. Discontinued Operations

Reported loss from discontinued operations, net of income taxes for all periods presented includes the operating results of the sold businesses noted in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The operating results and financial position of discontinued operations are as follows:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2010**	**2009**	**2010**	**2009**
Operating Results:				
Operating revenue	$	$ 56	$	$ 56
Operating loss	(326)	(177)	(944)	(441)
Loss from discontinued operations, before income taxes	(326)	(177)	(944)	(441)
Benefit from income taxes	(121)	(70)	(362)	(171)
Loss from discontinued operations, net of income taxes	$ (205)	$ (107)	$ (582)	$ (270)

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(In thousands)	As of June 30, 2010	As of December 31, 2009
Financial Position:		
Current assets	$ 16	$ 42
Total assets	$ 16	$ 42
Current liabilities	$ 2,736	$ 2,806
Long-term liabilities	4,080	4,145
Total liabilities	$ 6,816	$ 6,951

The table below summarizes the activity for the six months ended June 30, 2010 for the remaining liabilities from operations that were disposed of in years prior to 2010. The remaining obligations primarily relate to long-term self-insurance claims. The Company believes that the remaining reserves continue to be adequate and reasonable.

(In thousands)	As of December 31, 2009	Cash Payments or Other	Expense	As of June 30, 2010
Remaining liabilities of discontinued operations:				
ARS/AMS	$ 2,921	$ (485)	$ 658	$ 3,094
LandCare Construction	722	(65)	8	665
LandCare utility line clearing business	911	(75)		836
Certified Systems, Inc. and other	2,149	(167)		1,982
InStar	248	(38)	29	239
Total liabilities of discontinued operations	$ 6,951	$ (830)	$ 695	$ 6,816

Note 13. Income Taxes

At June 30, 2010 and December 31, 2009, the Company had $15.6 million of tax benefits primarily reflected in state tax returns that had not been recognized for financial reporting purposes (unrecognized tax benefits). The Company currently estimates that, as a result of pending tax settlements and expiration of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately $9.8 million during the next 12 months.

Note 14. Business Segment Reporting

The business of the Company is conducted through six reportable segments: TruGreen LawnCare, TruGreen LandCare, Terminix, American Home Shield, ServiceMaster Clean and Other Operations and Headquarters.

In accordance with accounting standards for segments, the Company s reportable segments are strategic business units that offer different services. The TruGreen LawnCare segment provides residential and commercial lawn care services. The TruGreen LandCare segment provides landscaping services primarily to commercial customers. The Terminix segment provides termite and pest control services to residential and commercial customers. The American Home Shield segment provides home service contracts to consumers that cover heating, ventilation, air conditioning, plumbing and other home systems and appliances. The ServiceMaster Clean segment provides residential and commercial disaster

restoration and cleaning services primarily under the ServiceMaster and ServiceMaster Clean brand names, on-site furniture repair and restoration services primarily under the Furniture Medic brand name and home inspection services primarily under the AmeriSpec brand name. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of Merry Maids, which provides house cleaning services. The Other Operations and Headquarters segment also includes The ServiceMaster Acceptance Company Limited Partnership (SMAC), our financing subsidiary exclusively dedicated to providing financing to our franchisees and retail customers of our operating units, and the Company s headquarters operations, which provide various technology, marketing, finance, legal and other support services to the business units.

In the second quarter of 2010, the Company revised its methodology for the allocation of general corporate overhead expenses to each reportable segment. The portion of general corporate support services previously allocated to each reportable segment are now reflected in the Other Operations and Headquarters segment. Under the revised method, allocations are limited to corporate support services incurred directly on behalf of each reportable segment. The operating income presented below for each reportable segment has been revised to reflect the new allocation methodology for all periods presented. The revision to the allocation methodology had no impact on reported operating revenue for each reportable segment or total operating income.

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Segment information for continuing operations is presented below.

(In thousands)	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Operating Revenue:				
TruGreen LawnCare	$ 378,642	$ 348,403	$ 502,724	$ 483,069
TruGreen LandCare	63,463	69,433	122,263	136,318
Terminix	323,393	307,375	594,310	570,536
American Home Shield	183,792	179,823	316,997	310,691
ServiceMaster Clean	32,034	30,581	64,296	60,737
Other Operations and Headquarters	21,738	21,677	41,880	41,868
Total Operating Revenue	$ 1,003,062	$ 957,292	$ 1,642,470	$ 1,603,219
Operating Income (Loss):(1),(2),(3)				
TruGreen LawnCare	$ 52,606	$ 41,055	$ 13,518	$ 24,009
TruGreen LandCare	(50,572)	591	(47,229)	8,631
Terminix	68,755	65,381	121,735	115,288
American Home Shield	21,360	28,750	28,468	36,144
ServiceMaster Clean	12,572	12,139	25,244	24,124
Other Operations and Headquarters	(30,205)	(29,911)	(58,573)	(61,513)
Total Operating Income	$ 74,516	$ 118,005	$ 83,163	$ 146,683

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

(In thousands)	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Total Segment Operating Income	$ 74,516	$ 118,005	$ 83,163	$ 146,683
Non-operating expense (income):				
Interest expense	73,169	74,656	145,850	151,322
Interest and net investment (income) loss	(996)	(3,395)	(3,498)	1,366
Gain on extinguishment of debt				(46,106)
Other expense	176	179	347	379
Income (Loss) from Continuing Operations before Income Taxes	$ 2,167	$ 46,565	$ (59,536)	$ 39,722

(2) As described in Note 5, includes a non-cash impairment charge of $46.9 million recorded in the second quarter of 2010 to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of the Company s interim impairment test of goodwill and indefinite-lived intangible assets.

(3) Includes (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare, a branch optimization project at Terminix and information technology outsourcing at Other Operations and Headquarters and (ii) Merger related charges. Presented below is a summary of restructuring and Merger related charges (credits) by segment.

(In thousands)	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Restructuring and Merger related charges:				
TruGreen LawnCare	$ 2,939	$	$ 5,962	$
TruGreen LandCare	87	(21)	658	(51)
Terminix	32	(69)	78	3,151
American Home Shield		36	(127)	75
ServiceMaster Clean				
Other Operations and Headquarters	1,109	5,638	1,520	11,186
Total restructuring and Merger related charges	$ 4,167	$ 5,584	$ 8,091	$ 14,361

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Note 15. Related Party Transactions

In connection with the Merger and the related transactions, the Company entered into a consulting agreement with CD&R, which was subsequently amended, under which CD&R provides the Company with on-going consulting and management advisory services in exchange for an annual management fee of $2.0 million, which is payable quarterly. On July 30, 2009, the annual management fee payable under the consulting agreement with CD&R was increased from $2.0 million to $6.25 million in order to align our fee structure with current market rates. Under this agreement, the Company recorded a management fee of $1.6 million and $3.2 million for the three and six months ended June 30, 2010, respectively, and $0.5 million and $1.0 million for the three and six months ended June 30, 2009, respectively. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were recorded and paid to CD&R in the third quarter of 2009. The amended consulting agreement also provides that CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan, each of which is an Equity Sponsor or an affiliate of an Equity Sponsor. Under the consulting agreements, Citigroup, BAS and JPMorgan each provide the Company with on-going consulting and management advisory services through June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company pays annual management fees of $0.5 million, $0.5 million and $0.25 million to Citigroup, BAS and JPMorgan, respectively. The Company recorded consulting fees related to these agreements of $0.3 million and $0.6 million for the three and six months ended June 30, 2010, respectively. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were recorded and paid to Citigroup, BAS and JPMorgan in the third quarter of 2009.

Between the Merger and June 30, 2010, Holdings has completed open market purchases totaling $65.0 million in face value of the Permanent Notes for a cost of $21.4 million. The debt acquired by Holdings has not been retired, and the Company has continued to pay interest in accordance with the terms of the debt. The Company recorded interest expense of $3.5 million and $3.4 million for the six months ended June 30, 2010 and 2009, respectively, related to the Permanent Notes held by Holdings. The Company made cash payments to Holdings of $3.5 million and $3.0 million during the six months ended June 30, 2010 and 2009, respectively. Interest accrued by the Company and payable to Holdings as of June 30, 2010 and December 31, 2009 amounted to $3.2 million.

Note 16. Newly Issued Accounting Statements and Positions

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements , which amends the multiple-element arrangement guidance under ASC 605, Revenue Recognition . This standard amends the criteria for separating consideration received for products or services in multiple-deliverable arrangements. This standard establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation, and requires that total arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this standard significantly expands required disclosures related to a vendor s multiple-deliverable revenue arrangements. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (calendar year 2011). The Company is currently evaluating the effect of this standard on its condensed consolidated financial statements.

In December 2009, the FASB issued ASU 2009-17, Accounting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 formally incorporates into the FASB Codification amendments to FASB Interpretation No. 46(R) made by Statement of Financial Accounting Standards (SFAS) 167 to require that a comprehensive qualitative analysis be performed to determine whether a holder of variable

interests in a variable interest entity also has a controlling financial interest in that entity. In addition, the amendments require that the same type of analysis be applied to entities that were previously designated as qualifying special-purpose entities. This standard applies prospectively for fiscal years beginning on or after November 15, 2009. The Company adopted the required provisions of this standard during the first quarter of 2010. The adoption of this standard did not have a material impact on the Company s condensed consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements , which amends ASC 820 to add new requirements for disclosures about transfers into and out of Level 1 and 2 measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The ASU also clarifies existing fair value disclosure requirements about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, the ASU amends guidance on employers disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. This standard is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company applied the required provisions of this standard on the Company s condensed consolidated financial statements during the first quarter of 2010 (see Note 17).

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Note 17. Fair Value of Financial Instruments

The period end carrying amounts of receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The period end carrying amounts of long-term notes receivable approximate fair value as the effective interest rates for these instruments are comparable to market rates at period end. The period end carrying amounts of current and long-term marketable securities also approximate fair value, with unrealized gains and losses reported net-of-tax as a component of accumulated comprehensive income (loss), or, for certain unrealized losses, reported in interest and net investment income in the condensed consolidated statement of operations if the decline in value is other than temporary. The carrying amount of total debt was $3,969.6 million and $3,974.9 million and the estimated fair value was $3,900.6 million and $3,716.5 million at June 30, 2010 and December 31, 2009, respectively. The fair values of the Company s financial instruments reflect the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report are based on information available to the Company as of June 30, 2010 and December 31, 2009.

The Company has estimated the fair value of its financial instruments measured at fair value on a recurring basis using the market and income approaches. For investments in marketable securities, deferred compensation trust assets and derivative contracts, which are carried at their fair values, the Company s fair value estimates incorporate quoted market prices, other observable inputs (for example, forward interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

Interest rate swap contracts are valued using forward interest rate curves obtained from third party market data providers. The fair value of each contract is the sum of the expected future settlements between the contract counterparties, discounted to present value. The expected future settlements are determined by comparing the contract interest rate to the expected forward interest rate as of each settlement date and applying the difference between the two rates to the notional amount of debt in the interest rate swap contracts.

Fuel swap contracts are valued using forward fuel price curves obtained from third party market data providers. The fair value of each contract is the sum of the expected future settlements between the contract counterparties, discounted to present value. The expected future settlements are determined by comparing the contract fuel price to the expected forward fuel price as of each settlement date and applying the difference between the contract and expected prices to the notional gallons in the fuel swap contracts.

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The carrying amount and estimated fair value of the Company s financial instruments that are recorded at fair value for the periods presented are as follows:

		As of June 30, 2010				As of December 31, 2009	
			Estimated Fair Value Measurements				
(In thousands)	Balance Sheet Locations	Carrying Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value	Estimated Fair Value
Financial Assets:							
Deferred compensation trust assets	Long-term marketable securities	$ 9,017	$ 9,017	$	$	$ 9,985	$ 9,985
Investments in marketable securities	Marketable securities and Long-term marketable securities	124,198	43,956	80,242		122,201	122,201
Fuel swap contracts:							
Current	Prepaid expenses and other assets	4,087			4,087	7,840	7,840
Noncurrent	Other assets	152			152		
Total financial assets		$ 137,454	$ 52,973	$ 80,242	$ 4,239	$ 140,026	$ 140,026
Financial Liabilities:							
Fuel swap contracts:							
Current	Other accrued liabilities	$ 1,438	$	$	$ 1,438	$ 924	$ 924
Noncurrent	Other long-term obligations	829			829		
Interest rate swap contracts	Other long-term obligations	58,390		58,390		54,120	54,120
Total financial liabilities		$ 60,657	$	$ 58,390	$ 2,267	$ 55,044	$ 55,044

A reconciliation of the beginning and ending fair values of financial instruments valued using significant unobservable inputs (Level 3) is presented as follows:

(In thousands)	Fuel Swap Contract Assets (Liabilities)
Balance at December 31, 2009	$ 6,916
Total gains (losses) (realized and unrealized)	
Included in earnings(1)	2,784
Included in other comprehensive income	(4,944)
Settlements, net	(2,784)
Balance at June 30, 2010	$ 1,972

(In thousands)		**Fuel Swap Contract Assets (Liabilities)**
Balance at December 31, 2008	$	(24,924)
Total gains (losses) (realized and unrealized)		
Included in earnings(1)		(14,781)
Included in other comprehensive income		20,157
Settlements, net		14,781
Balance at June 30, 2009	$	(4,767)

(1) Gains (losses) included in earnings are reported in cost of services rendered and products sold.

The Company uses derivative financial instruments to manage risks associated with changes in fuel prices and interest rates. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. In designating its derivative financial instruments as hedging instruments under accounting standards for derivative instruments, the Company formally documents

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the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. This documentation includes linking the derivatives to forecasted transactions. The Company assesses at the time a derivative contract is entered into, and at least quarterly thereafter, whether the derivative item is effective in offsetting the projected changes in cash flows of the associated forecasted transactions. All of the Company s designated hedging instruments are classified as cash flow hedges.

The Company has historically hedged a significant portion of its annual fuel consumption of approximately 25 million gallons. The Company has also hedged the interest payments on a portion of its variable rate debt through the use of interest rate swap agreements. Substantially all of the Company s fuel swap contracts and interest rate swap contracts are classified as cash flow hedges, and, as such, the hedging instruments are recorded on the condensed consolidated statement of financial position as either an asset or liability at fair value, with the effective portion of changes in the fair value attributable to the hedged risks recorded in other comprehensive income. Any change in the fair value of the hedging instrument resulting from ineffectiveness, as defined by accounting standards, is recognized in current period earnings. Cash flows related to fuel and interest rate derivatives are classified as operating activities in the condensed consolidated statement of cash flows.

The effect of derivative instruments on the condensed consolidated statement of operations and other comprehensive income for the six months ended June 30, 2010 and 2009, respectively, is presented as follows:

(In thousands) Derivatives designated as Cash Flow Hedge Relationships	**Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)**	**Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income**	**Location of Gain (Loss) included in Income**
	Six months ended June 30, 2010		
Fuel swap contracts	$ (4,944)	$ 2,784	Cost of services rendered and products sold
Interest rate swap contracts	$ (4,270)	$ (27,216)	Interest expense

Derivatives designated as Cash Flow Hedge Relationships	**Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss)**	**Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income**	**Location of Gain (Loss) included in Income**
	Six months ended June 30, 2009		
Fuel swap contracts	$ 20,157	$ (14,781)	Cost of services rendered and products sold
Interest rate swap contracts	$ 2,553	$ (23,389)	Interest expense

Ineffective portions of derivative instruments designated in accordance with accounting standards as cash flow hedge relationships were insignificant during the six months ended June 30, 2010. As of June 30, 2010, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $75.1 million, maturing through 2011. Under the terms of its fuel swap contracts, the Company is required to post collateral in certain circumstances, including in the event that the fair value of the contracts exceeds a certain agreed upon liability level. As of June 30, 2010, the Company had posted $5.0 million in letters of credit as collateral for these contracts, none of which were issued under the Company s Revolving Credit Facility. As of June 30, 2010, the Company had interest rate swap contracts to pay fixed rates for interest on long-term debt with an aggregate notional amount of $1.43 billion, maturing through 2012.

The effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments is recorded in other comprehensive income. These amounts are reclassified into earnings in the same period or periods during which the hedged forecasted debt interest settlement or the fuel settlement affects earnings. The amount expected to be reclassified into earnings during the next 12 months includes unrealized gains and losses related to open fuel hedges and interest rate swaps. Specifically, as the underlying forecasted transactions occur during the next 12 months, the hedging gains and losses in accumulated other comprehensive income expected to be recognized in earnings is a loss of $21.3 million, net of tax, at June 30, 2010. The amounts that are ultimately reclassified into earnings will be based on actual interest rates and fuel prices at the time the positions are settled and may differ materially from the amount noted above.

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Note 18. Condensed Consolidating Financial Statements of The ServiceMaster Company and Subsidiaries

The following condensed consolidating financial statements of the Company and its subsidiaries have been prepared pursuant to Rule 3-10 of Regulation S-X. These condensed consolidating financial statements have been prepared from the Company s financial information on the same basis of accounting as the condensed consolidated financial statements. Goodwill and other intangible assets have been allocated to all of the subsidiaries of the Company based on management s estimates.

The payment obligations of the Company under the Permanent Notes are jointly and severally guaranteed on a senior unsecured basis by certain of the Company s domestic subsidiaries excluding certain subsidiaries subject to regulatory requirements in various states (Guarantors). Each of the Guarantors is wholly owned, directly or indirectly, by the Company, and all guarantees are full and unconditional. All other subsidiaries of the Company, either directly or indirectly owned, do not guarantee the Permanent Notes (Non-Guarantors).

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended June 30, 2010 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 798,804	$ 223,052	$ (18,794)	$ 1,003,062
Operating Costs and Expenses:					
Cost of services rendered and products sold		487,251	105,124	(18,794)	573,581
Selling and administrative expenses	2,277	164,280	96,906		263,463
Amortization expense	56	31,429	8,966		40,451
Goodwill and trade name impairment		46,884			46,884
Restructuring and Merger related charges	1,005	3,058	104		4,167
Total operating costs and expenses	3,338	732,902	211,100	(18,794)	928,546
Operating (Loss) Income	(3,338)	65,902	11,952		74,516
Non-operating Expense (Income):					
Interest expense (income)	50,486	25,970	(3,287)		73,169
Interest and net investment loss (income)	1,518	1,545	(4,059)		(996)
Other expense			176		176
(Loss) Income from Continuing Operations before Income Taxes	(55,342)	38,387	19,122		2,167
(Benefit) provision for income taxes	(30,825)	3,931	16,412		(10,482)
(Loss) Income from Continuing Operations	(24,517)	34,456	2,710		12,649
Income (loss) from discontinued operations, net of income taxes		114	(319)		(205)
Equity in losses of subsidiaries (net of tax)	36,961	(9,092)		(27,869)	
Net Loss	$ 12,444	$ 25,478	$ 2,391	$ (27,869)	$ 12,444

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Three Months Ended June 30, 2009 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 758,031	$ 218,407	$ (19,146)	$ 957,292
Operating Costs and Expenses:					
Cost of services rendered and products sold		472,335	100,184	(19,146)	553,373
Selling and administrative expenses	1,009	161,166	77,754		239,929
Amortization expense	55	31,353	8,993		40,401
Restructuring and Merger related charges	1,154	(90)	4,520		5,584
Total operating costs and expenses	2,218	664,764	191,451	(19,146)	839,287
Operating (Loss) Income	(2,218)	93,267	26,956		118,005
Non-operating Expense (Income):					
Interest expense (income)	84,241	(6,682)	(2,903)		74,656
Interest and net investment (income) loss	(321)	2,357	(5,431)		(3,395)
Other expense			179		179
(Loss) Income from Continuing Operations before Income Taxes	(86,138)	97,592	35,111		46,565
(Benefit) provision for income taxes	(33,862)	9,638	48,397		24,173
(Loss) Income from Continuing Operations	(52,276)	87,954	(13,286)		22,392
Loss from discontinued operations, net of income taxes			(107)		(107)
Equity in earnings of subsidiaries (net of tax)	74,561	(17,283)		(57,278)	
Net Income (Loss)	$ 22,285	$ 70,671	$ (13,393)	$ (57,278)	$ 22,285

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2010 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 1,295,749	$ 382,140	$ (35,419)	$ 1,642,470
Operating Costs and Expenses:					
Cost of services rendered and products sold		834,069	177,451	(35,419)	976,101
Selling and administrative expenses	4,540	261,647	181,151		447,338
Amortization expense	111	62,852	17,930		80,893
Goodwill and trade name impairment		46,884			46,884
Restructuring and Merger related charges	1,136	6,698	257		8,091
Total operating costs and expenses	5,787	1,212,150	376,789	(35,419)	1,559,307
Operating (Loss) Income	(5,787)	83,599	5,351		83,163
Non-operating Expense (Income):					
Interest expense (income)	100,066	52,185	(6,401)		145,850
Interest and net investment loss (income)	2,169	2,742	(8,409)		(3,498)
Other expense			347		347
(Loss) Income from Continuing Operations before Income Taxes	(108,022)	28,672	19,814		(59,536)
(Benefit) provision for income taxes	(52,442)	(16,008)	28,548		(39,902)
(Loss) Income from Continuing Operations	(55,580)	44,680	(8,734)		(19,634)
Income (loss) from discontinued operations, net of income taxes		335	(917)		(582)
Equity in losses of subsidiaries (net of tax)	35,364	(13,585)		(21,779)	
Net Loss	$ (20,216)	$ 31,430	$ (9,651)	$ (21,779)	$ (20,216)

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Operations

For the Six Months Ended June 30, 2009 (Unaudited)

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Operating Revenue	$	$ 1,264,967	$ 374,691	$ (36,439)	$ 1,603,219
Operating Costs and Expenses:					
Cost of services rendered and products sold		815,109	169,103	(36,439)	947,773
Selling and administrative expenses	2,007	260,323	151,362		413,692
Amortization expense	110	62,601	17,999		80,710
Restructuring and Merger related charges	1,448	3,100	9,813		14,361
Total operating costs and expenses	3,565	1,141,133	348,277	(36,439)	1,456,536
Operating (Loss) Income	(3,565)	123,834	26,414		146,683
Non-operating Expense (Income):					
Interest expense (income)	161,100	(3,481)	(6,297)		151,322
Interest and net investment loss (income)	1,163	4,432	(4,229)		1,366
Gain on extinguishment of debt	(46,106)				(46,106)
Other expense			379		379
(Loss) Income from Continuing Operations before Income Taxes	(119,722)	122,883	36,561		39,722
(Benefit) provision for income taxes	(57,068)	24,647	49,039		16,618
(Loss) Income from Continuing Operations	(62,654)	98,236	(12,478)		23,104
Loss from discontinued operations, net of income taxes			(270)		(270)
Equity in earnings of subsidiaries (net of tax)	85,488	(15,884)		(69,604)	
Net Income (Loss)	$ 22,834	$ 82,352	$ (12,748)	$ (69,604)	$ 22,834

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Financial Position (Unaudited)

As of June 30, 2010

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 142,223	$ 19,660	$ 127,252	$	$ 289,135
Marketable securities			21,197		21,197
Receivables	1,174	199,387	479,374	(244,842)	435,093
Inventories		80,768	2,644		83,412
Prepaid expenses and other assets	32,146	53,639	20,399		106,184
Deferred customer acquisition costs		38,053	23,686		61,739
Deferred taxes		23,222	1,450	(302)	24,370
Assets of discontinued operations			16		16
Total Current Assets	175,543	414,729	676,018	(245,144)	1,021,146
Property and Equipment:					
At cost		303,209	85,215		388,424
Less: accumulated depreciation		(117,855)	(46,810)		(164,665)
Net property and equipment		185,354	38,405		223,759
Other Assets:					
Goodwill		2,724,210	364,130		3,088,340
Intangible assets, primarily trade names, service marks and trademarks, net		1,931,591	776,170		2,707,761
Notes receivable	2,024,394	352	24,487	(2,024,394)	24,839
Long-term marketable securities	9,017		103,000		112,017
Investments in and advances to subsidiaries	3,614,151	1,459,763	23,576	(5,097,490)	
Other assets	108,775	4,002	1,538	(85,179)	29,136
Debt issuance costs	59,504				59,504
Total Assets	$ 5,991,384	$ 6,720,001	$ 2,007,324	$ (7,452,207)	$ 7,266,502
Liabilities and Shareholder s Equity					
Current Liabilities:					
Accounts payable	$ 13	$ 87,319	$ 39,209	$	$ 126,541
Accrued liabilities:					
Payroll and related expenses	2,275	47,042	40,526		89,843
Self-insured claims and related expenses		23,040	70,882		93,922
Other	77,417	60,446	48,516	(302)	186,077
Deferred revenue		194,716	325,831		520,547
Liabilities of discontinued operations		239	2,497		2,736
Current portion of long-term debt	141,427	25,332	140,220	(244,842)	62,137
Total Current Liabilities	221,132	438,134	667,681	(245,144)	1,081,803
Long-Term Debt	3,879,022	1,997,318	55,520	(2,024,394)	3,907,466
Other Long-Term Liabilities:					

Deferred taxes				730,052		288,353		(85,179)		933,226
Intercompany payable		650,515						(650,515)		
Liabilities of discontinued operations						4,080				4,080
Other long-term obligations		76,408		1,838		97,374				175,620
Total Other Long-Term Liabilities		726,923		731,890		389,807		(735,694)		1,112,926
Shareholder s Equity		1,164,307		3,552,659		894,316		(4,446,975)		1,164,307
Total Liabilities and Shareholder s Equity	$	5,991,384	$	6,720,001	$	2,007,324	$	(7,452,207)	$	7,266,502

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Financial Position (Audited)

As of December 31, 2009

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 124,674	$ 15,796	$ 112,993	$	$ 253,463
Marketable securities			21,120		21,120
Receivables	1,162	133,866	424,395	(210,768)	348,655
Inventories		74,041	2,551		76,592
Prepaid expenses and other assets	7,840	15,239	13,485		36,564
Deferred customer acquisition costs		13,759	22,311		36,070
Deferred taxes		22,481	996	(1,882)	21,595
Assets of discontinued operations		15	27		42
Total Current Assets	133,676	275,197	597,878	(212,650)	794,101
Property and Equipment:					
At cost		262,223	82,877		345,100
Less: accumulated depreciation		(94,423)	(38,542)		(132,965)
Net property and equipment		167,800	44,335		212,135
Other Assets:					
Goodwill		2,755,813	363,941		3,119,754
Intangible assets, primarily trade names, service marks and trademarks, net		1,992,843	794,394		2,787,237
Notes receivable	1,992,857	707	22,783	(1,992,857)	23,490
Long-term marketable securities	9,985		101,081		111,066
Investments in and advances to subsidiaries	3,586,670	1,392,095	7,934	(4,986,699)	
Other assets	105,761	3,889	4,292	(82,143)	31,799
Debt issuance costs	66,807				66,807
Total Assets	$ 5,895,756	$ 6,588,344	$ 1,936,638	$ (7,274,349)	$ 7,146,389
Liabilities and Shareholder s Equity					
Current Liabilities:					
Accounts payable	$ 1,046	$ 42,325	$ 30,100	$	$ 73,471
Accrued liabilities:					
Payroll and related expenses	2,185	33,687	38,513		74,385
Self-insured claims and related expenses		21,727	65,605		87,332
Other	51,391	41,716	65,424	(1,882)	156,649
Deferred revenue		138,691	311,055		449,746
Liabilities of discontinued operations		248	2,558		2,806
Current portion of long-term debt	141,230	27,226	106,707	(210,768)	64,395
Total Current Liabilities	195,852	305,620	619,962	(212,650)	908,784
Long-Term Debt	3,889,574	1,999,226	14,606	(1,992,857)	3,910,549
Other Long-Term Liabilities:					

Deferred taxes		754,531	284,689	(82,143)	957,077
Intercompany payable	545,995			(545,995)	
Liabilities of discontinued operations			4,145		4,145
Other long-term obligations	78,004	2,284	99,215		179,503
Total Other Long-Term Liabilities	623,999	756,815	388,049	(628,138)	1,140,725
Shareholder s Equity	1,186,331	3,526,683	914,021	(4,440,704)	1,186,331
Total Liabilities and Shareholder s Equity	$ 5,895,756	$ 6,588,344	$ 1,936,638	$ (7,274,349)	$ 7,146,389

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows (Unaudited)

For the Six Months Ended June 30, 2010

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 124,674	$ 15,796	$ 112,993	$	$ 253,463
Net Cash (Used for) Provided from Operating Activities from Continuing Operations	(51,391)	170,576	28,561	(41,822)	105,924
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(37,030)	(3,355)		(40,385)
Sale of equipment and other assets		983	105		1,088
Acquisition of The ServiceMaster Company	(2,164)				(2,164)
Other business acquisitions, net of cash acquired		(14,644)	(109)		(14,753)
Notes receivable, financial investments and securities, net			(898)		(898)
Net Cash Used for Investing Activities from Continuing Operations	(2,164)	(50,691)	(4,257)		(57,112)
Cash Flows from Financing Activities from Continuing Operations:					
Borrowings of debt			10,000		10,000
Payments of debt	(13,625)	(7,827)	(610)		(22,062)
Debt issuance costs paid			(30)		(30)
Shareholders dividends		(20,911)	(20,911)	41,822	
Net intercompany advances	84,729	(87,283)	2,554		
Net Cash Provided from (Used for) Financing Activities from Continuing Operations	71,104	(116,021)	(8,997)	41,822	(12,092)
Cash Flows from Discontinued Operations:					
Cash used for operating activities			(1,048)		(1,048)
Net Cash Used for Discontinued Operations			(1,048)		(1,048)
Cash (Decrease) Increase During the Period	17,549	3,864	14,259		35,672
Cash and Cash Equivalents at End of Period	$ 142,223	$ 19,660	$ 127,252	$	$ 289,135

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THE SERVICEMASTER COMPANY AND SUBSIDIARIES

Condensed Consolidating Statement of Cash Flows (Unaudited)

For the Six Months Ended June 30, 2009

(In thousands)

	The ServiceMaster Company	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and Cash Equivalents at Beginning of Period	$ 300,362	$ 12,105	$ 93,120	$	$ 405,587
Net Cash (Used for) Provided from Operating Activities from Continuing Operations	(82,702)	208,214	(10,649)	(43,634)	71,229
Cash Flows from Investing Activities from Continuing Operations:					
Property additions		(33,520)	(5,373)		(38,893)
Sale of equipment and other assets		1,905	50		1,955
Acquisition of The ServiceMaster Company	(1,119)				(1,119)
Other business acquisitions, net of cash acquired		(7,268)			(7,268)
Notes receivable, financial investments and securities, net			3,968		3,968
Net Cash (Used for) Provided from Investing Activities from Continuing Operations	(1,119)	(38,883)	(1,355)		(41,357)
Cash Flows from Financing Activities from Continuing Operations:					
Payments of debt	(54,635)	(8,249)	(1,923)		(64,807)
Debt issuance costs paid	(369)				(369)
Shareholders dividends		(21,817)	(21,817)	43,634	
Net intercompany advances	55,670	(132,980)	77,310		
Net Cash (Used for) Provided from Financing Activities from Continuing Operations	666	(163,046)	53,570	43,634	(65,176)
Cash Flows from Discontinued Operations:					
Cash used for operating activities			(1,209)		(1,209)
Cash used for investing activities			(914)		(914)
Net Cash Used for Discontinued Operations			(2,123)		(2,123)
Cash (Decrease) Increase During the Period	(83,155)	6,285	39,443		(37,427)
Cash and Cash Equivalents at End of Period	$ 217,207	$ 18,390	$ 132,563	$	$ 368,160

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Merger Agreement

On March 18, 2007, ServiceMaster entered into the Merger Agreement with Holdings and Acquisition Co., and the Merger was completed on July 24, 2007. Immediately following the completion of the Merger, all of the outstanding capital stock of Holdings, the ultimate parent company of ServiceMaster, was owned by investment funds sponsored by, or affiliated with, the Equity Sponsors.

Equity contributions totaling $1,431.1 million from the Equity Sponsors, together with (i) borrowings under the Interim Loan Facility, (ii) borrowings under a new $2,650.0 million senior secured term loan facility and (iii) cash on hand at ServiceMaster, were used, among other things, to finance the aggregate merger consideration, to make payments in satisfaction of other equity-based interests in ServiceMaster under the Merger Agreement, to settle existing interest rate swaps, to redeem or provide for the repayment of certain of the Company s existing indebtedness and to pay related transaction fees and expenses. In addition, letters of credit issued under a new $150.0 million pre-funded letter of credit facility were used to replace and/or secure letters of credit previously issued under a ServiceMaster credit facility that was terminated as of the Closing Date. On the Closing Date, the Company also entered into, but did not then draw under, the Revolving Credit Facility.

On July 24, 2008, outstanding amounts under the Interim Loan Facility were converted on a one to one basis into the Permanent Notes. The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of Permanent Notes, ServiceMaster entered into the Registration Rights Agreement, pursuant to which ServiceMaster filed with the SEC a registration statement with respect to the resale of the Permanent Notes, which was declared effective on January 16, 2009. ServiceMaster deregistered the Permanent Notes in accordance with the terms of the Registration Rights Agreement, and the effectiveness of the registration statement was terminated, on November 19, 2009.

Results of Operations

Second Quarter 2010 Compared to 2009

The Company reported second quarter 2010 revenue of $1,003.1 million, a $45.8 million, or 4.8 percent, increase compared to 2009. The revenue increase was driven by the results of our business units as described in Segment Reviews for the Second Quarter 2010 Compared to 2009 .

Operating income was $74.5 million for the second quarter of 2010 compared to $118.0 million for the second quarter of 2009. Income from continuing operations before income taxes was $2.2 million for the second quarter of 2010 compared to $46.6 million for the second quarter of 2009. The decrease in income from continuing operations before income taxes of $44.4 million reflects the net effect of:

(In millions)		
Interest expense(1)	$	1.5
Interest and net investment income(2)		(2.4)
Restructuring and Merger related charges(3)		1.4
Non-cash goodwill and trade name impairment(4)		(46.9)
Management fee(5)		(1.4)
Residual value guarantee charge(6)		(3.9)
Segment results(7)		7.3
	$	(44.4)

(1) Represents a decrease in interest expense as a result of a decrease in our weighted average long-term debt balance as compared to the second quarter of 2009.

(2) As further described in Operating and Non-Operating Expenses , represents a decrease in interest and net investment income.

(3) Represents the net positive effect of (i) an increase in restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare, (ii) a decrease in restructuring charges related to an information technology outsourcing at Other Operations and Headquarters and (iii) a decrease in Merger related charges.

(4) Represents a non-cash impairment charge of $46.9 million recorded in the second quarter of 2010 to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of the Company s interim impairment test of goodwill and indefinite-lived intangible assets. See Note 5 to the condensed consolidated financial statements for further information.

(5) Represents an increase in management and consulting fees payable to certain related parties. A management fee is payable to CD&R pursuant to a consulting agreement under which CD&R provides the Company with on-going consulting and management advisory services in exchange for an annual management fee of $6.25 million, which is payable quarterly. On July 30, 2009, the annual management fee payable under the consulting agreement with CD&R was increased from $2.0 million to $6.25 million in order to align the fee structure with current market rates. Under this agreement, the Company recorded a management fee of $1.6 million and $0.5 million for the second quarter of 2010 and 2009, respectively. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were recorded and paid to CD&R in the third quarter of 2009.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan, each of which is an Equity Sponsor or an affiliate of an Equity Sponsor. Under the consulting agreements, Citigroup, BAS and JPMorgan each provide the Company with on-going consulting and management advisory services through June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company pays annual management fees of $0.5 million, $0.5 million and $0.25 million to Citigroup, BAS and JPMorgan, respectively. The Company recorded consulting fees related to these agreements of $0.3 million for the second quarter of 2010. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were recorded and paid to Citigroup, BAS and JPMorgan in the third quarter of 2009.

(6) Represents residual value guarantee charges related to a synthetic lease for operating properties that do not result in additional cash payments to exit the facility at the end of the lease term. In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s estimate of this shortfall was $15.9 million, which was expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $9.1 million in the first six months of 2010 (of which $3.9 million was recorded in the second quarter) related to this shortfall. The remaining $1.3 million was recorded in July 2010.

(7) Represents a net increase in income from continuing operations before income taxes, interest expense, interest and net investment income, restructuring and Merger related charges, non-cash goodwill and trade name impairment, residual value guarantee charge and management fee, reflecting the improvement in results at TruGreen LawnCare, Terminix and ServiceMaster Clean, offset, in part, by the decline in results at American Home Shield, TruGreen LandCare and Other Operations and Headquarters as described in Segment Reviews for the Second Quarter 2010 Compared to 2009 .

Operating and Non-Operating Expenses

The Company reported cost of services rendered and products sold of $573.6 million for the second quarter of 2010 compared to $553.4 million for the second quarter of 2009. As a percentage of revenue, these costs decreased to 57.2 percent for the second quarter of 2010 from 57.8 percent for the second quarter of 2009. This primarily reflects reduced fuel costs, as well as reduced fertilizer costs at TruGreen LawnCare, offset, in part, by the impact of residual value guarantee charges at TruGreen LawnCare, decreased labor efficiencies at TruGreen LandCare and increased frequency of contract claims costs at American Home Shield.

The Company reported selling and administrative expenses of $263.5 million for the second quarter of 2010 compared to $239.9 million for the second quarter of 2009. As a percentage of revenue, these costs increased to 26.3 percent for the second quarter of 2010 from 25.1 percent for the second quarter of 2009. This primarily reflects investments in sales and marketing, increased provisions for incentive compensation, increased project costs related to our ongoing initiatives to restructure our branch operations and to improve customer service at TruGreen LawnCare, increased provisions for certain legal matters at American Home Shield and increased management fees related to the consulting agreements with the Equity Sponsors amended and executed in 2009.

Amortization expense was $40.5 million for the second quarter of 2010 compared to $40.4 million for the second quarter of 2009.

Non-operating expense totaled $72.3 million for the second quarter of 2010 compared to $71.4 million for the second quarter of 2009. This change includes a $2.4 million decrease in interest and net investment income, offset, in part, by a $1.5 million decrease in interest expense resulting from a decrease in our weighted average long-term debt balance. Interest and net investment income was comprised of the following for the second quarter of 2010 and 2009:

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(In thousands)	Three months ended June 30, 2010	2009
Realized gains(1)	$ 1,604	$ 2,141
Impairments of securities(2)		(469)
Deferred compensation trust(3)	(810)	1,203
Other(4)	202	520
Interest and net investment income	$ 996	$ 3,395

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(1) Represents the net investment gains and the interest and dividend income realized on the American Home Shield investment portfolio.

(2) Represents other than temporary declines in the value of certain investments in the American Home Shield investment portfolio.

(3) Represents investment (loss) income resulting from a change in the market value of investments within an employee deferred compensation trust (for which there is a corresponding and offsetting change in compensation expense within income from continuing operations before income taxes).

(4) Represents a portion of the earnings generated by SMAC, our financing subsidiary exclusively dedicated to providing financing to our franchisees and retail customers of our operating units, and interest income on other cash balances.

The effective tax rate on income from continuing operations was a benefit of 483.7 percent for the second quarter of 2010 compared to a provision of 51.9 percent for the second quarter of 2009. The benefit in the second quarter of 2010 is primarily the result of a change in the full year projected rate (due to the impairment of goodwill and trade names at TruGreen LandCare) applied to the loss from continuing operations before income taxes for the six months ended June 30, 2010.

Restructuring and Merger Related Charges

The Company incurred restructuring and Merger related charges of $4.2 million and $5.6 million for the second quarter of 2010 and 2009, respectively. Restructuring and Merger related charges were comprised of the following:

(In thousands)	Three months ended June 30, 2010	2009
TruGreen LawnCare reorganization and restructuring(1)	$ 2,939	$
Information technology outsourcing(2)		4,187
Merger related charges(3)	1,005	1,154

Other		223		243
Total restructuring and Merger related charges	$	4,167	$	5,584

(1) Represents restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. For the second quarter of 2010, these costs included consulting fees of $1.9 million and severance, lease termination and other costs of $1.0 million. In connection with the restructuring of branch operations, we expect to incur cash charges through the fourth quarter of 2010 related to, among other things, employee retention, severance costs and consulting fees. Such charges are expected to amount to an additional $2.9 million, pre-tax, and will be recorded as restructuring charges in the condensed consolidated statement of operations as incurred.

(2) On December 11, 2008, the Company entered into an agreement with IBM pursuant to which IBM provides information technology operations and applications development services to the Company. These services were phased in during the first half of 2009. For the second quarter of 2009, these costs included transition fees paid to IBM of $3.4 million, employee retention and severance costs of $0.4 million and consulting and other costs of $0.4 million.

(3) Includes severance, retention, legal fees and other costs associated with the Merger.

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Impairment of Goodwill and Trade Names

During the second quarter of 2010, the Company recorded a non-cash impairment charge of $46.9 million to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of an interim impairment test of goodwill and indefinite-lived intangible assets. See Note 5 to the condensed consolidated financial statements for further details.

Key Performance Indicators

The table below presents selected operating metrics related to customer counts and customer retention for the three largest revenue generating businesses in the Company. These measures are presented on a rolling, twelve-month basis in order to avoid seasonal anomalies.

	Key Performance Indicators as of June 30,	
	2010	**2009**
TruGreen LawnCare		
Growth (Reduction) in Full Program Accounts	3%	(3)%
Customer Retention Rate	70.9%	68.3%
Terminix		
Growth in Pest Control Customers	2%	1%
Pest Control Customer Retention Rate	79.7%	77.9%
Growth (Reduction) in Termite Customers	0%	(1)%
Termite Customer Retention Rate	86.2%	86.2%
American Home Shield		
Growth (Reduction) in Home Service Contracts	5%	(3)%
Customer Retention Rate	65.6%	62.6%

Segment Reviews for the Second Quarter 2010 Compared to 2009

The following business segment reviews should be read in conjunction with the required footnote disclosures presented in the Notes to the condensed consolidated financial statements. This disclosure provides a reconciliation of segment operating income to income from continuing operations before income taxes, with net non-operating expenses as the only reconciling item. The operating income, EBITDA, Adjusted EBITDA, and Comparable Operating Performance for each reportable segment have been revised to reflect the Company s revised allocation methodology for all periods presented. See Note 14 to the condensed consolidated financial statements for further information.

The Company uses Adjusted EBITDA and Comparable Operating Performance to facilitate operating performance comparisons from period to period. Adjusted EBITDA and Comparable Operating Performance are supplemental measures of the Company s performance that are not required by, or presented in accordance with, GAAP. Adjusted EBITDA and Comparable Operating Performance are not measurements of the Company s financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP or as alternatives to net cash provided by operating activities or any other measures of the Company s cash flow or liquidity. Adjusted EBITDA means net income (loss) before net income (loss) from discontinued operations; provision (benefit) for income taxes; other expense; gain on extinguishment of debt; interest expense and interest and net investment loss (income); and depreciation

and amortization expense; as well as adding back interest and net investment loss (income), residual value guarantee charge and non-cash goodwill and trade name impairment. Comparable Operating Performance is calculated by adding back to Adjusted EBITDA an amount equal to the non-cash stock-based compensation expense and non-cash effects on Adjusted EBITDA attributable to the application of purchase accounting in connection with the Merger.

The Company believes Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations in capital structures (affecting net interest income and expense), taxation and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to operating performance. In addition, the Company excludes residual value guarantee charges that do not result in additional cash payments to exit the facility at the end of the lease term. The Company uses Comparable Operating Performance as a supplemental measure to assess the Company s performance because it excludes non-cash stock-based compensation expense and non-cash effects on Adjusted EBITDA attributable to the application of purchase accounting in connection with the Merger. The Company presents Comparable Operating Performance because it believes that it is useful for investors, analysts and other interested parties in their analysis of the Company s operating results.

The Company believes Comparable Operating Performance, which excludes the impact of purchase accounting and non-cash stock-based compensation expense adjustments, is useful to investors. The exclusion of the impact of these items facilitates a comparison of operating results from periods pre-dating the Merger transaction with the Equity Sponsors with periods subsequent to the Merger. The purchase accounting charges were not present prior to the Merger. In addition, charges relating to non-cash stock-

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based compensation expense prior to the Merger were computed under different plans and formulas than charges subsequent to the Merger. Moreover, such charges are non-cash and the exclusion of the impact of these items from Comparable Operating Performance allows investors to understand the current period results of operations of the business on a comparable basis with previous periods and, secondarily, gives the investors added insight into cash earnings available to service the Company s debt. We believe this to be of particular importance to the Company s public investors, which are debt holders. The Company also believes that the exclusion of the impact of purchase accounting and non-cash stock-based compensation expense may provide an additional means for comparing the Company s performance to the performance of other companies by eliminating the impact of differently structured equity-based long-term incentive plans (although care must be taken in making any such comparison, as there may be inconsistencies among companies in the manner of computing similarly titled financial measures).

Adjusted EBITDA and Comparable Operating Performance are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation.

Adjusted EBITDA and Comparable Operating Performance have limitations as analytical tools, and should not be considered in isolation or as substitutes for analyzing the Company s results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA and Comparable Operating Performance do not reflect changes in, or cash requirements for, the Company s working capital needs;

- Adjusted EBITDA and Comparable Operating Performance do not reflect the Company s interest expense or the cash requirements necessary to service interest or principal payments on the Company s debt;

- Adjusted EBITDA and Comparable Operating Performance do not reflect the Company s tax expense or the cash requirements to pay the Company s taxes;

- Adjusted EBITDA and Comparable Operating Performance do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA and Comparable Operating Performance do not reflect any cash requirements for such replacements;

- Other companies in the Company s industries may calculate Adjusted EBITDA and Comparable Operating Performance differently, limiting their usefulness as comparative measures; and

- Comparable Operating Performance does not include the impact of purchase accounting and non-cash stock-based compensation expense, the latter exclusion may cause the overall compensation cost of the business to be understated.

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Operating revenues and Comparable Operating Performance by operating segment are as follows:

(In thousands)	Three months ended June 30, 2010	2009
Operating Revenue:		
TruGreen LawnCare	$ 378,642	$ 348,403
TruGreen LandCare	63,463	69,433
Terminix	323,393	307,375
American Home Shield	183,792	179,823
ServiceMaster Clean	32,034	30,581
Other Operations and Headquarters	21,738	21,677
Total Operating Revenue	$ 1,003,062	$ 957,292
Comparable Operating Performance:		
TruGreen LawnCare	$ 78,577	$ 63,192
TruGreen LandCare	(855)	3,472
Terminix	85,091	81,210
American Home Shield	33,775	41,118
ServiceMaster Clean	14,745	14,222
Other Operations and Headquarters	(25,140)	(22,748)
Total Comparable Operating Performance	$ 186,193	$ 180,466
Memo: Items included in Comparable Operating Performance:		
Restructuring and Merger related charges(1)	$ 4,167	$ 5,584
Management fee(2)	$ 1,875	$ 500
Memo: Items excluded from Comparable Operating Performance:		
Comparable Operating Performance of Discontinued Operations	$ (326)	$ (177)

(1) Represents (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare and information technology outsourcing at Other Operations and Headquarters and (ii) Merger related charges.

(2) Represents management and consulting fees payable to certain related parties. See Note 15 to the condensed consolidated financial statements for further information on management and consulting fees.

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The following table presents reconciliations of operating income, the most directly comparable financial measure under GAAP, to Adjusted EBITDA and Comparable Operating Performance for the periods presented.

(in thousands)	TruGreen LawnCare	TruGreen LandCare	Terminix	American Home Shield	Service Master Clean	Other Operations and Headquarters	Total
Three Months Ended June 30, 2010							
Operating income (loss)(1)	$ 52,606	$ (50,572)	$ 68,755	$ 21,360	$ 12,572	$ (30,205)	$ 74,516
Depreciation and amortization expense	22,536	2,987	16,386	10,850	1,789	3,395	57,943
EBITDA	75,142	(47,585)	85,141	32,210	14,361	(26,810)	132,459
Interest and net investment income (2)				1,603		(607)	996
Residual value guarantee charge(3)	3,448				384	96	3,928
Non-cash goodwill and trade name impairment(4)		46,884					46,884
Adjusted EBITDA	78,590	(701)	85,141	33,813	14,745	(27,321)	184,267
Non-cash stock-based compensation expense						2,181	2,181
Non-cash credits attributable to purchase accounting(5)	(13)	(154)	(50)	(38)			(255)
Comparable Operating Performance	$ 78,577	$ (855)	$ 85,091	$ 33,775	$ 14,745	$ (25,140)	$ 186,193
Memo: Items included in Comparable Operating Performance							
Restructuring and Merger related charges(6)	$ 2,939	$ 87	$ 32	$	$	$ 1,109	$ 4,167
Management fee(7)	$	$	$	$	$	$ 1,875	$ 1,875
Memo: Items excluded from Comparable Operating Performance							
Comparable Operating Performance of Discontinued Operations(8)	$	$	$	$	$	$ (326)	$ (326)
Three Months Ended June 30, 2009							
Operating income (loss)(1)	$ 41,055	$ 591	$ 65,381	$ 28,750	$ 12,139	$ (29,911)	$ 118,005
Depreciation and amortization expense	22,166	3,044	15,929	10,645	2,083	3,473	57,340
EBITDA	63,221	3,635	81,310	39,395	14,222	(26,438)	175,345
Interest and net investment income(2)				1,672		1,723	3,395
Adjusted EBITDA	63,221	3,635	81,310	41,067	14,222	(24,715)	178,740
Non-cash stock-based compensation expense						1,967	1,967
Non-cash (credits) charges attributable to purchase	(29)	(163)	(100)	51			(241)

accounting(5)							
Comparable Operating Performance	$ 63,192	$ 3,472	$ 81,210	$ 41,118	$ 14,222	$ (22,748)	$ 180,466
Memo: Items included in Comparable Operating Performance							
Restructuring and Merger related (credits) charges(6)	$	$ (21)	$ (69)	$ 36	$	$ 5,638	$ 5,584
Management fee(7)	$	$	$	$	$	$ 500	$ 500
Memo: Items excluded from Comparable Operating Performance							
Comparable Operating Performance of Discontinued Operations(8)	$	$	$	$	$	$ (177)	$ (177)

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(1) Presented below is a reconciliation of total segment operating income to net income.

(In thousands)	Three months ended June 30, 2010	2009
Total Segment Operating Income	$ 74,516	$ 118,005
Non-operating Expense (Income):		
Interest expense	73,169	74,656
Interest and net investment income	(996)	(3,395)
Other expense	176	179
Income from Continuing Operations before Income Taxes	2,167	46,565
(Benefit) Provision for income taxes	(10,482)	24,173
Income from Continuing Operations	12,649	22,392
Loss from discontinued operations, net of income taxes	(205)	(107)
Net Income	$ 12,444	$ 22,285

(2) Interest and net investment income is primarily comprised of investment income and realized gain (loss) on our American Home Shield segment investment portfolio. Cash, short-term and long-term marketable securities associated with regulatory requirements in connection with American Home Shield and for other purposes totaled $278.7 million as of June 30, 2010. American Home Shield interest and net investment income was $1.6 million and $1.7 million for the second quarter of 2010 and 2009, respectively. The balance of interest and net investment income primarily relates to (i) a portion of the earnings generated by SMAC, (ii) investment income (loss) from our employee deferred compensation trust (for which there is a corresponding and offsetting change in compensation expense within income from continuing operations before income taxes) and (iii) interest income on other cash balances.

(3) Represents residual value guarantee charges related to a synthetic lease for operating properties that do not result in additional cash payments to exit the facility at the end of the lease term. In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s estimate of this shortfall was $15.9 million, which was expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $9.1 million in the first six months of 2010 (of which $3.9 million was recorded in the second quarter) related to this shortfall. The remaining $1.3 million was recorded in July 2010.

(4) Represents a non-cash impairment charge of $46.9 million recorded in the second quarter of 2010 to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of the Company s interim impairment test of goodwill and indefinite-lived intangible assets. See Note 5 to the condensed consolidated financial statements for further information.

(5) The Merger was accounted for using purchase accounting. This adjustment represents the aggregate, non-cash adjustments (other than amortization and depreciation) attributable to the application of purchase accounting.

(6) Represents (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare and information technology outsourcing at Other Operations and Headquarters and (ii) Merger related charges.

(7) Represents management and consulting fees payable to certain related parties. See Note 15 to the condensed consolidated financial statements for further information on management and consulting fees.

(8) There are no adjustments necessary to reconcile operating loss from discontinued operations, the most directly comparable financial measure under GAAP, to Adjusted EBITDA or Comparable Operating Performance from discontinued operations for the second quarter of 2010 and 2009.

TruGreen LawnCare Segment

The TruGreen LawnCare segment, which includes lawn, tree and shrub care services, reported an 8.7 percent increase in revenue, a 28.1 percent increase in operating income and a 24.3 percent improvement in Comparable Operating Performance for the second quarter of 2010 compared to 2009. The revenue and Comparable Operating Performance results were favorably impacted by a delay in the timing of service delivery from the first quarter into the second quarter of 2010 as a result of the unfavorable weather conditions experienced in the first quarter in almost all areas of the country. The revenue results also reflect a 2.5 percent increase in customer counts, higher sales of expanded services to existing customers, lower discounts and improved price realization. The increase in customer counts was driven by a 260 basis point improvement in the customer retention rate and an increase in new unit sales generated in our neighborhood selling channel. Customer service remains the key focus for TruGreen LawnCare to drive

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continued improvement in customer retention in 2010.

TruGreen LawnCare s Comparable Operating Performance improved $15.4 million for the second quarter of 2010 compared to 2009, which includes the impact of a $2.9 million increase in restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. TruGreen LawnCare s improved Comparable Operating Performance also reflects reduced fuel and fertilizer costs, offset, in part, by investments in sales and marketing and increased project costs related to our ongoing initiatives to restructure our branch operations and to improve customer service.

TruGreen LandCare Segment

The TruGreen LandCare segment, which includes landscape maintenance services, reported an 8.6 percent decrease in revenue, a $51.2 million decrease in operating income and a 124.6 percent decline in Comparable Operating Performance for the second quarter of 2010 compared to 2009. The decrease in revenue included a 10.1 percent decrease in base contract maintenance revenue and an 8.0 percent decrease in enhancement revenue. Revenue trends were primarily impacted by contract cancellations and pricing concessions granted in 2009 and 2010 to offset the impacts of a difficult economic environment. However, the ratio of enhancement revenue to base contract maintenance revenue for the second quarter of 2010 increased 120 basis points as compared to 2009.

TruGreen LandCare s $51.2 million decline in operating income includes a non-cash impairment charge of $46.9 million to reduce the carrying value of goodwill and trade names to their estimated fair value as further described in Note 5 to the condensed consolidated financial statements. TruGreen LandCare s Comparable Operating Performance declined $4.3 million for the second quarter of 2010 compared to 2009, which also reflects decreased labor efficiencies resulting from increased technician overtime, offset, in part, by reduced fuel costs.

Terminix Segment

The Terminix segment, which includes termite and pest control services and sales of pest control products, reported a 5.2 percent increase in revenue, a 5.2 percent increase in operating income and a 4.8 percent improvement in Comparable Operating Performance for the second quarter of 2010 compared to 2009. The segment s overall revenue results reflected growth in termite and pest control revenues, as well as increased sales of products of $7.6 million. Termite revenues increased 1.3 percent for the second quarter of 2010 compared to 2009, due to an increase in new unit sales, while customer retention remained flat year over year. Pest control revenues increased 4.3 percent for the second quarter of 2010 compared to 2009, reflecting a 2.4 percent increase in customer counts due to a 180 basis point improvement in the customer retention rate and an increase in new unit sales.

Terminix s Comparable Operating Performance improved $3.9 million for the second quarter of 2010 compared to 2009, which also reflects reduced fuel costs and the favorable impact of acquiring assets in connection with exiting certain fleet leases, offset, in part, by investments in sales and marketing and increased provisions for incentive compensation.

American Home Shield Segment

The American Home Shield segment, which provides home service contracts to consumers that cover heating, ventilation, air conditioning, plumbing and other systems and appliances, reported a 2.2 percent increase in revenue, a 25.7 percent decrease in operating income and a 17.9 percent decline in Comparable Operating Performance for the second quarter of 2010 compared to 2009. The increase in revenue reflects a 5.0 percent increase in customer counts and improved price realization. The increase in customer counts was driven by an increase in new unit sales and a 300 basis point improvement in customer retention. The second quarter revenue results were adversely impacted by a difference between years in the timing of revenue recognition. American Home Shield recognizes revenue over the contract period in proportion to the expected direct costs. However, in the second quarter of 2010, seasonal contract claims significantly exceeded historical averages, and the Company has concluded these claims will result in a full year reduction in American Home Shield s planned operating income and Comparable Operating Performance. As a result, in the second quarter of 2010, the Company did not adjust the timing of revenue recognition related to the unusual volume of seasonal contract claims. In the second quarter of 2009, revenue was recognized in proportion with the direct costs incurred.

American Home Shield s Comparable Operating Performance declined $7.3 million for the second quarter of 2010 compared to 2009, which includes a 5.9 percent increase in contract claims costs driven by an increase in seasonal contract claims. American Home Shield s Comparable Operating Performance also reflects increased provisions for certain legal matters and investments in consumer sales programs.

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ServiceMaster Clean Segment

The ServiceMaster Clean segment, which provides residential and commercial disaster restoration and cleaning services through franchisees primarily under the ServiceMaster and ServiceMaster Clean brand names, on-site furniture repair and restoration services primarily under the Furniture Medic brand name and home inspection services primarily under the AmeriSpec brand name, reported a 4.8 percent increase in revenue, a 3.6 percent increase in operating income and a 3.7 percent improvement in Comparable Operating Performance for the second quarter of 2010 compared to 2009. Trends in revenue reflect an increase in national janitorial accounts and other revenues.

ServiceMaster Clean s Comparable Operating Performance improved $0.5 million for the second quarter of 2010 compared to 2009, primarily reflecting the impact of increased revenues.

Other Operations and Headquarters Segment

This segment includes the operations of Merry Maids, SMAC and the Company s headquarters functions. The segment reported comparable revenue, a 1.0 percent increase in operating loss and a 10.5 percent decline in Comparable Operating Performance for the second quarter of 2010 compared to 2009. The Merry Maids operations reported comparable revenue, a 20.5 percent increase in operating income and a 15.1 percent improvement in Comparable Operating Performance for the second quarter of 2010 compared to 2009.

The segment s Comparable Operating Performance declined $2.4 million for the second quarter of 2010 compared to 2009, which includes the impact of a $1.4 million increase in management and consulting fees payable to the Equity Sponsors and increased provisions for incentive compensation in 2010, due primarily to the reversal of a $4.4 million reserve for cash awards in 2009 related to a long-term incentive plan as certain performance measures under the plan were not achieved. These factors were offset, in part, by a $4.5 million decrease in restructuring and Merger related charges. Comparable Operating Performance for Merry Maids improved $0.7 million for the second quarter of 2010 compared to 2009, which reflects reduced overhead spending.

Discontinued Operations

The components of loss from discontinued operations, net of income taxes for the second quarter of 2010 and 2009 are as follows:

	Three months ended June 30,	
(In thousands)	**2010**	**2009**
Operating loss	$ (326)	$ (177)
Interest expense		
Loss from discontinued operations, before income taxes	(326)	(177)
Benefit for income taxes	(121)	(70)
Loss from discontinued operations, net of income taxes	$ (205)	$ (107)

There are no adjustments necessary to reconcile operating loss from discontinued operations to Adjusted EBITDA or Comparable Operating Performance from discontinued operations for the second quarter of 2010 and 2009.

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Six Months Ended June 30, 2010 Compared to 2009

The Company reported revenue of $1,642.5 million for the six months ended June 30, 2010, a $39.3 million, or 2.4 percent, increase compared to 2009. The revenue increase was driven by the results of our business units as described in Segment Reviews for the Six Months Ended June 30, 2010 Compared to 2009 .

Operating income was $83.2 million for the six months ended June 30, 2010 compared to $146.7 million for the six months ended June 30, 2009. Loss from continuing operations before income taxes was $59.5 million for the six months ended June 30, 2010 compared to income from continuing operations before income taxes of $39.7 million for the six months ended June 30, 2009. The decrease in income from continuing operations before income taxes of $99.3 million reflects the net effect of:

(In millions)		
Interest expense(1)	$	5.5
Interest and net investment income(2)		4.9
Restructuring and Merger related charges(3)		6.3
Non-cash goodwill and trade name impairment(4)		(46.9)
Gain on extinguishment of debt(5)		(46.1)
Management fee(6)		(2.8)
Residual value guarantee charge(7)		(9.1)
Segment results(8)		(11.1)
	$	(99.3)

(1) Represents a decrease in interest expense as a result of a decrease in our weighted average long-term debt balance as compared to the six months ended June 30, 2009.

(2) As further described in Operating and Non-Operating Expenses , represents an increase in interest and net investment income.

(3) Represents the net positive effect of (i) an increase in restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare, (ii) a decrease in restructuring charges related to a branch optimization project at Terminix, (iii) a decrease in restructuring charges related to an information technology outsourcing at Other Operations and Headquarters and (iv) a decrease in Merger related charges.

(4) Represents a non-cash impairment charge of $46.9 million recorded in the second quarter of 2010 to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of the Company s interim impairment testing of goodwill and indefinite-lived intangible assets. See Note 5 to the condensed consolidated financial statements for further information.

(5) Represents the gain on extinguishment of debt recorded in the six months ended June 30, 2009 related to the completion of open market purchases of $89.0 million in face value of the Company s Permanent Notes. There were no open market or other purchases of Permanent Notes by the Company in the six months ended June 30, 2010.

(6) Represents an increase in management and consulting fees payable to certain related parties. A management fee is payable to CD&R pursuant to a consulting agreement under which CD&R provides the Company with on-going consulting and management advisory services in exchange for an annual management fee of $6.25 million, which is payable quarterly. On July 30, 2009, the annual management fee payable under the consulting agreement with CD&R was increased from $2.0 million to $6.25 million in order to align the fee structure with current market rates. Under this agreement, the Company recorded a management fee of $3.2 million and $1.0 million for the six months ended June 30, 2010 and 2009, respectively. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were recorded and paid to CD&R in the third quarter of 2009.

In addition, in August 2009, the Company entered into consulting agreements with Citigroup, BAS and JPMorgan, each of which is an Equity Sponsor or an affiliate of an Equity Sponsor. Under the consulting agreements, Citigroup, BAS and JPMorgan each provide the Company with on-going consulting and management advisory services through June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company pays annual management fees of $0.5 million, $0.5 million and $0.25 million to Citigroup, BAS and JPMorgan, respectively. The Company recorded consulting fees related to these agreements of $0.6 million for the six months ended June 30, 2010. The full year management fee was applied in 2009, and the incremental fees relating to the first three quarters of 2009 were recorded and paid to Citigroup, BAS and JPMorgan in the third quarter of 2009.

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(7) Represents residual value guarantee charges related to a synthetic lease for operating properties that do not result in additional cash payments to exit the facility at the end of the lease term. In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s estimate of this shortfall was $15.9 million, which was expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $9.1 million in the first six months of 2010 related to this shortfall. The remaining $1.3 million was recorded in July 2010.

(8) Represents a net decrease in income from continuing operations before income taxes, interest expense, interest and net investment income, gain on extinguishment of debt, restructuring and Merger related charges, non-cash goodwill and trade name impairment, residual value guarantee charge and management fee, reflecting the decline in results at TruGreen LandCare, American Home Shield and Other Operations and Headquarters, offset, in part, by the improvement in results at Terminix, TruGreen LawnCare and ServiceMaster Clean as described in Segment Reviews for the Six Months Ended June 30, 2010 Compared to 2009 .

Operating and Non-Operating Expenses

The Company reported cost of services rendered and products sold of $976.1 million for the six months ended June 30, 2010 compared to $947.8 million for the six months ended June 30, 2009. As a percentage of revenue, these costs increased to 59.4 percent for the six months ended June 30, 2010 from 59.1 percent for the six months ended June 30, 2009. This primarily reflects the impact of residual value guarantee charges at TruGreen LawnCare, decreased labor efficiencies at TruGreen LandCare, increased provisions for certain legal matters at Terminix and increased frequency of contract claims costs at American Home Shield, offset, in part, by reduced fuel costs, as well as reduced fertilizer costs at TruGreen LawnCare and favorable termite damage claim trends at Terminix.

The Company reported selling and administrative expenses of $447.3 million for the six months ended June 30, 2010 compared to $413.7 million for the six months ended June 30, 2009. As a percentage of revenue, these costs increased to 27.2 percent for the six months ended June 30, 2010 from 25.8 percent for the six months ended June 30, 2009. This primarily reflects investments in sales and marketing, increased provisions for incentive compensation, increased project costs related to our ongoing initiatives to restructure our branch operations and to improve customer service at TruGreen LawnCare, increased provisions for certain legal matters at American Home Shield and increased management fees related to the consulting agreements with the Equity Sponsors amended and executed in 2009.

Amortization expense was $80.9 million for the six months ended June 30, 2010 compared to $80.7 million for the six months ended June 30, 2009.

Non-operating expense totaled $142.7 million for the six months ended June 30, 2010 compared to $107.0 million for the six months ended June 30, 2009. This change includes a $46.1 million gain on extinguishment of debt recorded in the six months ended June 30, 2009, offset, in part, by a $5.5 million decrease in interest expense resulting from a decrease in our weighted average long-term debt balance and a $4.9 million increase in interest and net investment income. Interest and net investment income was comprised of the following for the six months ended June 30, 2010 and 2009:

(In thousands)	Six months ended June 30, 2010	2009
Realized gains(1)	$ 3,229	$ 2,761
Impairments of securities(2)		(5,854)
Deferred compensation trust(3)	(373)	502
Other(4)	642	1,225
Interest and net investment income (loss)	$ 3,498	$ (1,366)

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(1) Represents the net investment gains and the interest and dividend income realized on the American Home Shield investment portfolio.

(2) Represents other than temporary declines in the value of certain investments in the American Home Shield investment portfolio.

(3) Represents investment (loss) income resulting from a change in the market value of investments within an employee deferred compensation trust (for which there is a corresponding and offsetting change in compensation expense within income from continuing operations before income taxes).

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(4) Represents a portion of the earnings generated by SMAC and interest income on other cash balances.

The effective tax rate on income from continuing operations was a benefit of 67.0 percent for the six months ended June 30, 2010 compared to a provision of 41.8 percent for the six months ended June 30, 2009. The benefit for the six months ended June 30, 2010 is primarily the result of a change in the full year projected rate (due to the impairment of goodwill and trade names at TruGreen LandCare) applied to the loss from continuing operations before income taxes for the six months ended June 30, 2010.

Restructuring and Merger Related Charges

The Company incurred restructuring and Merger related charges of $8.1 million and $14.4 million for the six months ended June 30, 2010 and 2009, respectively. Restructuring and Merger related charges were comprised of the following:

	Six months ended June 30,			
(In thousands)		**2010**		**2009**
TruGreen LawnCare reorganization and restructuring(1)	$	5,962	$	
Information technology outsourcing(2)				9,461
Terminix branch optimization(3)				3,219
Merger related charges(4)		1,136		1,448
Other		993		233
Total restructuring and Merger related charges	$	8,091	$	14,361

(1) Represents restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. For the six months ended June 30, 2010, these costs included consulting fees of $3.8 million and severance, lease termination and other costs of $2.2 million. In connection with the restructuring of branch operations, we expect to incur cash charges through the fourth quarter of 2010 related to, among other things, employee retention, severance costs and consulting fees. Such charges are expected to amount to an additional $2.9 million, pre-tax, and will be recorded as restructuring charges in the condensed consolidated statement of operations as incurred.

(2) On December 11, 2008, the Company entered into an agreement with IBM pursuant to which IBM provides information technology operations and applications development services to the Company. These services were phased in during the first half of 2009. For the six months ended June 30, 2009, these costs included transition fees paid to IBM of $7.2 million, employee retention and severance costs of $1.3 million and consulting and other costs of $1.0 million.

(3) Represents restructuring charges related to a branch optimization project. For the six months ended June 30, 2009, these costs included lease termination costs of $2.8 million and severance costs of $0.4 million.

(4) Includes severance, retention, legal fees and other costs associated with the Merger.

Impairment of Goodwill and Trade Names

During the second quarter of 2010, the Company recorded a non-cash impairment charge of $46.9 million to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of an interim impairment test of goodwill and indefinite-lived intangible assets. See Note 5 to the condensed consolidated financial statements for further information.

Segment Reviews for the Six Months Ended June 30, 2010 Compared to 2009

The following business segment reviews should be read in conjunction with the required footnote disclosures presented in the Notes to the condensed consolidated financial statements. This disclosure provides a reconciliation of segment operating income to income from continuing operations before income taxes, with net non-operating expenses as the only reconciling item. As noted in segment reviews for the second quarter 2010 compared to 2009, the Company uses Adjusted EBITDA and Comparable Operating Performance to facilitate operating performance comparisons from period to period. The operating income, EBITDA, Adjusted EBITDA, and Comparable Operating Performance for each reportable segment have been revised to reflect the Company s revised allocation methodology for all periods presented. See Note 14 to the condensed consolidated financial statements for further information.

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Operating revenues and Comparable Operating Performance by operating segment are as follows:

(In thousands)	Six months ended June 30, 2010	2009
Operating Revenue:		
TruGreen LawnCare	$ 502,724	$ 483,069
TruGreen LandCare	122,263	136,318
Terminix	594,310	570,536
American Home Shield	316,997	310,691
ServiceMaster Clean	64,296	60,737
Other Operations and Headquarters	41,880	41,868
Total Operating Revenue	$ 1,642,470	$ 1,603,219
Comparable Operating Performance:		
TruGreen LawnCare	$ 65,983	$ 67,762
TruGreen LandCare	5,118	14,246
Terminix	154,072	146,764
American Home Shield	52,795	54,043
ServiceMaster Clean	29,684	28,238
Other Operations and Headquarters	(47,015)	(49,069)
Total Comparable Operating Performance	$ 260,637	$ 261,984
Memo: Items included in Comparable Operating Performance:		
Restructuring and Merger related charges(1)	$ 8,091	$ 14,361
Management fee(2)	$ 3,750	$ 1,000
Memo: Items excluded from Comparable Operating Performance:		
Comparable Operating Performance of Discontinued Operations	$ (944)	$ (441)

(1) Represents (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare, a branch optimization project at Terminix and information technology outsourcing at Other Operations and Headquarters and (ii) Merger related charges.

(2) Represents management and consulting fees payable to certain related parties. See Note 15 to the condensed consolidated financial statements for further information on management and consulting fees.

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The following table presents reconciliations of operating income, the most directly comparable financial measure under GAAP, to Adjusted EBITDA and Comparable Operating Performance for the periods presented.

(in thousands)	TruGreen LawnCare	TruGreen LandCare	Terminix	American Home Shield	Service Master Clean	Other Operations and Headquarters	Total
Six months ended June 30, 2010							
Operating income (loss)(1)	$ 13,518	$ (47,229)	$ 121,735	$ 28,468	$ 25,244	$ (58,573)	$ 83,163
Depreciation and amortization expense	44,511	5,775	32,450	21,137	3,584	6,736	114,193
EBITDA	58,029	(41,454)	154,185	49,605	28,828	(51,837)	197,356
Interest and net investment income (2)				3,228		270	3,498
Residual value guarantee charge(3)	7,982				856	213	9,051
Non-cash goodwill and trade name impairment(4)		46,884					46,884
Adjusted EBITDA	66,011	5,430	154,185	52,833	29,684	(51,354)	256,789
Non-cash stock-based compensation expense						4,339	4,339
Non-cash credits attributable to purchase accounting(5)	(28)	(312)	(113)	(38)			(491)
Comparable Operating Performance	$ 65,983	$ 5,118	$ 154,072	$ 52,795	$ 29,684	$ (47,015)	$ 260,637
Memo: Items included in Comparable Operating Performance							
Restructuring and Merger related charges (credits)(6)	$ 5,962	$ 658	$ 78	$ (127)	$	$ 1,520	$ 8,091
Management fee(7)	$	$	$	$	$	$ 3,750	$ 3,750
Memo: Items excluded from Comparable Operating Performance							
Comparable Operating Performance of Discontinued Operations(8)	$	$	$	$	$	$ (944)	$ (944)
Six months ended June 30, 2009							
Operating income (loss)(1)	$ 24,009	$ 8,631	$ 115,288	$ 36,144	$ 24,124	$ (61,513)	$ 146,683
Depreciation and amortization expense	43,811	5,941	31,518	21,060	4,114	6,816	113,260
EBITDA	67,820	14,572	146,806	57,204	28,238	(54,697)	259,943
Interest and net investment (loss) income(2)				(3,093)		1,727	(1,366)
Adjusted EBITDA	67,820	14,572	146,806	54,111	28,238	(52,970)	258,577
Non-cash stock-based compensation expense						3,901	3,901
Non-cash credits attributable to purchase accounting(5)	(58)	(326)	(42)	(68)			(494)
Comparable Operating Performance	$ 67,762	$ 14,246	$ 146,764	$ 54,043	$ 28,238	$ (49,069)	$ 261,984
Memo: Items included in Comparable Operating Performance							
Restructuring and Merger related (credits) charges(6)	$	$ (51)	$ 3,151	$ 75	$	$ 11,186	$ 14,361
Management fee(7)	$	$	$	$	$	$ 1,000	$ 1,000

Memo: Items excluded from Comparable Operating Performance														
Comparable Operating Performance of Discontinued Operations(8)	$		$		$		$		$		$	(441)	$	(441)

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(1) Presented below is a reconciliation of total segment operating income to net income.

(In thousands)	Six months ended June 30, 2010	2009
Total Segment Operating Income	$ 83,163	$ 146,683
Non-operating Expense (Income):		
Interest expense	145,850	151,322
Interest and net investment (income) loss	(3,498)	1,366
Gain on extinguishment of debt		(46,106)
Other expense	347	379
(Loss) Income from Continuing Operations before Income Taxes	(59,536)	39,722
(Benefit) Provision for income taxes	(39,902)	16,618
(Loss) Income from Continuing Operations	(19,634)	23,104
Loss from discontinued operations, net of income taxes	(582)	(270)
Net (Loss) Income	$ (20,216)	$ 22,834

(2) Interest and net investment income (loss) is primarily comprised of investment income and realized gain (loss) on our American Home Shield segment investment portfolio. Cash, short-term and long-term marketable securities associated with regulatory requirements in connection with American Home Shield and for other purposes totaled $278.7 million as of June 30, 2010. American Home Shield interest and net investment income (loss) was $3.2 million and ($3.1) million for the six months ended June 30, 2010 and 2009, respectively. The balance of interest and net investment income (loss) primarily relates to (i) a portion of the earnings generated by SMAC, (ii) investment income (loss) from our employee deferred compensation trust (for which there is a corresponding and offsetting change in compensation expense within income from continuing operations before income taxes) and (iii) interest income on other cash balances.

(3) Represents residual value guarantee charges related to a synthetic lease for operating properties that do not result in additional cash payments to exit the facility at the end of the lease term. In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s estimate of this shortfall was $15.9 million, which was expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $9.1 million in the first six months of 2010 related to this shortfall. The remaining $1.3 million was recorded in July 2010.

(4) Represents a non-cash impairment charge of $46.9 million recorded in the second quarter of 2010 to reduce the carrying value of goodwill and trade names at TruGreen LandCare as a result of the Company s interim impairment test of goodwill and indefinite-lived intangible assets. See Note 5 to the condensed consolidated financial statements for further information.

(5) The Merger was accounted for using purchase accounting. This adjustment represents the aggregate, non-cash adjustments (other than amortization and depreciation) attributable to the application of purchase accounting.

(6) Represents (i) restructuring charges related to a reorganization of field leadership and a restructuring of branch operations at TruGreen LawnCare, a branch optimization project at Terminix and information technology outsourcing at Other Operations and Headquarters and (ii) Merger related charges.

(7) Represents management and consulting fees payable to certain related parties. See Note 15 to the condensed consolidated financial statements for further information on management and consulting fees.

(8) There are no adjustments necessary to reconcile operating loss from discontinued operations, the most directly comparable financial measure under GAAP, to Adjusted EBITDA or Comparable Operating Performance from discontinued operations for the six months ended June 30, 2010 and 2009.

TruGreen LawnCare Segment

The TruGreen LawnCare segment reported a 4.1 percent increase in revenue, a 43.7 percent decrease in operating income and a 2.6 percent decline in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009. The revenue results reflect a 2.5 percent increase in customer counts, higher sales of expanded services to existing customers, lower discounts and improved price realization. The increase in customer counts was driven by a 260 basis point improvement in the customer retention rate and an increase in new unit sales generated in our neighborhood selling channel.

TruGreen LawnCare s Comparable Operating Performance declined $1.8 million for the six months ended June 30, 2010

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compared to 2009, which includes the impact of a $6.0 million increase in restructuring charges related to a reorganization of field leadership and a restructuring of branch operations. TruGreen LawnCare s Comparable Operating Performance also reflects reduced fuel and fertilizer costs, offset, in part, by investments in sales and marketing and increased project costs related to our ongoing initiatives to restructure our branch operations and to improve customer service.

TruGreen LandCare Segment

The TruGreen LandCare segment reported a 10.3 percent decrease in revenue, a $55.9 million decrease in operating income and a 64.1 percent decline in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009. The decline in revenue included an 11.6 percent decrease in base contract maintenance revenue and a 12.0 percent decrease in enhancement revenue. Revenue trends were primarily impacted by contract cancellations and pricing concessions granted in 2009 and 2010 to offset the impacts of a difficult economic environment. The ratio of enhancement revenue to base contract maintenance revenue for the six months ended June 30, 2010 was comparable to 2009.

TruGreen LandCare s $55.9 million decline in operating income includes a non-cash impairment charge of $46.9 million to reduce the carrying value of goodwill and trade names to their estimated fair value as further described in Note 5 to the condensed consolidated financial statements. TruGreen LandCare s Comparable Operating Performance declined $9.1 million for the six months ended June 30, 2010 compared to 2009, which also reflects decreased labor efficiencies resulting from increased technician overtime, offset, in part, by reduced fuel costs.

Terminix Segment

The Terminix segment reported a 4.2 percent increase in revenue, a 5.6 percent increase in operating income and a 5.0 percent improvement in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009. The segment s overall revenue results reflected growth in termite and pest control revenues, as well as increased sales of products of $12.6 million. Termite revenues increased 0.8 percent for the six months ended June 30, 2010 compared to 2009, due to an increase in new unit sales, while customer retention remained flat year over year. Pest control revenues increased 3.1 percent for the six months ended June 30, 2010 compared to 2009, reflecting a 2.4 percent increase in customer counts due to a 180 basis point improvement in the customer retention rate and an increase in new unit sales.

Terminix s Comparable Operating Performance improved $7.3 million for the six months ended June 30, 2010 compared to 2009, which includes the impact of a $3.1 million decrease in restructuring charges related to a branch optimization program completed in 2009. Terminix s Comparable Operating Performance also reflects reduced fuel costs, favorable termite damage claims trends and the favorable impact of acquiring assets in connection with exiting certain fleet leases, offset, in part, by increased provisions for certain legal matters, investments in sales and marketing and increased provisions for incentive compensation.

American Home Shield Segment

The American Home Shield segment reported a 2.0 percent increase in revenue, a 21.2 percent decrease in operating income and a 2.3 percent decline in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009. The increase in revenue reflects a 5.0

percent increase in customer counts and improved price realization. The increase in customer counts was driven by an increase in new unit sales and a 300 basis point improvement in customer retention. The second quarter revenue results were adversely impacted by a difference between years in the timing of revenue recognition. American Home Shield recognizes revenue over the contract period in proportion to the expected direct costs. However, in the first six months of 2010, seasonal contract claims significantly exceeded historical averages, and the Company has concluded these claims will result in a full year reduction in American Home Shield s planned operating income and Comparable Operating Performance. As a result, in the second quarter of 2010, the Company did not adjust the timing of revenue recognition related to the unusual volume of seasonal contract claims. In the first six months of 2009, revenue was recognized in proportion with the direct costs incurred.

American Home Shield s Comparable Operating Performance declined $1.2 million for the six months ended June 30, 2010 compared to 2009, which includes a $6.3 million increase in interest and net investment income from the American Home Shield investment portfolio (primarily reflecting reductions in impairments of securities) and a 4.9 percent increase in contract claims costs driven by an increase in seasonal contract claims. American Home Shield s Comparable Operating Performance also reflects increased provisions for certain legal matters and investments in consumer sales programs.

ServiceMaster Clean Segment

The ServiceMaster Clean segment reported a 5.9 percent increase in revenue, a 4.6 percent increase in operating income and

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a 5.1 percent improvement in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009. Trends in revenue reflect an increase in national janitorial accounts, product sales to franchisees and other revenues.

ServiceMaster Clean s Comparable Operating Performance improved $1.4 million for the six months ended June 30, 2010 compared to 2009, primarily reflecting the impact of increased revenues.

Other Operations and Headquarters Segment

This segment includes the operations of Merry Maids, SMAC and the Company s headquarters functions. The segment reported comparable revenue, a 4.8 percent improvement in operating loss and a 4.2 percent improvement in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009. The Merry Maids operations reported comparable revenue, a 26.8 percent increase in operating income and a 19.6 percent improvement in Comparable Operating Performance for the six months ended June 30, 2010 compared to 2009.

The segment s Comparable Operating Performance improved $2.1 million for the six months ended June 30, 2010 compared to 2009, which includes the impact of a $9.7 million decrease in restructuring and Merger related charges, offset, in part, by a $2.8 million increase in management and consulting fees payable to Equity Sponsors and increased provisions for incentive compensation in 2010, due primarily to the reversal of a $4.4 million reserve for cash awards in 2009 related to a long-term incentive plan as certain performance measures under the plan were not achieved. Comparable Operating Performance for Merry Maids improved $1.7 million for the six months ended June 30, 2010 compared to 2009, which reflects reduced overhead spending.

Discontinued Operations

The components of loss from discontinued operations, net of income taxes for the six months ended June 30, 2010 and 2009 are as follows:

	Six months ended June 30,	
(In thousands)	**2010**	**2009**
Operating Loss	$ (944)	$ (441)
Interest expense		
Loss from discontinued operations, before income taxes	(944)	(441)
Benefit for income taxes	(362)	(171)
Loss from discontinued operations, net of income taxes	$ (582)	$ (270)

There are no adjustments necessary to reconcile operating loss from discontinued operations to Adjusted EBITDA or Comparable Operating Performance from discontinued operations for the six months ended June 30, 2010 and 2009.

FINANCIAL POSITION AND LIQUIDITY

Cash Flows from Operating Activities from Continuing Operations

Net cash provided from operating activities from continuing operations increased $34.7 million to $105.9 million for the six months ended June 30, 2010 compared to $71.2 million for the six months ended June 30, 2009.

Net cash provided from operating activities for the six months ended June 30, 2010 was comprised of $140.0 million in earnings as adjusted for non-cash charges, offset, in part, by a $26.2 million increase in cash required for working capital and $7.9 million in cash payments related to restructuring charges. Working capital requirements were impacted by normal seasonal working capital needs. Working capital requirements were adversely impacted by growth in accounts receivable balances due to the timing of services in the second quarter, as well as increases in revenue in service lines with longer than average collection terms. Working capital requirements were also adversely impacted by growth in current income taxes receivable due to the application of the full year projected income tax rate to the loss from continuing operations before income taxes for the six months ended June 30, 2010. Working capital requirements were favorably impacted by increased accruals for residual value guarantee charges related to the synthetic lease, certain legal matters and incentive compensation related to 2010 performance.

Net cash provided from operating activities for the six months ended June 30, 2009 was comprised of $129.3 million in earnings as adjusted for non-cash charges, offset in part, by a $48.1 million increase in cash required for working capital and $10.0 million in cash payments related to restructuring charges. The increase in working capital requirements for the six months ended June 30, 2009 was driven primarily by seasonal activity and the timing of interest payments on the Term Facilities.

Cash Flows from Investing Activities from Continuing Operations

Net cash used for investing activities from continuing operations was $57.1 million for the six months ended June 30, 2010 compared to $41.4 million for the six months ended June 30, 2009.

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Capital expenditures increased to $40.4 million for the six months ended June 30, 2010 from $38.9 million for the six months ended June 30, 2009 and included vehicle purchases of $15.6 million, recurring capital needs and information technology projects. The Company anticipates that capital expenditures, excluding vehicle fleet purchases, for 2010 will range from $55.0 million to $65.0 million, reflecting recurring needs and the continuation of investments in information systems and productivity enhancing operating systems. The Company s capital requirement for fleet vehicles for 2010 is expected to range from $50.0 million to $60.0 million. As further discussed in Liquidity , the Company made a net cash payment of $43.2 million in July 2010 in connection with exiting certain real estate leases. The Company has no additional material capital commitments at this time.

Cash payments for acquisitions, excluding the Merger, for the six months ended June 30, 2010 totaled $14.8 million, compared with $7.3 million for the six months ended June 30, 2009. Consideration paid for acquisitions consisted of cash payments and debt payable to sellers. The Company expects to continue its acquisition program at Terminix, TruGreen LawnCare and Merry Maids.

The change in notes receivable, financial investments and securities for the six months ended June 30, 2010 compared to December 31, 2009 reflects a decrease in net sales of certain marketable securities.

Cash Flows from Financing Activities from Continuing Operations

Net cash used for financing activities from continuing operations was $12.1 million for the six months ended June 30, 2010 compared to $65.2 million for the six months ended June 30, 2009. During the six months ended June 30, 2010, the Company borrowed $10.0 million and made scheduled principal payments of long-term debt of $22.1 million. During the six months ended June 30, 2009, the Company completed open market purchases of $89.0 million in face value of the Permanent Notes for a cost of $41.0 million. The Company also made scheduled principal payments of long-term debt of $23.8 million during the six months ended June 30, 2009.

Liquidity

The Company is highly leveraged, and a very substantial portion of the Company s liquidity needs arise from debt service on indebtedness incurred in connection with the Merger and from funding the Company s operations, working capital and capital expenditures.

The agreements governing the Term Facilities, the Permanent Notes and the Revolving Credit Facility contain certain covenants that limit or restrict the incurrence of additional indebtedness, debt repurchases, liens, sales of assets, certain payments (including dividends) and transactions with affiliates, subject to certain exceptions. The Company was in compliance with the covenants under these agreements at June 30, 2010.

Through July 15, 2011, the Company may, at its option prior to the start of any interest period, elect to pay interest on outstanding amounts under the Permanent Notes entirely in cash (Cash Interest), entirely by increasing the principal amount of the outstanding loans (PIK Interest), or 50 percent as Cash Interest and 50 percent as PIK Interest. Interest payable after July 15, 2011 is payable entirely as Cash Interest. All interest payments due through July 2010 were paid entirely as Cash Interest. The Company elected to pay all interest payable through January 2011 entirely as Cash Interest.

Cash and short- and long-term marketable securities totaled $422.3 million at June 30, 2010, compared with $385.6 million at December 31, 2009. As of June 30, 2010 and December 31, 2009, $278.7 million and $256.5 million, respectively, of the cash and short- and long-term marketable securities balance are associated with regulatory requirements at American Home Shield and for other purposes. American Home Shield s investment portfolio has been invested in a combination of high quality, short duration fixed income securities and equities. The Company closely monitors the performance of the investments. From time to time, the Company reviews the statutory reserve requirements to which its regulated entities are subject and any changes to such requirements. These reviews may result in identifying current reserve levels above or below minimum statutory reserve requirements, in which case the Company may adjust its reserves. The reviews may also identify opportunities to satisfy certain regulatory reserve requirements through alternate financial vehicles, which could enhance our liquidity.

A portion of the Company s vehicle fleet and some equipment are leased through operating leases. The lease terms are non-cancelable for the first twelve-month term, and then are month-to-month, cancelable at the Company s option. There are residual value guarantees by the Company (ranging from 70 percent to 84 percent of the estimated terminal value at the inception of the lease depending on the agreement) relative to these vehicles and equipment, which historically have not resulted in significant net payments to the lessors. The fair value of the assets under all of the fleet and equipment leases is expected to substantially mitigate the Company s guarantee obligations under the agreements. At June 30, 2010, the Company s residual value guarantees related to the leased assets totaled $65.1 million for which the Company has recorded a liability for the estimated fair value of these guarantees of approximately $1.4 million in the condensed consolidated statement of financial position.

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The Company maintained lease facilities with banks totaling $65.2 million, which provided for the financing of branch properties to be leased by the Company. At June 30, 2010, approximately $65.2 million was funded under these facilities, including $12.5 million of leases that were accounted for as capital leases and were included on the condensed consolidated statement of financial position as assets with related debt. The balance of the funded amount was accounted for as operating leases. In connection with the closing of the Merger, the Company amended these leases effective July 24, 2007. Among the modifications, the Company extended the lease terms through July 24, 2010 and made a $22.0 million investment in the lease facilities. This $22.0 million investment was included in other assets in the condensed consolidated statement of financial position. The operating lease and capital lease classifications of these leases did not change as a result of the modifications. In July 2010, the Company purchased the properties for $65.2 million. The Company s $22.0 million investment in the lease facilities was returned to the Company upon purchase, resulting in a net cash payment of $43.2 million.

In the third quarter of 2009, the Company determined that it was probable that the fair value of the real properties under operating leases would be below the total amount funded under the lease facilities at the end of the lease term. The Company s estimate of this shortfall was $15.9 million, which was expensed over the remainder of the lease term. The Company recorded charges of $5.5 million in 2009 and $9.1 million in the first six months of 2010 related to this shortfall. The remaining $1.3 million was recorded in July 2010.

The Company holds certain financial instruments that are measured at fair value on a recurring basis. The fair values of these instruments are measured using both the market and income approaches. For investments in marketable securities, deferred compensation trust assets and derivative contracts, which are carried at their fair values, the Company s fair value estimates incorporate quoted market prices, other observable inputs (for example, forward interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

Under the terms of its fuel swap contracts, the Company is required to post collateral in certain circumstances, including in the event that the fair value of the contracts exceeds a certain agreed upon liability level. As of June 30, 2010, the fair value of the Company s fuel swap contracts was an asset of $2.0 million, and the Company posted approximately $5.0 million in letters of credit as collateral for these contracts, none of which were issued under the Company s Revolving Credit Facility. The continued use of letters of credit for this purpose could limit the Company s ability to post letters of credit for other purposes and could limit the Company s borrowing availability under the Revolving Credit Facility. However, the Company does not expect the fair value of its outstanding fuel swap contacts to materially impact its financial position or liquidity.

The Company s ongoing liquidity needs are expected to be funded by cash on hand, net cash provided by operating activities and, as required, borrowings under the Revolving Credit Facility and accounts receivable securitization arrangement (discussed below). We expect that cash provided from operations and available capacity under the Revolving Credit Facility and accounts receivable securitization arrangement will provide sufficient funds to operate our business, make expected capital expenditures and meet our liquidity requirements for the following 12 months, including payment of interest and principal on our debt. As of June 30, 2010, the Company had $500.0 million of remaining capacity available under the Revolving Credit Facility and $40.0 million of remaining capacity under the accounts receivable securitization arrangement.

The Company may from time to time repurchase or otherwise retire the Company s debt and take other steps to reduce the Company s debt or otherwise improve the Company s financial position. These actions may include open market debt repurchases, negotiated repurchases, other retirements of outstanding debt and opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired, if any, will depend on market conditions, trading levels of the Company s debt, the Company s cash position, compliance with debt covenants and other considerations. Affiliates of the Company may also purchase the Company s debt from time to time, through open market purchases or other transactions. In such cases, the Company s debt may not be retired, in which case the Company would continue to pay interest in accordance with the terms of the debt, and the Company would continue to reflect the debt as outstanding in its condensed consolidated statement of financial position.

Between the Merger and June 30, 2010, Holdings has completed open market purchases totaling $65.0 million in face value of the Permanent Notes for a cost of $21.4 million. The debt acquired by Holdings has not been retired, and the Company has continued to pay interest in accordance with the terms of the debt. The Company recorded interest expense of $3.5 million and $3.4 million for the six months ended June 30, 2010 and 2009, respectively, related to the Permanent Notes held by Holdings. The Company made cash payments to Holdings of $3.5 million and $3.0 million during the six months ended June 30, 2010 and 2009, respectively. Interest accrued by the Company and payable to Holdings as of June 30, 2010 and December 31, 2009 amounted to $3.2 million.

The Company has entered into an accounts receivable securitization arrangement under which TruGreen LawnCare and Terminix may sell certain eligible trade accounts receivable to Funding, the Company s wholly owned, bankruptcy-remote subsidiary, which is consolidated for financial reporting purposes. Funding, in turn, may transfer, on a revolving basis, an undivided percentage ownership interest of up to $50.0 million in the pool of accounts receivable to one or both of the Purchasers. The amount of the eligible receivables varies during the year based on seasonality of the businesses and could, at times, limit the amount available to the Company from the sale of these interests.

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During the six months ended June 30, 2010, there were no transfers of interests in the pool of trade accounts receivables to Purchasers under this arrangement. As of June 30, 2010 and December 31, 2009, the Company had $10.0 million outstanding under the arrangement and, as of June 30, 2010, had $40.0 million of remaining capacity available under the trade accounts receivable securitization arrangement.

The accounts receivable securitization arrangement is a 364-day facility that is renewable annually at the option of Funding, with a final termination date of July 17, 2012. Only one of the Purchasers is required to purchase interests under the arrangement. If this Purchaser were to exercise its right to terminate its participation in the arrangement, which it may do in the third quarter of each year, the amount of cash available to the Company under this arrangement may be reduced or eliminated. As part of the annual renewal of the facility, which last occurred on July 20, 2010, this Purchaser agreed to continue its participation in the arrangement at least through July 19, 2011.

As a holding company, we depend on our subsidiaries to distribute funds to us so that we may pay our obligations and expenses, including our debt service obligations. The ability of our subsidiaries to make distributions and dividends to us depends on their operating results, cash requirements and financial condition and general business conditions. Our insurance subsidiaries and home services and similar subsidiaries (through which we conduct our American Home Shield business) are subject to significant regulatory restrictions under the laws and regulations of the states in which they operate. Among other things, such laws and regulations require certain such subsidiaries to maintain minimum capital and net worth requirements and may limit the amount of ordinary and extraordinary dividends and other payments that these subsidiaries can pay to us. For example, certain states prohibit payment by these subsidiaries to the Company of dividends in excess of 10 percent of their capital as of the most recent year end, as determined in accordance with prescribed insurance accounting practices in those states. Of the $278.7 million as of June 30, 2010, which we identify as being potentially unavailable to be paid to the Company by its subsidiaries, approximately $220.2 million is held by our home services and insurance subsidiaries and is subject to these regulatory limitations on the payment of funds to us. Such limitations will be in effect throughout 2010, and similar limitations will be re-computed as of December 31, 2010 and will be in effect in 2011. The remainder of the $278.7 million, or $58.5 million, is related to amounts that the Company s management does not consider readily available to be used to service the Company s indebtedness due, among other reasons, to the Company s cash management practices and working capital needs at various subsidiaries.

The Company s Annual Report on Form 10-K for the year ended December 31, 2009 included disclosure of the Company s contractual obligations and commitments as of December 31, 2009. The Company continues to make the contractually required payments and, therefore, the 2010 obligations and commitments as listed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 have been reduced by the required payments. There were no material changes outside of the ordinary course of business in the Company s previously disclosed contractual obligations and commitments during the six months ended June 30, 2010.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements in the form of guarantees as discussed in Note 4 of the condensed consolidated financial statements.

Information Regarding Forward-Looking Statements

This report includes forward-looking statements and cautionary statements. Some of the forward-looking statements can be identified by the use of forward-looking terms such as believes , expects , may , will , shall , should , would , could , seek , aims , projects , is optimis estimates , anticipates or other comparable terms. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include, without limitation, statements regarding our intentions, beliefs, assumptions or current expectations concerning, among other things, the degree and timing of economic recovery; governmental regulation or interpretation thereof; our liquidity; cash flows; results of operations; financial condition; prospects; growth strategies; future impairments; capital expenditures and requirements; customer retention; the continuation of acquisitions; the impact of interest rate hedges and fuel swaps; the cost savings from restructurings and reorganizations and expected charges related to such restructurings and reorganizations; and the impact of prevailing economic conditions.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance or outcomes, and that actual outcomes and performances, including, without limitation, our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industries in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors, including the

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risks and uncertainties discussed in Item 1A Risk Factors in Part I in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, could cause actual results and outcomes to differ materially from those in the forward-looking statements. Additional factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

- the effects of our substantial indebtedness and the limitations contained in the agreements governing such indebtedness;
- our ability to generate the significant amount of cash needed to fund our operations and service our debt obligations and debt repurchases;
- changes in interest rates because a significant portion of our indebtedness bears interest at variable rates;
- our ability to secure sources of financing or other funding to allow for direct purchases of commercial vehicles, primarily for TruGreen LawnCare, Terminix and TruGreen LandCare;
- changes in the source and intensity of competition in our market segments;
- weather conditions and seasonality factors that affect the demand for our services, including any impact from climate change factors, known and unknown;
- higher commodity prices and lack of availability, including fuel and fertilizers (primarily at TruGreen LawnCare, Terminix and TruGreen LandCare) could impact our ability to provide and the profitability of our brands;
- increases in operating costs, such as higher insurance premiums, self-insurance costs and health care costs;
- employee retention, labor shortages, including shortages due to immigration legislation, or increases in compensation and benefits costs, including costs related to the comprehensive health care reform law enacted in the first quarter of 2010;
- epidemics, pandemics or other public health concerns or crises could affect the demand for, or our ability to provide, our services resulting in a reduction in revenues;

- a continuation or change in general economic, financial and credit conditions in the United States and elsewhere (including further deterioration or disruption in the credit and financial markets), especially as such may affect home sales, consumer or business liquidity, bank failures, consumer or commercial confidence or spending levels including as a result of inflation or deflation, unemployment, interest rate fluctuations, mortgage foreclosures and subprime credit dislocations;

- a failure of any insurance company that provides insurance to us;

- changes in the type or mix of our service offerings or products;

- existing and future governmental regulation and the enforcement thereof, including regulation relating to restricting or banning of telemarketing; door-to-door solicitation; direct mail or other marketing activities; the Termite Inspection Protection Plan; pesticides and/or fertilizers; or other legislation, regulation or interpretations impacting our business models;

- laws and regulations relating to financial reform and the use of derivative instruments, including by companies such as ServiceMaster;

- the success of and costs associated with restructuring initiatives;

- the number, type, outcomes and costs of legal or administrative proceedings;

- possible labor organizing activities at the Company or its franchisees;

- risks associated with acquisitions and dispositions, including retaining customers from the businesses acquired, difficulties in integrating acquired businesses and achieving expected synergies therefrom;

- risks associated with budget deficits at federal, state and local levels resulting from deteriorating economic conditions, which could result in federal, state and local governments decreasing their purchasing of our products or services and/or increasing taxes on businesses to generate more tax revenues, which could adversely impact our revenue, earnings, tax payments and cash flows, as applicable;

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- the timing and structuring of our business process outsourcing, including any current or future outsourcing of all or portions of our information technology, call center and other corporate functions, and risks associated with such outsourcing; and

- other factors described from time to time in documents that we file with the SEC.

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company is exposed to the impact of interest rate changes and manages this exposure through the use of variable-rate and fixed-rate debt and by utilizing interest rate swaps. The Company does not enter into these contracts for trading or speculative purposes. The market risk associated with debt obligations and other significant instruments as of June 30, 2010 has not materially changed from December 31, 2009 (see Item 7A of the Company s Annual Report on Form 10-K for the year ended December 31, 2009).

Fuel Price Risk

The Company is exposed to market risk for changes in fuel prices through the consumption of fuel by its vehicle fleet in the delivery of services to its customers. The Company uses approximately 25 million gallons of fuel on an annual basis. A 10 percent change in fuel prices would result in a change of approximately $6.5 million in the Company s annual fuel cost before considering the impact of fuel swap contracts.

The Company uses fuel swap contracts to mitigate the financial impact of fluctuations in fuel prices. As of June 30, 2010, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of $75.1 million, maturing through 2011. The estimated fair value of these contracts at June 30, 2010 was an asset of $2.0 million. These fuel swap contracts provide a fixed price for approximately 80.2 percent and 61.5 percent of the Company s estimated fuel usage for the remainder of 2010 and 2011, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Effectiveness of Disclosure Controls and Procedures. ServiceMaster s Chief Executive Officer, J. Patrick Spainhour, and ServiceMaster s Senior Vice President and Chief Financial Officer, Steven J. Martin, have evaluated ServiceMaster s disclosure controls and procedures (as defined in Rule 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. ServiceMaster s disclosure controls and procedures include a roll-up of financial and non-financial reporting that is consolidated in the principal executive office of ServiceMaster in Memphis, Tennessee. Messrs. Spainhour and Martin have concluded that both the design and operation of ServiceMaster s disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting. No change in ServiceMaster s internal control over financial reporting occurred during the second quarter of 2010 that has materially affected, or is reasonably likely to materially affect, ServiceMaster s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of conducting business activities, the Company and its subsidiaries become involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include, on an individual, collective and class action basis, regulatory, insured and uninsured employment, general, and commercial liability actions and environmental proceedings. For instance, American Home Shield Corporation was sued in a putative class action on May 26, 2009 in the U.S. District Court for the Northern District of Alabama by Abigail Rudd, *et al.*, and is alleged to have violated Section 8 of the Real Estate Settlement Procedures Act in connection with certain payments made to real estate agencies. The plaintiffs seek damages equal to three times the amount of the allegedly improper payments occurring after May 26, 2008. The Company intends to defend its interests vigorously.

Additionally, the Company has entered into settlement agreements in certain cases, including putative class actions, which are subject to court approval. If one or more of these settlements are not finally approved, the Company could have additional or different exposure. The enactment of new federal or state legislation or the promulgation of new regulation or interpretation at any level of government may also expose the Company to potential new liabilities or costs, or may require the Company to modify its business model or business practices. At this time, the Company does not expect any of these proceedings or changes in law to have a material effect on its financial position, results of operations or cash flows; however, the Company can give no assurance that the results of any such proceedings may not be material to its financial position, results of operations and cash flows for any period in which costs, if any, are recognized.

ITEM 5. OTHER INFORMATION

In August 2010, ServiceMaster received a letter from the SEC Staff informing ServiceMaster that the SEC Staff does not intend to recommend any enforcement action by the SEC against ServiceMaster related to an investigation described in the Company s annual report on Form 10-K for the year ended December 31, 2009.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer Pursuant to Rule 15d 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 15d 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification of Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: August 16, 2010

THE SERVICEMASTER COMPANY

(Registrant)

By: /s/ Steven J. Martin
Steven J. Martin
Senior Vice President and Chief Financial Officer