

DUPONT E I DE NEMOURS & CO
Form PX14A6G
April 12, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

NOTICE OF EXEMPT SOLICITATION

1. Name of the Registrant:
E.I. DU PONT DE NEMOURS & CO.
2. Name of person relying on exemption:
DUPONT SHAREHOLDERS FOR FAIR VALUE
3. Address of person relying on exemption:
P.O. Box 231, Amherst, Mass. 01004

(PHOTOGRAPH OF A STOCK CHART)

THE SHAREHOLDER'S RIGHT TO KNOW MORE

2007 Update

Dupont's Market and Liability Exposures
Continue from PFOA and Related Issues

Sanford Lewis, Strategic Counsel on Corporate Accountability
for DuPont Shareholders for Fair Value

(DUPONT SHAREHOLDERS FOR FAIR VALUE LOGO)

Dear Shareholder,

The enclosed report updates DuPont investors on important issues of disclosure and potential financial impact on share value. As you may know, perfluorooctanoic acid (PFOA) is the controversial chemical intermediate involved in the production of numerous DuPont products, including stain and grease resistant coatings for consumer products such as carpets, textiles and food packaging.

Following our 2005 correspondence with the Securities and Exchange Commission regarding DuPont's reporting to shareholders, Securities and Exchange Commission accountants wrote to DuPont with guidance for conducting better disclosure on these matters. Despite this guidance, in our opinion, the company is still withholding disclosure of information relevant to the financial risks associated with PFOA. For example:

- While the company has announced that it intends to end the production and use of PFOA by 2015, it has not provided shareholders with an assessment of the losses the company may suffer in the marketplace by continuing to use PFOA in the meantime. As shown in our report, numerous companies and competitors are shifting to PFOA free alternatives and may not stand by for the company's long timetable for elimination of PFOA in its products.

- The company has failed to disclose that some experts believe that its fluorotelomer products, which it intends to continue to produce even after ending the use of PFOA, may break down to PFOA

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in use or in the environment. Independent scientific assessment is already underway to assess this.

- The company did not report to shareholders on the preliminary findings released February 2007 from Johns Hopkins University researchers in which newborn babies who had been exposed to low levels of PFOA in utero had decreased birth weight and head circumference - emblematic of developmental impacts.

- The company failed to note that more restrictive thresholds related to drinking water limits on PFOA have been recommended by regulators in Minnesota and New Jersey, and that Minnesota is now intent on handling PFOA contaminated sites as Superfund sites.

DuPont Shareholders for Fair Value (DSFV), the issuer of this report, is an informal group of DuPont shareholders organized by the United Steelworkers (USW) and concerned with proper disclosure and accountability on the issues relative to PFOA. DSFV includes Amalgamated Bank, United Steelworkers, and Green Century Capital Management.

We hope that after you read the report you will join with us in pressing DuPont management for more expeditious action to eliminate the production of PFOA and products that can break down to PFOA, and for more complete disclosure on these matters.

Sincerely,

/s/

Sanford Lewis

DuPont Shareholders for Fair Value

UPDATE REPORT DUPONT MARKET AND LIABILITY EXPOSURES CONTINUE FROM PFOA AND RELATED ISSUES

DuPont Shareholders for Fair Value

April 2007

SYNOPSIS

PFOA (perfluorooctanoic acid) is a chemical used to help make fluoropolymers and fluoroelastomers. E. I. du Pont de Nemours & Co. (DuPont) is the only US producer of PFOA. Fluoropolymers are used in architectural fabrics; chemical processing piping and vessels; automotive fuel systems; telecommunications and electronic wiring insulation; and computer chip processing equipment and systems, and consumer products such as cookware and apparel. PFOA is used as a processing aid in the manufacture of fluoropolymers for use in non-stick surfaces such as Teflon coated cookware. Fluoroelastomers are synthetic, rubber-like materials used in gaskets, O-rings and hoses.

This report is an update of prior reports: THE SHAREHOLDER'S RIGHT TO KNOW MORE: E.I. DU PONT DE NEMOURS AND THE GROWING FINANCIAL CHALLENGES OF PFOA (April 2005) and THE SHAREHOLDER'S RIGHT TO KNOW MORE: DESPITE DUPONT'S RECENT CONCESSIONS TO EPA, SHAREHOLDER VALUE REMAINS AT RISK FROM PFOA (2006). The prior reports are available on the internet at

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www.DupontShareholdersAlert.org.

DUPONT'S DEFERRED ELIMINATION OF PFOA MAY CONTINUE TO JEOPARDIZE DUPONT PRODUCT LINES AS CONSUMER AND INDUSTRIAL CUSTOMERS OPT FOR PFOA-FREE PRODUCTS BEING OFFERED BY DUPONT COMPETITORS CURRENTLY AND IN THE INTERVENING YEARS.

DUPONT PRODUCT REFORMULATION RESPONSES. A shareholder proposal voted upon at the 2006 Annual General Meeting called on DuPont to prepare and publish a plan for expeditiously ending the use and production of PFOA and materials capable of breaking down to PFOA. The resolution received 29% support of shareholders. Nearly a year later, in February 2007, the company announced in that it is continuing to reduce the trace content of PFOA in products, and that it now intends to eliminate the use and production of PFOA by 2015. However, it has no plans to eliminate the production of fluorotelomers, despite the expectation of some experts that over the long term these products may break down to component alcohols, and then to PFOA in use or in the environment. Further independent studies are underway to assess the ability of fluorotelomer products to break down to PFOA. Fluorotelomer products, which include stain and grease repellant coatings,

constitute a substantial portion of the company's fluoride-based business activities. An eight year timeline for elimination of PFOA in products may also, as noted in this report, continue to jeopardize DuPont product lines as consumer and industrial customers opt for PFOA-free products being offered by DuPont competitors currently and in the intervening years.

Assessment of Securities and Exchange Commission Disclosures

Some members of DuPont Shareholders for Fair Value have filed letters of complaint with the Securities and Exchange Commission requesting an investigation of DuPont management's failure to disclose information material to investors regarding PFOA. The correspondence with the SEC requested an evaluation of whether the company should have disclosed to investors, or should now be ordered to disclose, information including the following:

AFTER WE WROTE TO THE SEC, SEC ACCOUNTANTS TOLD DUPONT TO DISCLOSE MORE INFO ON THE RISKS ASSOCIATED WITH PFOA, INCLUDING EMERGING SCIENCE AND REGULATORY TRENDS. BUT IN OUR VIEW, THE COMPANY'S REPORTING HAS SCARCELY CHANGED IN RESPONSE.

- Liability indicators such as environmental contamination and blood tests associated with all DuPont facilities where PFOA is used or produced;
- A more balanced description of the scientific evidence arrayed against PFOA, which suggests that it is likely to be harmful to human health despite the company's reiterated denials of such effects;

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- Regulatory and market trends, including regulatory developments in Canada, Europe and Australia, and consumer and retail developments that may restrict markets for DuPont products. Subsequent to the shareholder letters, accountants at the Securities and Exchange Commission wrote to DuPont with a series of inquiries on how it discloses liabilities, expenses and science regarding PFOA. The correspondence resulted in disclosure to the SEC of \$11 million in legal fees, research and communications costs associated with PFOA during 2005, not limited to the Parkersburg area issues. The company also acknowledged that it viewed it as "reasonably possible" that DuPont could incur additional liabilities at other facilities relative to PFOA releases, but said that it was unable to quantify such liabilities.

After those disclosures SEC wrote to the company April 21, 2006, after review of the 2005 10-K (issued February 2006) with specific instructions and remarks regarding the company's duty to disclose in future reports, such as this year's 10-K:

In your most recent response you state that it is reasonably possible that you will incur losses related to exposure to PFOA from sources other than Washington Works, but because you are not aware of any particular source that may cause such loss, a range of loss, if any, cannot be reasonably estimated at this time. However, because losses are reasonably possible we urge you to carefully

consider the following areas when you determine the probability of loss, estimates of amounts, and other disclosures related to risks and uncertainties. In future filings, where appropriate, should address the following in better detail:

- current and probable findings from the EPA, the Science Advisory Board, the independent science panel and their evaluation in West Virginia;
- current and probable findings by any other government, agency, or scientific study, either foreign or domestic;
- provide more detail concerning any findings you become aware of concerning the possible health impact of PFOA;
- emerging trends, by both institutions and consumers, concerning the safety of PFOA and any related products; and
- the amounts and underlying assumptions of any accruals and reasonably possible ranges of loss.

It should be noted that the DuPont 10-K report for 2006, issued a year after the SEC's correspondence providing guidance for future disclosure, still failed to disclose many of the key developments:

DUPONT HAS NOT INFORMED SHAREHOLDERS OF THE IMPORTANT THOUGH PRELIMINARY FINDINGS OF JOHNS HOPKINS UNIVERSITY IN WHICH NEWBORN HUMAN BABIES EXPOSED TO LOW LEVELS OF PFOA HAD DECREASED BIRTH WEIGHT AND HEAD CIRCUMFERENCE - EMBLEMATIC OF DEVELOPMENTAL

IMPACTS.

"Current and probable findings." It failed to disclose the highly notable preliminary findings of Johns Hopkins University regarding potential developmental toxicity impacts on humans. In early 2007 Johns Hopkins University researchers revealed a study of which found that that newborn human babies that had been exposed to low levels of PFOA had decreased birth weight and head circumference. While the research is considered preliminary, it could represent a dramatic new piece of evidence of actual developmental effects in humans.

It also failed to disclose that the second phase of the company's study of Washington Works employees, completed in October 2006, found a possible correlation between PFOA exposure and coronary heart disease mortality, a "statistically non-significant increase in kidney cancer mortality and a statistically significant increase in diabetes mortality" when the workers examined were compared to employee peers. The company has said to researchers that "These associations did not appear to be related to PFOA exposure, but there were too few cases to make definitive conclusions." (Note that in prior laboratory studies, PFOA was found to affect test animals' kidneys.) The 10-K report only reported on this mortality study that "No overall increase in deaths related to heart disease was found." The company also has not disclosed the development of more stringent water standards or recommendations that may be costly to the company, in Minnesota and New Jersey, as described below. These stringent new standards are particularly notable in that their health based rationales may

yet be applied by other states, wherever DuPont or its customers are emitting PFOA or PFOS.

The company did not disclose the extent to which customers and markets are demanding, and shifting to, PFOA-free products at present. As detailed in this report, numerous companies and sectors are committing to PFOA free products, and there is no certainty that the company's elimination of PFOA over the next decade will be fast enough to preserve its customer base.

Finally and perhaps most significantly, the current decision to eliminate the use and production of PFOA does not include the elimination of fluorotelomers, and we believe the company has not given sufficient disclosure of the fact that assessment is underway in the scientific community, outside of DuPont, to assess whether fluorotelomers will break down to constituent telomer alcohols and then to PFOA in use or in the environment.

HEALTH HAZARDS. In February 2006, the EPA's scientific advisory board, a panel of independent experts convened by the EPA, announced its determination that PFOA should be declared a "likely human carcinogen." Numerous new studies during the year documented the prevalence of PFOA in the human environment, and in bodily tissues. This included a Johns Hopkins study showing the presence of PFOA in infants' umbilical cord blood, in 298 of 300 babies tested.

REGULATORY ACTION. Based on the latest scientific information,

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Minnesota Department of Health has lowered its Health Based Values (HBVs) for perfluorooctanoic acid (PFOA) and perfluorooctane sulfonate (PFOS). The new HBVs are 0.5 parts per billion (ppb) for PFOA and 0.3 ppb for PFOS. The guidelines previously used were 1 ppb and 0.6 ppb respectively. A Health Based Value is the concentration of a groundwater contaminant, or a mixture of contaminants, that poses little or no risk to health, even if consumed daily over a lifetime. Minnesota officials have also stated their intention to declare that PFOS and PFOA are hazardous substances so that sites are subject to cleanup under the state Superfund law. Officials in the state of New Jersey recommended a level of .04 ppb for PFOA, even lower than the Minnesota value.

MINNESOTA ADOPTED TIGHTER CRITERIA FOR PFOA IN DRINKING WATER AND INTENDS TO REQUIRE SUPERFUND CLEANUPS. NEW JERSEY OFFICIALS PROPOSED EVEN TIGHTER CRITERIA.

New European Union legislation (REACH) requires companies to register and test nearly every chemical produced and used. Companies may have to phase out or find alternatives for chemicals considered highly dangerous to humans and animals.

On March 7, 2006, the USEPA published a Federal Register notice asserting that it can no longer presume that long chain polymers similar to PFOA 'will not present an unreasonable risk to human health or the environment.' The agency proposed withdrawing a longstanding exemption to pre-manufacture notice under the Toxic Substance Control Act for those seeking to manufacture or import new substances of this kind.

CONSUMER LIABILITY. Potential liability related to consumer and environmental exposures to PFOA at DuPont and other companies continues. The \$5 billion consumer lawsuit over alleged hazards of Teflon continued to proceed during the last year. In May 2006, a judicial panel ruled that lawyers in 13 national cases involving 16 lawyers representing more than 73 clients should meet. DuPont's attorney maintained that Teflon could not be proven toxic in court because "not one study has shown that there is any harm to consumers," but the plaintiffs assert that the actionable harm involved was the lack of disclosure of risk information known to the company, rather than a claim for physical injury.

ENVIRONMENTAL LIABILITY. Contamination of water and soil with PFOA was disclosed or alleged at several additional DuPont sites during the past year. PFOA discharges into the James River from the DuPont Spruance plant in Richmond, Virginia were found. A class action lawsuit was filed in Deepwater, NJ over PFOA-contaminated water in the Delaware River from the Chambers Works plant. The suit seeks medical monitoring for residents, a community-wide water filtration system and punitive damages. PFOA was found in drinking water samples, and in streams, near DuPont's Parlin, NJ plant. PFOA was found in monitoring wells at DuPont's plant in Fayetteville, NC, in the blood of DuPont workers and in a drinking well one mile from the plant site. Residents of Pascagoula, MS opposed a permit for DuPont to

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dispose of PFOA in public waters at its First Chemical facility after PFOA contamination of groundwater under the plant was found in the company's own investigation.

The company reported incurring additional unanticipated costs of over \$20 million relative to implementing the settlement of litigation at its Washington Works facility in Parkersburg West Virginia, including costs of water treatment and supplies and studying of potential health impacts. This is on top of previously reported settlement costs of \$107 million.

MARKETPLACE CHANGES. DuPont competitors and suppliers continue to migrate from PFOA-containing products. During the year, food company ConAgra and carpet company Mohawk joined with other companies such as Wal-Mart and McDonalds in searching for alternatives to products that contain PFOA. The search for alternatives is driving DuPont's competitors, who are bringing PFOA-free products to market. In September 2006, 3M announced it would relaunch its Scotchgard fabric protector without PFOA or PFOS chemistry./1/

DUPONT IS STILL UNDER CRIMINAL INVESTIGATION BY THE DEPARTMENT OF JUSTICE FOR FAILURE TO DISCLOSE INFO ON PFOA TO THE EPA.

CRIMINAL AND SEC INVESTIGATIONS. DuPont reported in its latest 10K report that criminal investigation of the company for failure to disclose alleged hazards of PFOA are still underway by the US Justice Department. In addition, inquiries by the US Securities and Exchange Commission led to disclosures by the company that it incurred \$11 million in legal fees, research and communications costs associated with PFOA during 2005, not limited to the Parkersburg area. It also acknowledged that it

viewed it as "reasonably possible" that the company could incur additional liabilities at other facilities relative to PFOA releases, but said that it was unable to quantify such liabilities.

Despite the recent progress, shareholder value remains at risk. To date, DuPont has failed to detail any actual impacts on shareholder value or company earnings resulting from consumers concerns, reputational damage or market fluctuations related to PFOA. This document describes threats to shareholder value that may have imminent impact.

BACKGROUND ON DSFV

DuPont Shareholders for Fair Value (DSFV), the publisher of this report, is an informal group of DuPont shareholders organized by the United Steelworkers (USW) and concerned with proper disclosure and accountability on the issues relative to PFOA. USW is a DuPont shareholder, and also represents approximately 1,800 DuPont employees in New York, New Jersey, Delaware and Kentucky. DSFV includes Amalgamated Bank, United Steelworkers, and Green Century Capital Management. Collectively this group holds over 411,000 shares of DuPont stock.

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Some members of DuPont Shareholders for Fair Value have filed complaints with the Securities and Exchange Commission regarding the failure of DuPont management to disclose information historically and recently known to the company regarding the financial, health and environmental risks associated with PFOA. Disclosure of such information may have better informed shareholders regarding the extent to which the management's adherence to PFOA chemistry has harmed shareholder value. Some members of DSFV have also filed shareholder resolutions for annual meetings in 2005 and 2006 related to disclosure of issues related to PFOA.

AUTHOR BACKGROUND

Sanford Lewis, the author of this report, is an attorney and expert on corporate environmental disclosure issues, including requirements for disclosure under the securities laws. The author wishes to acknowledge the assistance of Kate Casa, Efan Hsieh and Nathaniel Johnson in the preparation of this document.

BACKGROUND ON DUPONT & PFOA

PFOA (perfluorooctanoic acid) is a surfactant, a water-soluble chemical that can emulsify oils or liquids in water, suspend small particles in water or act as a wetting agent. APFO (sometimes referred to as C-8) is the ammonium salt of PFOA and the chemical form used in fluoropolymer manufacturing. In this document, we will refer to PFOA generally to include interchangeably the salts (APFO and C-8) as well as its other formulations. E. I. du Pont de Nemours & Co. (DuPont) is the only current U.S. producer of PFOA.

PFOA is used to help make fluoropolymers and fluoroelastomers. Fluoropolymers are used in architectural fabrics; chemical processing piping and vessels; automotive fuel systems; telecommunications and electronic wiring insulation; and computer chip processing equipment and systems, and consumer products such as cookware and apparel.^{2/} PFOA is used as a processing aid in the manufacture of fluoropolymers for use in non-stick surfaces such as Teflon coated cookware. Fluoroelastomers are synthetic, rubber-like materials used in gaskets, O-rings and hoses.

Animal and human studies have found a likely association of PFOA with a wide array of health harms, ranging from elevated cholesterol, to liver damage, birth defects, and cancer. As a result of these studies, most involving animal testing, PFOA has come under increasing scrutiny in regulatory, consumer and judicial forums.

VOLUNTARY CAPPING OF PFOA IN PRODUCTS

In 2005, DuPont management announced a commitment to reduce the presence of PFOA in certain products. DuPont announced that it had developed a new technology to reduce the presence of PFOA in aqueous fluoropolymers applications, thereby reducing the emissions of PFOA that could occur at processors by 90%. However, this reduction in direct emissions of PFOA still left the company vulnerable due to the continued presence of PFOA in DuPont products. In addition, even though a product may contain no PFOA, available evidence suggests that various DuPont products may break down into PFOA in the environment or in the human body.

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On January 25, 2006, EPA invited DuPont and several other companies to participate in the "2010/15 PFOA Stewardship Program" involving a voluntary commitment to goals set by EPA. The EPA program sets interim goals for 2010 of 95% reduction of PFOA emissions and PFOA precursors in product content. It also calls for companies to commit to working toward the elimination of PFOA, PFOA precursors, and related higher homologue chemicals from emissions and products by five years thereafter, or no later than 2015.

In order to commit to the program, companies were required to submit a letter describing their commitment. The DuPont letter talked about reducing PFOA emissions and residual product content over the next decade. In the letter, the company did not commit to eliminate the use and production of PFOA and its precursors by 2015. Instead, the company discussed emissions reduction measures and caps on the amount of PFOA and its precursors in company products.

In February 2007, DuPont said ongoing manufacturing modifications have resulted in a 94 percent reduction in PFOA emissions as of year-end 2006. The company projected it

would achieve reductions of 97 percent by the end of 2007. The company also stated that it was on track to eliminate the use and production of PFOA by 2015. However, this reduction in direct emissions of PFOA still left the company vulnerable the risk of loss of customers due to the continued presence of PFOA in DuPont products. In addition, even though a product may contain no PFOA, available evidence suggests that various DuPont products may break down into PFOA in the environment or in the human body.

This paper will review DuPont's vulnerability under this timeline - the formidable impacts of market and regulatory trends, and of potential liability associated with the use or emission of PFOA.

CIVIL SETTLEMENT

On December 14, 2005, DuPont signed a \$16.5 million settlement of a civil case by the EPA. The civil case alleged DuPont's failure to disclose information to the EPA regarding potential risks of perfluorooctanoic acid (PFOA) to health and the environment. Under the terms of the settlement, DuPont admitted to no legal liability

The agreement reached between DuPont and the EPA resulted from multiple allegations of violations of section 8(e) of the Toxic Substances Control Act (TSCA), which states that:

THE EPA HAS STATED THAT IT CAN NO LONGER PRESUME THAT SUBSTANCES RELATED TO PFOA ARE SAFE UNDER THE TOXIC SUBSTANCES CONTROL ACT.

"Any person who manufactures (includes imports), processes or distributes in commerce a chemical substance or mixture and who obtains information which reasonably supports the conclusion that such substance or mixture presents a substantial risk of injury to health or the environment shall immediately inform the (EPA)

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Administrator of such information unless such person has actual knowledge that the (EPA) Administrator has been adequately informed of such information."

EPA alleged that among other things, the following information was not reported by DuPont as required by law:

- In 1981, the 3M Company, DuPont's supplier of PFOA, advised DuPont about the potential for PFOA to cause birth defects in rats. Specifically, 3M advised DuPont that researchers observed what appeared to be treatment related damage to the eye lenses of some rat pups.
- In 1981, the company observed PFOA in blood samples taken from pregnant workers at the Washington Works facility, in West Virginia where Teflon is manufactured, and at least one woman had transferred the chemical to her fetus.
- DuPont detected the chemical in public water supplies as early as the mid-1980s in West Virginia and Ohio communities in the vicinity of the Washington Works facility. By 1991, DuPont had information that the chemical was in water supplies at a greater level than the company's exposure guidelines indicated would cause no effect to members of the community.
- In 2004, DuPont had data concerning human serum sampling of twelve members of the general population living near the Washington Works facility after it had obtained this information from its contractor, Exygen. The study shows that on average, Teflon chemical serum levels in this group - all of whom had consumed tap water contaminated with the Teflon chemical from DuPont's Washington Works operations and only one of whom had ever worked at the facility - were 12 times higher than levels measured previously from the general population (67 ppb versus 5 ppb)./3/

Although DuPont denied that it had a duty to disclose this information, it settled the claims for \$16.5 million, the largest civil administrative penalty settlement the EPA has obtained to date. The amount included a \$10.25 million penalty and a commitment by DuPont to spend an additional \$6.25 million on environmental projects./4/

ONGOING CRIMINAL INVESTIGATION RELATED TO DISCLOSURE

The EPA civil settlement may not resolve all claims against DuPont regarding its concealment of information on this matter. DuPont is also the subject of a PFOA-related Department of Justice grand jury probe. In May 2005, DuPont was served with a grand jury subpoena from the U.S. District Court for the District of Columbia. The subpoena ordered DuPont to release documents related to PFOA, its salts, C8, ammonium perfluorooctanoate, and FC-143. This investigation is apparently still ongoing as this paper goes to press, and could ultimately result in separate criminal charges being brought against DuPont or its officers. THE COMPANY HAS REPORTED IN ITS CURRENT ANNUAL REPORT THAT EMPLOYEES ARE STILL IN THE PROCESS OF RESPONDING TO SUBPOENAS FROM THE DEPARTMENT OF JUSTICE ON THIS MATTER.

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SEC STAFF WROTE TO DUPONT FOLLOWING UP ON OUR CORRESPONDENCE WITH THE SEC. THEY PROPOSED CRITERIA FOR BETTER DISCLOSURE FOR THIS YEAR'S 10-K. HOWEVER IN OUR OPINION, THE COMPANY'S DISCLOSURES ARE LARGELY UNCHANGED.

SECURITIES AND EXCHANGE COMMISSION INVESTIGATION

In addition, some members of DuPont Shareholders for Fair Value have filed letters of complaint with the Securities and Exchange Commission requesting an investigation of DuPont management's failure to disclose information material to investors regarding PFOA. The correspondence with the SEC requested an evaluation of whether the company should have disclosed to investors, or should now be ordered to disclose, information including the following:

- Liability indicators such as environmental contamination and blood tests associated with all DuPont facilities where PFOA is used or produced;
- A more balanced description of the scientific evidence arrayed against PFOA, which suggests that it is likely to be harmful to human health despite the company's reiterated denials of such effects;
- Regulatory and market trends, including regulatory developments in Canada, Europe and Australia, and consumer and retail developments that may restrict markets for DuPont products.

Subsequent to the shareholder letters, accountants at the Securities and Exchange Commission wrote to DuPont with a series of inquiries on how it discloses liabilities, expenses and science regarding PFOA. The correspondence resulted in disclosure to the SEC of \$11 million in legal fees, research and communications costs associated with PFOA during 2005, not limited to the Parkersburg area issues. The company also acknowledged that it viewed it as "reasonably possible" that DuPont could incur additional liabilities at other facilities relative to PFOA releases, but said that it was unable to quantify such liabilities.

The SEC also wrote to the company April 21, 2006, after review of the 2005 10-K (issued February 2006). This letter included specific instructions and remarks to the company:

It is your belief that it is remote that you will incur additional losses related to the West Virginia Class Action. You, as management, are in the best position to make this determination. We are not in a position to assess the safety of PFOA, however in the past your company has had contingent liabilities related to products that, although you believed they were safe, they nevertheless resulted in substantial material losses related to litigation, administrative costs and settlements. Please note that a statement that a contingency is not expected to be material does not satisfy the requirements of SFAS 5 if there is at least a reasonable possibility that a loss exceeding amounts already recognized may have been incurred and the amount of that additional loss would be material to a decision to buy

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or sell your securities. We also note that the \$63 million you recorded in the 3rd quarter of 2004 was a substantial amount relative to the pre-tax income of \$225 million.

In your most recent response you state that it is reasonably possible that you will incur losses related to exposure to PFOA from sources other than Washington Works, but because you are not aware of any particular source that may cause such loss, a range of loss, if any, cannot be reasonably estimated at this time. However, because losses are reasonably possible we urge you to carefully consider the following areas when you determine the probability of loss, estimates of amounts, and other disclosures related to risks and uncertainties. In future filings, where appropriate, should address the following in better detail:

- current and probable findings from the EPA, the Science Advisory Board, the independent science panel and their evaluation in West Virginia;
- current and probable findings by any other government, agency, or scientific study, either foreign or domestic;
- provide more detail concerning any findings you become aware of concerning the possible health impact of PFOA;
- emerging trends, by both institutions and consumers, concerning the safety of PFOA and any related products; and
- the amounts and underlying assumptions of any accruals and reasonably possible ranges of loss.

It should be noted that the DuPont 10-K report for 2006, issued a year after the SEC's correspondence providing guidance for future disclosure, still failed to disclose many of the key developments of the subsequent year as detailed in this report. For instance, it failed to disclose the highly notable preliminary findings of Johns Hopkins University regarding potential developmental toxicity impacts on humans. It failed to disclose that the second phase of the company's study of Washington Works employees, completed in October 2006, found a possible correlation between PFOA exposure and coronary heart disease mortality, a "statistically non-significant increase in kidney cancer mortality and a statistically significant increase in diabetes mortality" when the workers examined were compared to employee peers. The company has said to researchers that "These associations did not appear to be related to PFOA exposure, but there were too few cases to make definitive conclusions." The company also has not disclosed the development of more stringent water standards recommendations that may be costly to the company, in Minnesota and New Jersey, as described above.

PREVALENCE AND HAZARDS OF PFOA.

HEALTH HAZARDS TO HUMANS. Evidence of health harm in humans from PFOA began to mount during the year. A study of newborn human babies conducted by Johns Hopkins University found that babies exposed to low levels of PFOA had decreased birth weight and head circumference. While the research is considered preliminary by the Johns Hopkins University researchers, if confirmed, it could represent a dramatic new piece of evidence - actual developmental

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effects in humans - about the potential dangers of C8 and similar chemicals. Dr. Lynn Goldman, formerly the director of the USEPA toxicology lab, headed the study and presented the preliminary findings at a workshop of the Society of Toxicology in February 2007. Prior disclosed research (February 2006) found PFOA present in umbilical cord blood samples from 298 of 300 babies tested.

PFOA WAS FOUND PRESENT IN UMBILICAL CORD BLOOD SAMPLES FROM 298 OF 300 BABIES TESTED.

In addition, information in an on-going study leaked from the West Virginia Bureau of Public Health indicates that residents of communities polluted with PFOA have higher levels of several cancers, including prostate cancer and non Hodgkin's lymphoma. This study does not conclude that the chemical caused these illnesses, only that there are more cases in areas where the chemical PFOA is present. The state says more research is needed to determine if other factors could be the cause./5/

On February 16, 2006, the EPA's scientific advisory board, a panel of independent experts convened by the EPA, announced the board's determination that PFOA be declared a "likely human carcinogen." The advisory board's determination that PFOA is a "likely human carcinogen" went beyond EPA's prior assessment that PFOA should be listed as a "suggested human carcinogen."/6/

Despite these recent findings, as well as a groundswell of animal evidence supporting the existence of human health hazards, the company continues to maintain the following position: "Based on health and toxicological studies conducted by DuPont and other researchers, DuPont believes the weight of evidence indicates that PFOA does not pose a health risk to the general public."

NEW STUDIES IN ANIMALS. A Swedish study in mice found that early-life exposure to PFOS and PFOA can rewire the brain in ways that dramatically affect behavior./7/

In a study published in the January 2006 issue of Toxicological Sciences, scientists at Japan's National Institute of Animal Health found that PFOA exposure in lab rats altered the way the liver transports and metabolizes lipids, especially fatty acids. The researchers are starting to look at how PFOA affects the kidneys, and they have expanded their research to chickens.

PREVALENCE OF HUMAN EXPOSURES. A number of recent scientific studies have expanded current understanding regarding the widespread prevalence of PFOA exposures in humans.

NEW TESTS OF HOUSEHOLD DUST AND HUMAN TISSUE CONTINUED TO SHOW ELEVATED LEVELS OF PFOA AND PFOS.

In June 2006, a study of lab tests of mothers and their daughters

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showed that industrial chemicals including PFOA can be passed down across generations, according to a report from the Environmental Working Group. Chemicals that persist in the body were found at higher levels in mothers than daughters, showing how chemicals can build up in the body over a lifetime. Mothers had an average of 1.5 to 5.2 times more pollution than their daughters for lead, methyl mercury, brominated flame retardants, and PFOA and PFOS.

PFOA contaminates the blood of white Americans at three times the level of Mexican Americans and twice the level of African Americans, according to a study by the Centers of Disease Control and Prevention published in the April 2006 edition of Environmental Science and Technology. Women had lower concentrations than men, according to the study. White males averaged seven parts per billion of PFOA in their blood, while white women averaged four ppb. While no conclusive reason for the different concentrations is known, genetics and environmental factors may play a role, researchers said./8/

In 2005, Toxic-Free Legacy Coalition, an alliance of more than 50 health care and advocacy groups, collected blood, hair and urine samples from 10 prominent Washington state residents to see which toxic chemicals were getting into their bodies. The results, released in May 2006, showed that all 10 people tested positive for perfluorinated chemicals.

In a June 2006 Canadian study ("Polluted Children, Toxic Nation," released by Toronto watchdog group Environmental Defense), five Canadian families - six adults and seven

children - were tested for 68 toxic chemicals. While the parents had greater exposures and higher concentrations of the chemicals, the children as a group were more polluted with several chemicals, including PFOA.

IMPACT ANALYSIS

CONCERN OVER PFOA IS ALREADY DRIVING CHANGE IN MARKETS

VULNERABLE DOMESTIC FOOD PACKAGING MARKET

Companies who use food packaging containing DuPont products with PFOA or PFOA precursors are facing pressure to eliminate these materials in their packaging.

In November 2005, a former DuPont chemical engineer named Glenn Evers made national news when he disclosed information and documents related to DuPont's Zonyl paper coating products. Evers appeared on ABC World News Tonight and in the Washington Post, among other outlets, discussing how popcorn products, fast food, pizza boxes, and various other food packaging products expose consumers to fluorotelomers that are believed to break down to PFOA in the body. The whistle-blower also brought to light his knowledge that the company had been developing alternatives to PFOA decades ago, but that those have apparently not been widely deployed to substitute for PFOA.

In a January 30, 2006, Wall Street Journal article a representative of McDonald's corporation reported the company's intention to reduce its use of PFOA-related products./9/ On

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February 2, 2006, the Toronto Globe & Mail reported that McDonald's Canada said its packaging suppliers had begun a phase-out, and that McDonald's Canada will be using alternatives that are PFOA-free./10/

The pressure to curtail or outright eliminate PFOA content in food packaging and product lines is also being felt by major retailers such as Wal-Mart. Wal-Mart is the current subject of a campaign by the consumer-rights group, Ohio Citizen Action, which is urging its members to contact Wal-Mart to request the retailer: ". . . use its considerable clout to ensure that the first order of business in the phase-out is to remove these chemicals from food packaging, such as microwave popcorn, candy wrappers, and frozen foods."/11/ Matt Kistler, Wal-Mart's vice president for product development and private brands, told Ohio Citizen Action in spring 2006 that Wal-Mart is working with suppliers to eliminate PFOA in products and packaging. He said Wal-Mart's regular meetings with suppliers include discussions about Teflon chemicals and the suppliers' ability to switch to different materials. Kistler reported that Wal-Mart's suppliers have been responsive, and said Wal-Mart is learning that some suppliers can make this switch faster than others./12/ In addition to requesting action from Wal-Mart and food retailer Kroger and numerous local grocery retailers, consumers have addressed their concerns directly to DuPont as part of Ohio Citizen Action's campaign. As of February 15, 2006, a total of 15,090 people had sent handwritten letters and petitions to DuPont demanding the company take Teflon (PFOA)

chemicals off the food packaging market. In addition, 13,437 people have sent handwritten letters and petitions to local grocery stores urging them not to carry products with the PFOA-related chemicals in the packaging/13/

A shareholder resolution filed at Mohawk, the large carpet company, by the United Methodist Church, led to a dialogue with the top management of the company, then a withdrawal of the shareholder resolution. The company's management expressed a clear commitment to avoid the use of PFOA in all carpet treatments as soon as possible - and had expressed a commitment to suppliers. Previously, in response to a shareholder resolution, ConAgra Foods agreed to prioritize efforts to replace fluorocarbon chemicals used in the packaging of its microwave popcorn products. ConAgra expected to complete its studies no later than May 2007.

NONSTICK COOKWARE

The potential health risks that may be associated with the use of Teflon non-stick cookware products continue to receive the bulk of PFOA-related scrutiny in the major media and lifestyle publications. In a growing number of cases, concerns over potential health risks associated with Teflon are finding a receptive audience in America's kitchens and altering consumer behaviors. Home cooks like Janeen Cunningham of Seal Beach, California have stopped using Teflon pans altogether and returned to using stainless steel cookware. Cunningham told Los Angeles Times reporter Jerry Hirsch that "I stopped using those pans because of what I have heard about Teflon and carcinogen properties over the past few months."/14/ Such actions are proving alarming to major cookware manufacturers. T-Fal, a New

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Jersey based subsidiary of French Cookware SEB, recently launched a line of uncoated pans as a diversification move." The concern is that there is a steady drip-drip about this and it will become part of the common knowledge about cookware even though people won't get PFOA from cookware," said Scott Meyer, President of T-Fal./15/ (Note, however, that some experts assert that trace residues of PFOA can escape from some Teflon cookware heated to between 600 and 752 degrees Fahrenheit. According to the Environmental Working Group, a Teflon pan can reach 600 degrees on high heat in two to five minutes.)

THOUGH THE COMPANY DENIES THAT NONSTOCK PANS EMIT PFOA, THE CONTROVERSY CONTINUES TO STICK TO TEFLON.

There have been hundreds of articles in the U.S. media covering DuPont and PFOA, with a number of those articles focusing on concerns related to Teflon coated cookware. In early February 2006, DuPont attempted to respond to domestic consumer concerns arising from PFOA-related publicity with full-page ads in The New York Times and other major papers./16/

PFOA ALTERNATIVES ENTERING MARKETPLACE

The search for product alternatives to replace PFOA is driving research and product development among DuPont's competitors, who are bringing PFOA-free products to the market. In September 2006, 3M announced it would relaunch its Scotchgard fabric protector without PFOA or PFOS. Mitch Culbreath, business development manager for 3M's Protective Materials & Consumer Health division, said "3M's reformulated

Scotchgard Protector provides all the performance benefits consumers expect from the brand - stain resistance, stain repellency, and stain release - with products that are not based on PFOA or PFOS chemistry."/17/

Air Products has developed Airflex EF9100 emulsion as an alternative to fluorochemicals used in grease-resistant packaging. Airflex EF9100 emulsion provides an environmentally friendly alternative and exhibits all the key performance measures of fluorochemicals, with the added benefits of being a water-based polymer emulsion. Likewise, Dynol 607 surfactant is an alternative for fluorosurfactants for high-performance coating applications. The surfactant is biodegradable, fluoro-free and may provide a more cost effective, non-persistent alternative to fluorosurfactant technology, HOME TEXTILES TODAY reported in September 2006.

In February 2006, Asahi Glass announced the introduction of AsahiGuard E-series, a line of telomer chemicals that serve as fluorinated water and oil repellents for textile and paper. Asahi Glass claims that these products are free of PFOA and PFOA precursors. The company has commenced production of AsahiGuard E-series products at a dedicated large scale manufacturing facility which at capacity will equal 1/4 of AsahiGuard's current manufacturing capacity./18/

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COMPETITORS CONTINUE TO BRING NON-PFOA ALTERNATIVES TO MARKET.

Much of the research and development currently underway concerns the development of products which utilize short-chain fluorosurfactants instead of long-chain fluorosurfactants. Long-chain fluorosurfactants enter the body more readily, stick to blood proteins, and can break down to PFOA./19/ The 3M Company replaced a long-chain with a short-chain fluorosurfactant, known as C4 when it reformulated Scotchgard in June of 2003./20 According Dr. Scott Mabury of the University of Toronto, a leading expert in the study of the environmental effects of PFOA, the key to controlling the problem is to reduce: ". . . chain lengths to avoid bioaccumulation, and prudently select linkage chemistry for stable non-releasing materials."/21/

At least one company, Omnova Solutions of Fairlawn, Ohio has aggressively pursued product development of these more environmentally friendly short-chain fluorosurfactants, which it asserts can deliver comparable product performance in many applications. Omnova has obtained new chemical regulatory approval in the U.S. and Europe, and has achieved partial approval in Japan. The company is pursuing regulatory approval in China, Korea, and Australia./22/ Bill Beers, Global Chemical Regulatory Manager for Omnova, states that: Omnova Solutions has: ". . . tailored structures that meet both the demands of our customers for performance and the demands of the global regulatory authorities to assure that there are no environmental issues."/23/

Alternatives to PFOA are entering the market from numerous firms and researchers.

Omnova's Polyfox surfactants are now commercially available products utilized as alternatives to PFOA in a range of applications such as varnishes and stains, automotive clear coats, electronic coatings, powder pigment dispersions, and adhesives./24/ In conjunction with partners, Omnova Solutions is pursuing stain-resistant treatments for textile, carpet, and paper industries, among others./25/

Interest in developing non-stick cookware alternatives to non-stick cookware utilizing DuPont's Teflon brand has also been driving product development. Ferro Corporation, a world leader in the ceramic glaze coating business, has announced that it has developed RealEase(TM), a ceramic-based, nonstick coating. Ferro claims it has developed a non-stick surface that delivers the ease of cleaning commonly associated with Teflon-based nonstick cookware combined with the improved heat resistance and abrasion and scratch-resistance of enamel./26/

CONSUMER TEFLON PANIC IN CHINA

Consumer responsiveness to concerns over potential threats to health posed by the presence of PFOA in Teflon non-stick cookware is by no means limited to domestic markets. The international press has also shown a marked readiness to cover PFOA-related stories with hundreds of PFOA-related articles published internationally. Consumers in important international markets such as China have demonstrated intense concern over the

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potential presence of PFOA in Teflon non-stick cookware with important consequences for future growth and the DuPont brand's international reputation. Concern about Teflon-coated cookware caused widespread panic in China beginning in July of 2004. A December 9, 2004 report from the Financial Times global newswire reported that Chinese manufacturers of non-stick cookware suffered 90% drops in sales in August and September as Chinese consumers shunned Teflon in favor of iron woks and ceramic rice makers./27/ In the July-August 2004 period Chinese department stores reportedly began removing Teflon-coated cookware from their shelves and Guangdong-based Elecpro Electrical Appliance Co Ltd reportedly stopped selling its Teflon-coated rice cookers and was planning to seek \$10 million in compensation./28/

A July 22, 2004 article in The Standard reported on the reactions of Chinese consumers and retailers during the period:

"After some news reports saying a substance in Teflon-coated pans potentially poses health risks, we started to remove the related non-stick frying pans from our shelves," an official at a ParknShop in Guangzhou's Tianhe District said.

Some individual homewares stores in Guangzhou's Tianhe and Wangfujing shopping centers also said they started to send Teflon-coated cookware back to warehouses as a temporary measure until the concern abates.

Although some large retail chains including Wanjie, Trust-Mart and Carrefour stores in Guangzhou still sell non-stick frying pans, their sales dropped more than 60 per cent in the past week, store employees said.

An official with one of the Wanjie stores in Guangzhou said sales of China-made brands of Teflon-coated cookware fell by more than 60 percent over the past week.

"Today, no one shows any interest in non-stick cookware," he said. This is because the worries that using Teflon-coated pans might increase the risks of cancer have not been dispersed." Safety concerns have also delayed China cookware makers' new-product promotions.

An official with Aishida, one of the largest cookware producers in China, said the company suspended the promotion of its new non-stick frying pans amid the increasing worries on non-stick cookware.

But the official, who declined to be named, said the Teflon controversy did not seriously affect its non-stick cookware sales because 90 per cent of its production is exported./29/

While widespread concern may have subsided after the Chinese Academy of Inspection and Quarantine (CAIQ) declared that it found no PFOA in any of the non-stick cookware examined/30/ the listing of PFOA as a likely human carcinogen may fuel renewed concerns over the safety of non-stick cookware in China and in other parts of the world.

The awareness and sensitivity of Chinese consumers to risks associated with DuPont products may be counter to DuPont's interest in investing and growing in China. Further analysis is

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needed to assess the extent to which DuPont's reputation has been undermined with Chinese consumers, and how this may affect expansion of demand in that crucial growth market.

ADDITIONAL REGULATORY ACTION IS LIKELY IN U.S. AND ABROAD

DuPont disclosed in its November 2005 quarterly report filed with the U.S. Securities and Exchange Commission (SEC) that \$1 billion in annual company revenues could be jeopardized by regulatory restraints on PFOA and fluorotelomers. The report marked the first time that DuPont had put a value on its PFOA and PFCA activities./31/

In its 10K report to shareholders, published February 23, 2007, DuPont notes:

. . there can be no assurance that the EPA or any other regulatory entity will not in the future choose to regulate or prohibit the production or use of PFOA. Products currently manufactured by the company representing approximately \$1 billion of 2006 revenues could be affected by any such regulation or prohibition.

Though the U.S. Environmental Protection Agency has so far set the voluntary ten-year "Stewardship" program as discussed above, neither the EPA nor other regulators may wait for more expeditious, mandatory and restrictive action.

On March 7, 2006, the USEPA proposed one such restriction -- a new rule under the Toxics Substances Control Act which would require any person who intends to manufacture (or import) certain new long chain substances related to PFOA to file a premanufacture notice with the EPA./32/ EPA published a Federal Register notice stating that it can no longer presume that long chain polymers similar to PFOA will not present an unreasonable risk to health and environment.

Any such substance "not already on the TSCA Inventory would have to complete the TSCA premanufacture review process prior to commencing the manufacture or import of such polymers. EPA believes this proposed change to the current regulation is necessary because, based on recent information, EPA can no longer conclude that these polymers 'will not present an unreasonable risk to human health or the environment,' which is the determination necessary to support an exemption under TSCA." EPA notes that:

Biological sampling recently revealed the presence of PFOS and PFOA in fish, birds, and mammals, including humans across the United States and in other countries. The widespread distribution

of the chemicals suggests that PFOS and PFOA may bioaccumulate. PFOS and PFOA have a high level of toxicity and have shown liver, developmental, and reproductive toxicity at very low dose levels in exposed laboratory animals. (Emphasis added)

If the rule takes effect, EPA would require each company making or importing the affected fluoropolymers to submit a premanufacture notice the same as any businesses do for new chemicals other than exempted polymers. EPA reviews exposure and

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toxicity information on each chemical and can ask companies for more data, can require protective equipment for workers, or can restrict the uses of the target substances.

CURRENT REGULATORY DELIBERATIONS THREATEN TO TIGHTEN CONTROLS ON PFOA IN THE ENVIRONMENT IN MINNESOTA AND NEW JERSEY AND IN PRODUCTS SOLD IN CALIFORNIA.

The Food and Drug Administration, state governments, and the governments of other countries may set more stringent and mandatory timelines for restriction or elimination of PFOA exposures or products.

STATE LEVEL REGULATORY ACTIVITIES

MINNESOTA. Based on the latest scientific information, the Minnesota Department of Health has lowered its Health Based Values (HBVs) for perfluorooctanoic acid (PFOA) and perfluorooctane sulfonate (PFOS), two members of PFC group of chemicals that have been found at low levels in groundwater in southern Washington County. The new HBVs are 0.5 parts per billion (ppb) for PFOA and 0.3 ppb for PFOS. The guidelines previously used were 1 ppb and 0.6 ppb respectively.

A Health Based Value is the concentration of a groundwater contaminant, or a mixture of contaminants, that poses little or no risk to health, even if consumed daily over a lifetime. The updated HBVs for PFOA and PFOS take into consideration the potential for health impacts during fetal and other developmental life stages. A clearer understanding of how long these chemicals stay in the human body is also reflected in the revised HBVs.

NEW JERSEY. In 2007, New Jersey regulators, based on their assessment of the potential human health risk, recommended lowering the amount of PFOA allowable in drinking water to .04 ppb - substantially below the federal allowable limit of .5 ppb established for the Parkersburg, WV area.

MISSISSIPPI. The Mississippi House Conservation Committee held a hearing to consider legislation to place a moratorium on PFOA permits in the state, affecting DuPont's operations of First Chemical.

INTERNATIONAL REGULATORY ACTIVITIES

In June 2007, a tough new EU law called REACH (Registration, Evaluation and Authorization of Chemicals) is expected to take effect. Under the law, each manufacturer or company that uses chemicals in Europe will have to register nearly each chemical and test it for safety. Companies also may have to phase out or find alternatives for chemicals that are considered dangerous to humans and animals.

DuPont, the world's third-largest chemical maker, has 37 manufacturing plants in Europe and a large network of suppliers. REACH is expected to have a significant effect

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"Whether we support it or not, we are living with it," Linda Fisher, vice president and chief sustainability officer at DuPont in Washington, told the [Wilmington, Delaware] News Journal. "It's going to require a lot of work for the chemical companies, and it's going to require a lot of work for the European regulators." Fisher also has stated "It's going to be hard to explain to our markets and our public in the U.S. or in Asia why the Europeans don't think it's safe for them, but we're going to continue to expose you."

VIEWING EVER TIGHTER CHEMICAL CONTROLS IN EUROPE, A DUPONT VP HAS STATED: "IT'S GOING TO BE HARD TO EXPLAIN TO OUR MARKETS AND OUR PUBLIC IN THE U.S. OR IN ASIA WHY THE EUROPEANS DON'T THINK IT'S SAFE FOR THEM, BUT WE'RE GOING TO CONTINUE TO EXPOSE YOU." (LINDA FISHER, VICE PRESIDENT, DUPONT)

Some consumer and environmental advocates see REACH as the beginning of a new era in global environmental regulations that will hold the industry accountable for the risks posed by its products. "The EU also sees itself as creating a new gold standard that others, including the United States, should emulate," the article stated.

In 2004, Canada's environmental protection agency temporarily banned three fluorotelomer chemicals used as stain repellents. This was the first time any government had banned such chemicals. PFOA and its relatives are now under increasing scrutiny by the environmental authorities in USA, UK, Norway, Sweden and Denmark. Further consideration of permanent regulatory restrictions is underway in Canada. In Norway, the Pollution Control Authority announced that in the course of 2006 it would obtain more information about the health and environmental effects of PFOA in order to evaluate regulation of its use. The agency will also ask the Norwegian Institute of Public Health and the Norwegian Institute for Water Research to provide an overview of the available information on the health and environmental effects of related compounds and use this information as a basis for evaluating whether it is necessary to introduce regulatory measures for other substances belonging to this group.

POLLUTION, LIABILITY AND PUBLIC PRESSURE TO END PFOA PRODUCTION DUPONT'S NC PFOA PRODUCTION SITE

DuPont's Fayetteville Works production facility in Fayetteville, North Carolina is the only site in the U.S. where PFOA is produced. Despite the \$7 million DuPont spent on environmental controls to contain PFOA when it opened the plant in 2002, on-site testing at DuPont's 2,200 acre property detected PFOA in more than 25 monitoring wells, as have tests of residential wells up to a mile from the facility. Samples taken from the nearby Cape Fear River have also been found to contain PFOA./33/ DuPont's testing of its workforce at the facility shows that the average concentrations of PFOA in blood samples

rose from an average of 11 parts per billion per worker in 17 workers in 2002 to an average of 450 parts per billion in 37 workers in 2005.

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AT DUPONT'S FAYETTEVILLE WORKS PRODUCTION FACILITY IN NORTH CAROLINA WHERE PFOA IS PRODUCED, PFOA IS DETECTED IN MORE THAN 25 MONITORING WELLS, AND RESIDENTIAL WELLS UP TO A MILE FROM THE FACILITY.

DENR's Regional Office in Fayetteville first learned of the C-8 contamination when the Plant manager was questioned about groundwater contamination during a September 24, 2004 plant inspection by DENR. The DENR's Inspector noted in his report (page 4) that this information was "quite surprising." DENR did not receive written notification of PFOA contamination until mid-2006. DuPont's June 6, 2003 letter and "Notification of Newly Discovered Released Chemical" was addressed to NCDENR Division of Waste Management and identified the results of DuPont's January 27, 2003 sampling for C8 (PFOA). DuPont's letter did not mention that PFOA had also been found at trace levels in the plant's wastewater discharges to the James River. Although DuPont's January 13, 2004 Revised Phase I RCRA Facility Investigation Report to DENR stated on page 9 that annual sampling results for 2003 were "forwarded to DENR in a report dated March 2003," no such report could be located in DENR's files. DuPont later admitted to DENR's Division of Waste Management that the March 2003 Report, which reflected the results of samples taken in January 2003, had not been sent to DENR.

At the request of the local citizens' "C-8 Coalition," the DENR asked DuPont to expand its PFOA monitoring. On November 18, 2005 DuPont informed DENR that October groundwater monitoring next to its PFOA Plant had revealed PFOA contamination. Two of the four monitoring wells placed near the PFOA Plant showed levels up to 147 part per billion, much higher than levels found in other areas of DuPont's massive facility. The two remaining wells placed near the PFOA plant were not deep enough to reach groundwater. A total of 24 out of the 28 groundwater and surface water locations sampled in Sept/October of 2005 revealed PFOA contamination.

PFOA was found in wastewater discharges to the Cape Fear River, a drainage ditch leading toward the Caper Fear River, seepage from the ground on the plant, a private water well near the plant, and a private lake near the plant. Company reports identify PFOA air emissions and a air PFOA monitoring program. In April of 2006 DuPont refused to share air monitoring results with the NC C8 Coalition or the news media.

ADDITIONAL ENVIRONMENTAL LIABILITIES?

DuPont has already experienced over a hundred million in liabilities due to environmental releases of PFOA, and this may be just the start.

DuPont's Washington Works facility in West Virginia where Teflon is manufactured has been a source of extensive groundwater contamination from PFOA. Since at least 1984, DuPont was aware that PFOA was being discharged from its Washington Works facility. The company conducted, but at the time did not publicly disclose testing of drinking

water supplies in communities near the facility. These tests revealed elevated levels of PFOA. Ground and drinking water contamination from the Washington Works facility resulted in a 2001 class-action lawsuit brought on behalf of 80,000 West Virginia residents. A court approved settlement of this case in February of 2005./34/

The 2004 settlement of that West Virginia lawsuit required the company to spend at least \$107 million to ensure that homes in the area are supplied with water uncontaminated with PFOA. The settlement includes PFOA water treatment facilities for six area water utilities, and initiation of a court-ordered C-8 Health Project, a five-year study correlating PFOA blood-serum levels in more than 60,000 area residents with the incidence of nine types of medical conditions, including cancer, heart disease and birth defects. As of January 2006, more than 43,000 people had signed up for the health study, with more than 17,000 having been tested since August. There was waiting list of about 26,000 people. In December 2006, the C8 panel asked thousands of study participants to participants in a follow-up study. The company reported in its 2006 10-K that additional expenses were incurred pursuant to the settlement - including water systems that cost \$19 million (\$9 million more than originally set aside) an additional \$3 million for bottled water for another district until another water treatment plant is built; and added costs of studying health effects, for a total of \$15 million (\$10 million more than originally expected.)

A court-appointed panel of three prominent epidemiologists assigned to analyze and interpret the C-8 Health Project data requested permission in fall 2006 to study the effects of PFOA on nearly 5,000 Washington Works employees, many of whom have extremely high blood PFOA levels. DuPont is fighting to keep its employees out of the study.

In December 2006, the United Steelworkers harshly condemned DuPont for denying workers information on the harmful effects of PFOA and for refusing to hand over to the C-8 project data the company collected on employees West Virginia. The Steelworkers eventually received data through USEPA.

In November 2006, DuPont informed its employees in Deepwater, New Jersey, that levels of PFOA in their blood were as high as 6,330 parts per billion (ppb), thousands of times higher than the average level of 5 ppb in the general population.

On Nov. 20, 2006, the EPA forced DuPont to agree to pay for water treatment or an alternative water supply if the water supply of any household near Washington Works showed a PFOA concentration above 0.5 ppb.

In 2002, DuPont began producing a salt of PFOA at its Fayetteville Works plant in North Carolina after 3M, its former supplier, halted manufacture of the chemical in response to public pressure. Since 2003, small amounts of PFOA have been detected in groundwater and entering the Cape Fear River near the plant. In 2005, water in a well close to the plant showed an extremely high PFOA level of 765 parts per billion (ppb).

In April 2006, residents near DuPont's Chamber Works plant in

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Salem County, New Jersey sued DuPont, claiming the company had known for years that the plant had

0.0%;">

13,947

Income from Continuing Operations

22,392

20,826

Loss from discontinued operations, net of income taxes

(107

)

(2,736

)

Net Income

\$

22,285

\$

18,090

See accompanying Notes to the Condensed Consolidated Financial Statements

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Operations (Unaudited)

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(In thousands)

| | Six months ended | |
|--|------------------|--------------|
| | June 30, | |
| | 2009 | 2008 |
| Operating Revenue | \$ 1,603,219 | \$ 1,629,536 |
| Operating Costs and Expenses: | | |
| Cost of services rendered and products sold | 947,773 | 1,007,102 |
| Selling and administrative expenses | 413,692 | 418,230 |
| Amortization expense | 80,710 | 92,642 |
| Merger related charges | 1,448 | 355 |
| Restructuring charges | 12,913 | 7,330 |
| Total operating costs and expenses | 1,456,536 | 1,525,659 |
| Operating Income | 146,683 | 103,877 |
| Non-operating Expense (Income): | | |
| Interest expense | 151,322 | 173,011 |
| Interest and net investment loss | 1,366 | 1,881 |
| Gain on extinguishment of debt | (46,106) | |
| Other expense | 379 | 277 |
| Income (Loss) from Continuing Operations before Income Taxes | 39,722 | (71,292) |
| Provision (Benefit) for income taxes | 16,618 | (17,024) |
| Income (Loss) from Continuing Operations | 23,104 | (54,268) |
| Loss from discontinued operations, net of income taxes | (270) | (3,484) |
| Net Income (Loss) | \$ 22,834 | \$ (57,752) |

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Financial Position

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(In thousands, except share data)

| | As of June 30, 2009 (Unaudited) | As of December 31, 2008 (Audited) |
|---|--|--|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 368,160 | \$ 405,587 |
| Marketable securities | 24,309 | 22,928 |
| Receivables, less allowance of \$23,044 and \$21,138, respectively | 389,928 | 335,927 |
| Inventories | 81,160 | 80,018 |
| Prepaid expenses and other assets | 73,096 | 37,648 |
| Deferred customer acquisition costs | 54,527 | 36,514 |
| Deferred taxes | 32,905 | 42,945 |
| Assets of discontinued operations | 49 | 412 |
| Total Current Assets | 1,024,134 | 961,979 |
| Property and Equipment: | | |
| At cost | 326,017 | 287,818 |
| Less: accumulated depreciation | (103,572) | (72,189) |
| Net property and equipment | 222,445 | 215,629 |
| Other Assets: | | |
| Goodwill | 3,097,843 | 3,093,909 |
| Intangible assets, primarily trade names, service marks and trademarks, net | 2,889,585 | 2,967,984 |
| Notes receivable | 24,412 | 25,628 |
| Long-term marketable securities | 102,785 | 110,134 |
| Other assets | 36,358 | 35,350 |
| Debt issuance costs | 74,057 | 83,014 |
| Total Assets | \$ 7,471,619 | \$ 7,493,627 |
| Liabilities and Shareholder's Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 116,442 | \$ 89,242 |
| Accrued liabilities: | | |
| Payroll and related expenses | 76,269 | 83,036 |
| Self-insured claims and related expenses | 94,487 | 91,923 |
| Other | 165,793 | 202,174 |
| Deferred revenue | 489,756 | 443,426 |
| Liabilities of discontinued operations | 2,912 | 4,870 |
| Current portion of long-term debt | 219,105 | 221,269 |
| Total Current Liabilities | 1,164,764 | 1,135,940 |
| Long-Term Debt | 3,937,610 | 4,044,823 |
| Other Long-Term Liabilities: | | |
| Deferred taxes | 991,217 | 981,746 |
| Liabilities of discontinued operations | 4,059 | 4,077 |
| Other long-term obligations, primarily self-insured claims | 195,970 | 194,682 |
| Total Other Long-Term Liabilities | 1,191,246 | 1,180,505 |
| Commitments and Contingencies (See Note 4) | | |
| Shareholder's Equity: | | |
| Common stock \$0.01 par value, authorized 1,000 shares; issued 1,000 shares | | |
| Additional paid-in capital | 1,442,332 | 1,438,432 |
| Retained deficit | (227,085) | (249,919) |
| Accumulated other comprehensive loss | (37,248) | (56,154) |

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| | | | | |
|--|----|-----------|----|-----------|
| Total Shareholder's Equity | | 1,177,999 | | 1,132,359 |
| Total Liabilities and Shareholder's Equity | \$ | 7,471,619 | \$ | 7,493,627 |

See accompanying Notes to the Condensed Consolidated Financial Statements

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THE SERVICEMASTER COMPANY

Condensed Consolidated Statements of Cash Flows (Unaudited)

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(In thousands)

| | Six months ended | |
|---|------------------|------------|
| | June 30, | |
| | 2009 | 2008 |
| Cash and Cash Equivalents at Beginning of Period | \$ 405,587 | \$ 207,219 |
| Cash Flows from Operating Activities from Continuing Operations: | | |
| Net Income (Loss) | 22,834 | (57,752) |
| Adjustments to reconcile net loss to net cash provided from operating activities: | | |
| Loss from discontinued operations | 270 | 3,484 |
| Depreciation expense | 32,550 | 25,951 |
| Amortization expense | 80,710 | 92,642 |
| Amortization of debt issuance costs | 9,263 | 18,269 |
| Gain on extinguishment of debt | (46,106) | |
| Deferred income tax provision (benefit) | 11,480 | (31,621) |
| Option and restricted stock expense | 3,901 | 3,401 |
| Restructuring charges | 12,913 | 7,330 |
| Cash payments related to restructuring charges | (9,955) | (16,236) |
| Merger related charges | 1,448 | 355 |
| Change in working capital, net of acquisitions: | | |
| Current income taxes | 5,202 | 8,680 |
| Receivables | (52,050) | (59,455) |
| Inventories and other current assets | (59,565) | (88,273) |
| Accounts payable | 22,425 | 22,291 |
| Deferred revenue | 46,003 | 88,910 |
| Accrued liabilities | (17,757) | (4,056) |
| Other, net | 7,663 | 4 |
| Net Cash Provided from Operating Activities from Continuing Operations | 71,229 | 13,924 |
| Cash Flows from Investing Activities from Continuing Operations: | | |
| Property additions | (38,893) | (18,121) |
| Sale of equipment and other assets | 1,955 | 4,560 |
| Acquisition of The ServiceMaster Company | (1,119) | (20,957) |
| Other business acquisitions, net of cash acquired | (7,268) | (9,961) |
| Notes receivable, financial investments and securities, net | 3,968 | 76,987 |
| Net Cash (Used for) Provided from Investing Activities from Continuing Operations | (41,357) | 32,508 |
| Cash Flows from Financing Activities from Continuing Operations: | | |
| Borrowings of debt | | 182,000 |
| Payments of debt | (64,807) | (217,288) |
| Debt issue costs paid | (369) | (99) |
| Net Cash Used for Financing Activities from Continuing Operations | (65,176) | (35,387) |
| Cash Flows from Discontinued Operations: | | |
| Cash (used for) provided from operating activities | (1,209) | 7,389 |
| Cash used for investing activities | (914) | (191) |
| Cash used for financing activities | | (96) |
| Net Cash (Used for) Provided from Discontinued Operations | (2,123) | 7,102 |
| Cash (Decrease) Increase During the Period | (37,427) | 18,147 |
| Cash and Cash Equivalents at End of Period | \$ 368,160 | \$ 225,366 |

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 condensed consolidated financial statements include the accounts of The ServiceMaster Company and its subsidiaries, collectively referred to as the Company or ServiceMaster .

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 each issued and outstanding share of ServiceMaster common stock, other than shares held by ServiceMaster or Holdings or their subsidiaries and shares held by stockholders who validly perfected their appraisal rights under Delaware law, was converted into the right to receive \$15.625 in cash (the Merger Consideration). Each share of ServiceMaster common stock owned by ServiceMaster, Holdings or Acquisition Co. or any of their respective direct or indirect wholly-owned subsidiaries was cancelled and retired, and no consideration was paid in exchange for it.

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. (CD&R), Citigroup Private Equity L.P., BAS Capital Funding Corporation and J.P. Morgan Ventures Corporation (collectively, the Equity Sponsors).

Equity contributions totaling \$1,431 million from the Equity Sponsors, together with (i) borrowings under a new \$1,150 million senior unsecured interim loan facility (Interim Loan Facility), (ii) borrowings under a new \$2,650 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 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 draw under, a new \$500 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 (Permanent Notes). The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of Permanent Notes, ServiceMaster entered into a registration rights agreement (the

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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's obligation under the Registration Rights Agreement to keep the registration statement effective has terminated. Accordingly, ServiceMaster may choose to deregister the Permanent Notes and terminate the effectiveness of the registration statement at any time.

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, 2008. 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.

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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, 2008. The following selected accounting policies should be read in conjunction with that Annual Report on 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 contract 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 warranty services, 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 warranty 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). Home service contract revenue is recognized based on the expected emergence of total claim costs. 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, Merry Maids, AmeriSpec and Furniture Medic 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 collectibility 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 collectibility 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 approximately \$14 million and \$18 million for the three months ended June 30, 2009 and 2008, respectively, and consolidated operating income from continuing operations was approximately \$118 million and \$114 million for the three months ended June 30, 2009 and 2008, respectively. Total profits from the franchised operations (excluding trade name licensing) were approximately \$30 million and \$32 million for the six months ended June 30, 2009 and 2008, respectively, and consolidated operating income from continuing operations was approximately \$147 million and \$104 million for the six months ended June 30, 2009 and 2008, respectively. We evaluate the performance of our 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 \$490 million and \$443 million of deferred revenue at June 30, 2009 and December 31, 2008, 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

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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 fiscal 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 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

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value estimates presented in this report are based on information available to the Company as of June 30, 2009 and December 31, 2008.

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, 2008 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 contract 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 and goodwill.

Note 3. Restructuring Charges

The Company is engaged in a reorganization and restructuring of certain of its businesses and support functions known as Fast Forward. Among the purposes of Fast Forward is to eliminate layers and bureaucracy and simplify work processes in order to better align the Company's work processes around its operational and strategic objectives. Fast Forward is being implemented in phases. The first phase involved, among other things, a reduction in work force and various process improvements, including the closing of American Home Shield's call center located in Santa Rosa, California. The second phase includes, among other things, the organization of certain corporate support functions into centers of excellence which are expected to deliver higher quality services to our business units at lower costs, the outsourcing to third party vendors of various business activities that currently are handled internally, as well as other employee workforce reductions expected to result in cost-savings. The first phase of Fast Forward was substantially completed in the first quarter of 2008, and the second phase is underway.

As part of the second phase of Fast Forward, on December 11, 2008, the Company entered into an agreement with International Business Machines Corporation (IBM) pursuant to which IBM will provide information technology operations and applications development services to the Company. The initial term of the agreement is seven years. The agreement commenced on December 11, 2008 and the services were phased in during the first half of 2009. In connection with the agreement, the Company eliminated approximately 275 positions. As a result of the elimination of positions and the transition of information technology services to IBM, the Company incurred charges related to, among other things, employee retention and severance costs, transition fees paid to IBM and other consulting fees. Almost all charges related to the agreement were cash charges and were expensed throughout the transition period. Such charges amounted to approximately \$3.5 million, pre-tax, during 2008 and approximately \$9.5 million, pre-tax, during the first half of 2009. These charges were recorded as restructuring charges in the condensed consolidated statement of operations as incurred. The Company expects to continue to transition services to IBM during the remainder of 2009 and expects charges for the services to amount to approximately \$1.0 million, pre-tax. These charges will be recorded as restructuring charges in the condensed consolidated statement of operations as incurred.

In connection with Fast Forward, the Company incurred costs of approximately \$4.5 million (\$2.8 million after-tax) and \$9.8 million (\$6.0 million after-tax) for the three and six months ended June 30, 2009, respectively, which included the costs described above. Such costs included transition fees paid to IBM of approximately \$3.4 million, employee retention and severance costs of approximately \$0.7 million and consulting and other costs of approximately \$0.4 million for the three months ended June 30, 2009. These charges included transition fees paid to IBM of approximately \$7.2 million, employee retention and severance costs of approximately \$1.6 million and consulting and other costs of approximately \$1.0 million for the six months ended June 30, 2009. In the three and six months ended June 30, 2008, the Company incurred costs of approximately \$4.1 million (\$2.5 million after-tax) and \$6.7 million (\$4.0 million after-tax), respectively, in connection with Fast Forward. The results for the three months ended June 30, 2008 included consulting fees of approximately \$2.1 million and severance, lease termination and other costs of approximately \$2.0 million. For the six months ended June 30, 2008, these charges included consulting fees of approximately \$3.7 million and severance, lease termination and other costs of approximately \$3.0 million.

For the three and six months ended June 30, 2009, Terminix reversed restructuring costs of approximately \$0.1 million (\$0.0 million after-tax) and recorded restructuring costs of approximately \$3.1 million (\$1.9 million after-tax), respectively, relating to a branch optimization project. These costs included a reversal of approximately \$0.1 million of lease termination costs for the three months ended June 30, 2009, and approximately \$2.8 million of lease termination costs and approximately \$0.3 million of severance costs for the six months ended June 30, 2009.

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The results for the three and six months ended June 30, 2008 include restructuring charges related to the Company's consolidation of its corporate headquarters into its operations support center in Memphis, Tennessee and the closing of its headquarters in Downers Grove, Illinois. The transition to Memphis was substantially completed in 2007. Almost all costs related to the transition were cash expenditures, and were expensed throughout the transition period. During the three and six months ended June 30, 2008, the Company reversed net expenses of \$0.1 million (\$0.0 million after-tax) and recorded additional expenses of approximately \$0.6 million (\$0.4 million after-tax), respectively, relating to this relocation.

The pretax charges discussed above are reported in the "Restructuring charges" line in the condensed consolidated statements of operations.

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, 2009, the Company's residual value guarantees related to the leased assets totaled \$94 million for which the Company has recorded the estimated fair value of these guarantees of approximately \$1.8 million in the condensed consolidated statement of financial position.

The Company maintains lease facilities with banks totaling \$65 million, which provide for the financing of branch properties to be leased by the Company. At June 30, 2009, approximately \$65 million was funded under these facilities. Approximately \$12 million of these leases are treated as capital leases and have been included on the balance sheet as assets with related debt as of June 30, 2009. The balance of the funded amount is treated as operating leases. The Company has guaranteed the residual value of the properties under the leases up to 73 percent of the fair market value at the commencement of the lease. At June 30, 2009, the Company's residual value guarantees related to the leased assets totaled \$53 million for which the Company has recorded the estimated fair value of these guarantees of approximately \$0.1 million in the condensed consolidated statements of financial position. 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. The operating lease and capital lease classifications of these leases did not change as a result of the modifications.

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 from third-party insurance carriers. These policies typically incorporate significant deductibles or self-insured retentions. The Company is required to pay all claims that fall below the retention limits. As of June 30, 2009 and December 31, 2008, the Company had accrued self-insured claims of \$143 million and \$146 million, respectively. During the six months ended June 30, 2009 and 2008, the Company recorded provisions for uninsured claims totaling \$18 million and \$19 million, respectively, and the Company paid claims totaling \$22 million and \$28 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 both 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 warranty 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.

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In the ordinary course of conducting its business activities, the Company becomes involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include general and commercial liability and employment actions as well as environmental proceedings. The Company does not expect any of these proceedings to have a material effect on the Company's business, financial condition, annual results of operations or cash flows.

Note 5. Goodwill and Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", 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 table below summarizes the goodwill balances by segment for continuing operations:

| (In thousands) | TruGreen LawnCare | TruGreen LandCare | Terminix | American Home Shield | Other Operations & Headquarters | Total |
|--------------------------|----------------------|----------------------|--------------|----------------------------|---------------------------------------|--------------|
| Balance at Dec. 31, 2008 | \$ 1,161,507 | \$ 45,782 | \$ 1,352,799 | \$ 348,309 | \$ 185,512 | \$ 3,093,909 |
| Acquisitions | 2,090 | | 2,519 | | 1,276 | 5,885 |
| Other(1) | (364) | (946) | (394) | (149) | (98) | (1,951) |
| Balance at June 30, 2009 | \$ 1,163,233 | \$ 44,836 | \$ 1,354,924 | \$ 348,160 | \$ 186,690 | \$ 3,097,843 |

(1) Reflects the amortization of tax deductible goodwill.

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

| (In thousands) | As of June 30, 2009 | | | As of December 31, 2008 | | |
|------------------------|------------------------|-----------------------------|--------------|----------------------------|-----------------------------|--------------|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Trade names(1) | \$ 2,408,100 | \$ | \$ 2,408,100 | \$ 2,408,100 | \$ | \$ 2,408,100 |
| Customer relationships | 662,753 | (280,804) | 381,949 | 660,677 | (209,485) | 451,192 |
| Franchise agreements | 88,000 | (21,344) | 66,656 | 88,000 | (16,270) | 71,730 |
| Other | 49,630 | (16,750) | 32,880 | 49,395 | (12,433) | 36,962 |
| Total | \$ 3,208,483 | \$ (318,898) | \$ 2,889,585 | \$ 3,206,172 | \$ (238,188) | \$ 2,967,984 |

(1) Not subject to amortization.

Note 6. Stock-Based Compensation

During the three and six months ended June 30, 2009, the Company recognized stock-based compensation cost of approximately \$2.0 million (\$0.9 million after-tax) and \$3.9 million (\$2.3 million after-tax), respectively. During the three and six months ended June 30, 2008, the Company recognized stock-based compensation cost of approximately \$1.7 million (\$1.0 million after-tax) and \$3.4 million (\$2.6 million after-tax), respectively. As of June 30, 2009, there was approximately \$22.5 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 2.7 years.

Note 7. Supplemental Cash Flow Information

In the condensed consolidated statements of cash flows, the caption "Cash and cash equivalents" includes investments in short-term, highly-liquid securities having a maturity of three months or less when purchased. Supplemental information relating to the condensed consolidated statements of cash flows for the six months ended June 30, 2009 and 2008 is presented in the following table:

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| (In thousands) | Six months ended | |
|-----------------------------------|------------------|---------------|
| | 2009 | June 30, 2008 |
| Cash paid for or (received from): | | |
| Interest expense | \$ 162,652 | \$ 158,012 |
| Interest and dividend income | (3,626) | (7,342) |
| Income taxes, net of refunds | 195 | 5,913 |

Note 8. Comprehensive Income

Total comprehensive income was \$41.7 million and \$41.7 million for the three and six months ended June 30, 2009, respectively. Total comprehensive income (loss) was \$39.0 million and (\$51.6) million for the three and six months ended June 30, 2008, respectively. Total comprehensive income (loss) 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 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 business and could, at times, limit the amount available to the Company from the sale of these interests.

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 thereunder may be reduced or eliminated. As part of the annual renewal of the facility, which occurred on July 21, 2009, this Purchaser agreed to continue its participation in the arrangement at least through July 2010.

During the three and six months ended June 30, 2009 and 2008, there were no transfers of interests in the pool of accounts receivables to Purchasers under this arrangement. As of June 30, 2009, the Company had \$10.0 million outstanding under the arrangement and had \$40.0 million of remaining capacity available under the accounts receivable securitization arrangement. As of June 30, 2008 there were no amounts outstanding under the arrangement.

The Company has recorded its obligation to repay the third party for its interest in the pool of receivables as long-term debt in these condensed consolidated financial statements. The interest rates applicable to the Company's obligation are based on a fluctuating rate of interest measured based on the third party purchaser's pooled commercial paper rate, as defined (0.34% at June 30, 2009). 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, are included in the condensed consolidated statements of financial position captioned Cash and cash equivalents. As of June 30, 2009 and December 31, 2008, the Company's investments consist primarily of domestic publicly traded debt of \$88.9 million and \$90.1 million, respectively, and common equity securities of \$38.2 million and \$43.0 million, respectively.

The aggregate market value of the Company's short-term and long-term investments in debt and equity securities was \$127.1 million and \$133.1 million, and the aggregate cost basis was \$124.4 million and \$134.9 million at June 30, 2009 and December 31, 2008, respectively.

Gains and losses on sales of investments, as determined on a specific identification basis, are included in investment income in the period they are realized. 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

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financial condition of the issuer or the market(s) in which it competes. The Company recorded an impairment charge of approximately \$0.5 million (\$0.2 million after-tax) and \$5.9 million (\$3.4 million after-tax) during the three and six months ended June 30, 2009, respectively, due to other than temporary declines in the value of certain investments. The Company recorded an impairment charge of approximately \$3.0 million (\$1.8 million after-tax) and \$8.2 million (\$6.2 million after-tax) during the three and six months ended June 30, 2008, respectively, due to other than temporary declines in the value of certain investments. The unrealized gains in the investment portfolio were approximately \$5.8 million and \$4.2 million as of June 30, 2009 and December 31, 2008, respectively. Unrealized losses were approximately \$3.1 million and \$6.0 million as of June 30, 2009 and December 31, 2008, respectively. The portion of unrealized losses which have been in a loss position for more than one year at June 30, 2009 and December 31, 2008 was approximately \$0.4 million and \$0.4 million, respectively. The aggregate fair value of the investments with unrealized losses totaled \$22.6 million and \$26.8 million at June 30, 2009 and December 31, 2008, respectively.

Note 11. Long-Term Debt

Long-term debt at June 30, 2009 and December 31, 2008 is summarized in the following table:

| (In thousands) | As of June 30, 2009 | As of December 31, 2008 |
|--|---------------------------|-------------------------------|
| Senior secured term loan facility maturing in 2014 | \$ 2,597,000 | \$ 2,610,250 |
| 10.75% /11.50% senior toggle notes maturing in 2015(1) | 1,061,000 | 1,150,000 |
| Revolving credit facility maturing in 2013 | 165,000 | 165,000 |
| 7.10% notes maturing in 2018(2) | 62,661 | 61,698 |
| 7.45% notes maturing in 2027(2) | 146,550 | 145,215 |
| 7.25% notes maturing in 2038(2) | 59,420 | 59,016 |
| Other | 65,084 | 74,913 |
| Less current portion | (219,105) | (221,269) |
| Total long-term debt | \$ 3,937,610 | \$ 4,044,823 |

- (1) During the first quarter of 2009, the Company completed open market purchases of \$89.0 million in face value of our Permanent Notes for a cost of \$41.0 million. The debt acquired by the Company has been retired, and the Company has discontinued the payment of interest. The Company recorded a gain on extinguishment of debt of \$46.1 million in its condensed consolidated statement of operations for the six months ended June 30, 2009 related to these retirements. Included in the gain on extinguishment of debt are write-offs of unamortized debt issuance costs related to the extinguished debt of \$1.9 million.
- (2) The increase in the balance from December 31, 2008 to June 30, 2009 reflects the amortization of fair value adjustments related to purchase accounting, which effectively increases the stated coupon interest rates.

Note 12. Discontinued Operations

Reported loss from discontinued operations, net of income taxes for all periods presented includes the operating results of the sold and discontinued businesses noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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The operating results and financial position of discontinued operations are as follows:

| (In thousands) | Three months ended | |
|--|--------------------|---------------|
| | 2009 | June 30, 2008 |
| Operating Results: | | |
| Operating revenue | \$ 56 | \$ 21,834 |
| Operating (loss) income | (177) | 1,766 |
| Interest expense | | (29) |
| Impairment charge | | (6,317) |
| Loss from discontinued operations, before income taxes | (177) | (4,580) |
| Benefit from income taxes | (70) | (1,844) |
| Loss from discontinued operations, net of income taxes | \$ (107) | \$ (2,736) |

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| (In thousands) | Six months ended | |
|--|------------------|---------------|
| | 2009 | June 30, 2008 |
| Operating Results: | | |
| Operating revenue | \$ 56 | \$ 39,640 |
| Operating (loss) income | (441) | 629 |
| Interest expense | | (70) |
| Impairment charge | | (6,317) |
| Loss from discontinued operations, before income taxes | (441) | (5,758) |
| Benefit for income taxes | (171) | (2,274) |
| Loss from discontinued operations, net of income taxes | \$ (270) | \$ (3,484) |

| (In thousands) | As of | As of |
|----------------------------|---------------|-------------------|
| | June 30, 2009 | December 31, 2008 |
| Financial Position: | | |
| Current assets | \$ 49 | \$ 412 |
| Total assets | \$ 49 | \$ 412 |
| Current liabilities | \$ 2,912 | \$ 4,870 |
| Long-term liabilities | 4,059 | 4,077 |
| Total liabilities | \$ 6,971 | \$ 8,947 |

The table below summarizes the activity for the six months ended June 30, 2009 for the remaining liabilities from operations that were disposed of in years prior to 2009. 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 | Cash Payments or Other | (Income)/ Expense | As of |
|--|-------------------|---------------------------|----------------------|---------------|
| | December 31, 2008 | | | June 30, 2009 |
| Remaining liabilities of discontinued operations: | | | | |
| ARS/AMS | \$ 2,331 | \$ | \$ 299 | \$ 2,630 |
| LandCare Construction | 869 | (103) | (38) | 728 |
| LandCare utility line clearing business | 1,099 | (107) | | 992 |
| Certified Systems, Inc. and other | 3,558 | (1,261) | | 2,297 |
| InStar | 1,090 | (766) | | 324 |
| Total liabilities of discontinued operations | \$ 8,947 | \$ (2,237) | \$ 261 | \$ 6,971 |

Note 13. Income Taxes

At December 31, 2008, the Company had \$14.2 million of tax benefits primarily reflected in state tax returns that had not been recognized for financial reporting purposes (unrecognized tax benefits). During the three and six months ended June 30, 2009, unrecognized tax benefits increased by \$0.7 million and decreased by \$2.8 million, respectively. In addition, accrued estimated tax interest and penalties increased by \$0.4 million and decreased by \$0.3 million for the three and six months ended June 30, 2009, respectively. 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 \$2.3 million during the next 12 months.

In the first quarter of 2009, the IRS completed the audit of the Company's tax return for the year ended December 31, 2007 with no adjustments or additional payments.

Note 14. Business Segment Reporting

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

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In accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, 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 HVAC, plumbing and other home systems and appliances. The Other Operations and Headquarters segment includes the franchised and Company-owned operations of ServiceMaster Clean, AmeriSpec, Furniture Medic and Merry Maids, which provide primarily residential disaster restoration, commercial cleaning, carpet and upholstery cleaning, home inspection services, furniture repair and house cleaning services. The Other Operations and Headquarters segment also includes the Company's headquarters operations, which provide various technology, marketing, finance, legal and other support services to the business units.

Segment information for continuing operations is presented below.

| (In thousands) | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------------------|--------------------------------|------------|------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Operating Revenue: | | | | |
| TruGreen LawnCare | \$ 348,403 | \$ 377,296 | \$ 483,069 | \$ 511,738 |
| TruGreen LandCare | 69,433 | 83,877 | 136,318 | 162,529 |
| Terminix | 307,375 | 311,774 | 570,536 | 573,422 |
| American Home Shield | 179,823 | 167,570 | 310,691 | 272,988 |
| Other Operations and Headquarters | 52,258 | 56,788 | 102,605 | 108,859 |
| Total Operating Revenue | \$ 957,292 | \$ 997,305 | \$ 1,603,219 | \$ 1,629,536 |
| Operating Income (Loss):(1),(2),(3) | | | | |
| TruGreen LawnCare | \$ 39,513 | \$ 55,913 | \$ 20,126 | \$ 21,854 |
| TruGreen LandCare | (1,479) | (2,693) | 4,217 | (602) |
| Terminix | 62,172 | 59,682 | 108,663 | 102,895 |
| American Home Shield | 26,607 | 9,401 | 32,061 | (8,291) |
| Other Operations and Headquarters(2) | (8,808) | (8,124) | (18,384) | (11,979) |
| Total Operating Income | \$ 118,005 | \$ 114,179 | \$ 146,683 | \$ 103,877 |

(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, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Total Segment Operating Income | \$ 118,005 | \$ 114,179 | \$ 146,683 | \$ 103,877 |
| Non-operating expense (income): | | | | |
| Interest expense | 74,656 | 83,425 | 151,322 | 173,011 |
| Interest and net investment (income) loss | (3,395) | (4,164) | 1,366 | 1,881 |
| Gain on extinguishment of debt | | | (46,106) | |
| Minority interest and other expense, net | 179 | 145 | 379 | 277 |
| Income (Loss) from Continuing Operations before Income Taxes | \$ 46,565 | \$ 34,773 | \$ 39,722 | \$ (71,292) |

(2) The results include restructuring charges related to (i) Fast Forward, (ii) a branch optimization project at Terminix and (iii) the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downers Grove, Illinois. The restructuring charges totaled \$4.4 million and \$12.9 million in the three and six months ended

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June 30, 2009, respectively, and \$4.0 million and \$7.3 million for the three and six months ended June 30, 2008, respectively. Presented below is a summary of restructuring charges by reportable segments.

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| (In thousands) | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|--------------------------------|----------|------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Restructuring charges | | | | |
| TruGreen LawnCare | \$ | \$ 35 | \$ | \$ 316 |
| TruGreen LandCare | (21) | 623 | (51) | 202 |
| Terminix | (69) | | 3,151 | 57 |
| American Home Shield | 36 | 448 | 75 | 448 |
| Other Operations and Headquarters | 4,484 | 2,899 | 9,738 | 6,307 |
| Total Restructuring charges | \$ 4,430 | \$ 4,005 | \$ 12,913 | \$ 7,330 |

(3) The results include Merger charges related to the purchase of ServiceMaster by a group of investors led by CD&R. The Merger related charges totaled \$1.2 million and \$1.4 million for the three and six months ended June 30, 2009, respectively, and \$0.3 million and \$0.4 million for the three and six months ended June 30, 2008, respectively. All Merger related charges are included in the Other Operations and Headquarters segment.

Note 15. Related Party Transactions

In connection with the Transactions, the Company entered into a consulting agreement with CD&R under which CD&R provides the Company with on-going consulting and management advisory services in exchange for an annual management fee of \$2 million, which is payable quarterly. The Company recorded a management fee of \$0.5 million and \$1.0 million for the three and six months ended June 30, 2009, respectively, and \$0.5 million and \$1.0 million for the three and six months ended June 30, 2008, respectively. The consulting agreement also provides that CD&R may receive additional fees in connection with certain subsequent financing and acquisition or disposition transactions. The management fee increased in July 2009 as described in Note 18.

The Company was advised by Holdings that, during the first quarter of 2009, Holdings completed open market purchases of \$11.0 million in face value of our Permanent Notes for a cost of \$4.5 million. Holdings did not complete any additional open market purchases of our Permanent Notes in the second quarter of 2009. As of June 30, 2009, Holdings has completed open market purchases totaling \$65.0 million in face value of our Permanent Notes for a cost of \$21.4 million. As of June 30, 2008, Holdings had not completed any open market purchases of our Permanent Notes. 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 \$1.7 million and \$3.4 million during the three and six months ended June 30, 2009, respectively. The Company made cash payments for interest to Holdings of \$3.0 million during the first quarter of 2009 and did not make cash payments for interest during the second quarter of 2009. Interest accrued by the Company and payable to Holdings as of June 30, 2009 amounted to \$3.2 million.

Note 16. Newly Issued Accounting Statements and Positions

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, Fair Value Measurement . This Statement defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. In February 2008, the FASB approved FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), that permits companies to partially defer the effective date of SFAS No. 157 for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-2 does not permit companies to defer recognition and disclosure requirements for financial assets and financial

liabilities or for non-financial assets and non-financial liabilities that are re-measured at least annually. SFAS No. 157 therefore is effective for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that are re-measured at least annually for fiscal years beginning after November 15, 2007. It is effective for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for fiscal years beginning after November 15, 2008. In October 2008, the FASB approved FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3), which clarified the application of SFAS No. 157 in cases where the market for the asset is not active. FSP 157-3 was effective upon issuance. The Company considered the guidance provided by FSP 157-3 in the preparation of the accompanying condensed consolidated financial statements. The Company has assessed the impact of this Statement to the Company's condensed consolidated financial position, results of operations and cash flows. The Company adopted this Statement for financial assets and liabilities in 2008 and for non-financial assets and liabilities in the first quarter of 2009.

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The adoption of this Statement for non-financial assets and liabilities recognized at fair value on a nonrecurring basis did not have a material effect on these condensed consolidated financial statements. In April 2009, the FASB issued FASB Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted FSP 157-4 during the second quarter of 2009, and its application had no impact on the Company's condensed consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*. This Statement will significantly change the accounting for business combinations and is effective for business combinations finalized in fiscal years beginning after December 15, 2008. SFAS No. 141(R) changes the method for applying the accounting for business combinations in a number of significant respects including the requirement to expense transaction fees and expected restructuring costs as incurred, rather than including these amounts in the allocated purchase price; the requirement to recognize the fair value of contingent consideration at the acquisition date, rather than the expected amount when the contingency is resolved; the requirement to recognize the fair value of acquired in-process research and development assets at the acquisition date, rather than immediately expensing; and the requirement to recognize a gain in relation to a bargain purchase price, rather than reducing the allocated basis of long-lived assets. In addition, SFAS No. 141(R) requires that changes in the amount of acquired tax attributes be included in the Company's results of operations, rather than adjusting the allocated purchase price. SFAS No. 141(R) was effective on January 1, 2009 and is being applied prospectively to business combinations that have an acquisition date on or after January 1, 2009. While SFAS No. 141(R) applies only to business combinations with an acquisition date after its effective date, the amendments to SFAS No. 109, *Accounting for Income Taxes*, with respect to deferred tax asset valuation allowances and liabilities for income tax uncertainties, will be applied to all deferred tax valuation allowances and liabilities for income tax uncertainties recognized in prior business combinations. In April 2009, the FASB issued FASB Staff Position FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141(R)-1), which amends and clarifies SFAS No. 141(R) to address application on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The provisions of SFAS No. 141(R) and FSP 141(R)-1 will not impact the Company's condensed consolidated financial statements for prior periods. The Company adopted SFAS No. 141(R) and FSP 141(R)-1 during the first quarter of 2009. The adoption of these standards did not have a material effect on the Company's condensed consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*. This Statement establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years beginning after December 15, 2008, with presentation and disclosure requirements applied retrospectively to comparative financial statements. The Company adopted the provisions of this standard in the first quarter of 2009. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* - an amendment of FASB Statement No. 133. This statement requires additional disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS No. 133 and related interpretations, and how derivative instruments and related hedged items affect the entity's financial position, results of operations and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this standard in the first quarter of 2009 (See Note 17).

In April 2008, the FASB approved FASB Staff Position FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted FSP 142-3 in the first quarter of 2009. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2), which changes existing guidance for determining whether an impairment of debt securities is other than temporary. FSP 115-2 requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses)

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which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it is more likely than not that it will not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting FSP 115-2, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. FSP 115-2 is effective for interim and annual periods ending after June 15, 2009. The Company adopted FSP 115-2 as of April 1, 2009. The adoption of FSP 115-2 did not have a material impact on the Company's condensed consolidated financial statements (See Note 17).

In April 2009, the FASB issued FASB Staff Position (FSP) 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1 and APB 28-1). FSP 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Values of Financial Instruments, to require disclosures about the fair value of financial instruments in interim financial statements as well as in annual financial statements. It also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. The Company adopted FSP 107-1 and APB 28-1 effective April 1, 2009 (See Note 17).

In May 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS No. 165 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted SFAS No. 165 during the second quarter of 2009, and its application had no impact on the Company's condensed consolidated financial statements (See Note 18).

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 . The Codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and is not expected to have a material impact on the Company's financial statements.

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 receivables 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 statements of operations if the decline in value is other than temporary. The carrying amount of total debt was \$4,157 million and \$4,266 million and the estimated fair value was approximately \$3,399 million and \$2,166 million at June 30, 2009 and December 31, 2008. 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, 2009 and December 31, 2008.

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

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derivative contracts, which are carried at their fair values, the Company's fair value estimates incorporate quoted market prices, other observable inputs (for example, interest rates) and unobservable inputs (for example, forward commodity prices) at the balance sheet date.

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:

| (In thousands) | Balance Sheet Locations | Carrying Value | As of June 30, 2009 Estimated Fair Value Measurements | | | As of December 31, 2008 | |
|---------------------------------------|---|-------------------|---|---|---|----------------------------|----------------------|
| | | | 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 | \$ 8,495 | \$ 8,495 | \$ | \$ | \$ 9,901 | \$ 9,901 |
| Investments in marketable securities: | Marketable securities and Long-term marketable securities | 118,599 | 45,639 | 72,960 | | 123,161 | 123,161 |
| Fuel swap contracts: | | | | | | | |
| Current | Prepaid expenses and other assets | 3,730 | | | 3,730 | | |
| Noncurrent | Other assets | 3,276 | | | 3,276 | | |
| Total financial assets | | \$ 134,100 | \$ 54,134 | \$ 72,960 | \$ 7,006 | \$ 133,062 | \$ 133,062 |
| Financial Liabilities: | | | | | | | |
| Fuel swap contracts | | | | | | | |
| Current | Other accrued liabilities | \$ 11,214 | \$ | \$ | \$ 11,214 | \$ 23,607 | \$ 23,607 |
| Noncurrent | Other Long-term obligations | 559 | | | 559 | 1,317 | 1,317 |
| Interest rate swap contracts | Other Long-term obligations | 57,299 | | 57,299 | | 59,852 | 59,852 |
| Total financial liabilities | | \$ 69,072 | \$ | \$ 57,299 | \$ 11,773 | \$ 84,776 | \$ 84,776 |

A reconciliation of the beginning and ending fair values of financial instruments valued using significant unobservable inputs (Level 3) for the six months ended June 30, 2009 and June 30, 2008, respectively, is presented as follows:

| (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 |

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Balance at June 30, 2009 \$ (4,767)

| (In thousands) | Fuel Swap Contract Assets (Liabilities) | |
|--|--|---------|
| Balance at December 31, 2007 | \$ | |
| Total gains (losses) (realized and unrealized) | | |
| Included in earnings(1) | | 3,913 |
| Included in other comprehensive income | | 10,871 |
| Settlements, net | | (3,913) |
| Balance at June 30, 2008 | \$ | 10,871 |

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(1) Gains 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 Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments*, the Company formally documents 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 28 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. In accordance with SFAS No. 133, all of the Company's fuel hedges and 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 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 SFAS No. 133 is recognized in current period earnings. Cash flows related to fuel and interest rate derivatives are classified as operating activities in the condensed consolidated statements 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, 2009 and June 30, 2008, respectively, is presented as follows:

| Derivatives in SFAS No. 133 Cash Flow Hedge Relationships | Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss Six months ended June 30, 2009 | Effective Portion of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (AOCI) into Income | | Location of Gain (Loss) included in Income |
|---|--|--|---|--|
| | | | | |
| Fuel swap contracts | \$ 20,157 | \$ (14,781) |) | Cost of services rendered and products sold |
| Interest rate swap contracts | \$ 2,553 | \$ (23,389) | | Interest Expense |

| Derivatives in SFAS No. 133 Cash Flow Hedge Relationships | Effective Portion of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss Six months ended June 30, 2008 | Effective Portion of Gain (Loss) Reclassified from AOCI into Income | | Location of Gain (Loss) included in Income |
|---|--|---|--|--|
| | | | | |
| Fuel swap contracts | \$ 10,871 | \$ 3,913 | | Cost of services rendered and products sold |
| Interest rate swap contracts | \$ 6,739 | \$ (5,561) | | Interest Expense |

Ineffective portions of derivative instruments designated in SFAS No. 133 cash flow hedge relationships were insignificant during three and six months ended June 30, 2009. As of June 30, 2009, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of \$96.8 million, maturing through 2010. Under the terms of its fuel swap contracts, the Company is required to post collateral in the event that the fair value of the contracts exceeds a certain agreed upon liability level. As of June 30, 2009, the Company posted approximately

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\$10.0 million in letters of credit as collateral for these contracts, \$5.0 million of which were posted under the Company's Revolving Credit Facility. As of June 30, 2009, the Company had interest rate swap contracts to pay fixed rates for interest on long-term debt with an aggregate notional amount of \$1.430 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 twelve 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 gain of \$30.3 million, after-tax, at June 30, 2009. 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.

Note 18. Subsequent Events

On July 20, 2009, the Company repaid \$125.0 million of debt outstanding under the Revolving Credit Facility.

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. The full year management fee will apply in 2009, and the fees relating to the first three quarters of 2009 will be paid to CD&R in the third quarter of 2009.

In August 2009, the boards of directors of the Company and Holdings approved consulting agreements with Citigroup Alternative Investments LLC (Citigroup), BAS Capital Funding Corporation (BAS) and JPMorgan Chase (formerly known as J.P. Morgan Ventures Corporation, JPMorgan), each of which is an Equity Sponsor or an affiliate of an Equity Sponsor. Under the consulting agreements, Citigroup, BAS and JPMorgan each will provide the Company with on-going consulting and management advisory services until June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company will pay annual management fees of \$0.5 million, \$0.5 million and \$0.25 million, respectively, to Citigroup, BAS and JPMorgan. The full year management fees will apply in 2009, and the fees relating to the first three quarters of 2009 will be paid to Citigroup, BAS and J.P. Morgan in the third quarter of 2009. A form of the consulting agreements is attached as Exhibit 10.1 and is incorporated herein by reference. The definitive agreements with Citigroup, BAS and JPMorgan are in the process of being executed.

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The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was August 14, 2009.

Note 19. 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.

On July 24, 2008, outstanding amounts under the Interim Loan Facility converted into the Permanent Notes. 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).

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Operations****For the Three Months Ended June 30, 2009****(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 |
| Merger related charges | 1,154 | | | | 1,154 |
| Restructuring charges | | (90) | 4,520 | | 4,430 |
| 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 | \$ 22,285 | \$ 70,671 | \$ (13,393) | \$ (57,278) | \$ 22,285 |

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Operations****For the Three Months Ended June 30, 2008****(in thousands)**

| | The ServiceMaster Company | Guarantors | Non- Guarantors | Eliminations | Consolidated |
|---|--|-------------------|----------------------------|---------------------|---------------------|
| Operating Revenue | \$ | \$ 805,144 | \$ 211,100 | \$ (18,939) | \$ 997,305 |
| Operating Costs and Expenses: | | | | | |
| Cost of services rendered and products sold | | 509,020 | 99,653 | (18,939) | 589,734 |
| Selling and administrative expenses | 1,551 | 160,297 | 85,266 | | 247,114 |
| Amortization expense | 56 | 30,584 | 11,328 | | 41,968 |
| Merger related charges | 305 | | | | 305 |
| Restructuring charges | | 1,308 | 2,697 | | 4,005 |
| Total operating costs and expenses | 1,912 | 701,209 | 198,944 | (18,939) | 883,126 |
| Operating (Loss) Income | (1,912) | 103,935 | 12,156 | | 114,179 |
| Non-operating Expense (Income): | | | | | |
| Interest expense (income) | 83,166 | 1,513 | (1,254) | | 83,425 |
| Interest and net investment loss (income) | 564 | 648 | (5,376) | | (4,164) |
| Other expense | | | 145 | | 145 |
| (Loss) Income from Continuing Operations before Income Taxes | (85,642) | 101,774 | 18,641 | | 34,773 |
| (Benefit) provision for income taxes | (23,638) | 28,046 | 9,539 | | 13,947 |
| (Loss) Income from Continuing Operations | (62,004) | 73,728 | 9,102 | | 20,826 |
| Loss from discontinued operations, net of income taxes | | | (2,736) | | (2,736) |
| Equity in earnings of subsidiaries (net of tax) | 80,094 | 2,801 | | (82,895) | |
| Net Income | \$ 18,090 | \$ 76,529 | \$ 6,366 | \$ (82,895) | \$ 18,090 |

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Operations****For the Six Months Ended June 30, 2009****(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 |
| Merger related charges | 1,448 | | | | 1,448 |
| Restructuring charges | | 3,100 | 9,813 | | 12,913 |
| 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 | \$ 22,834 | \$ 82,352 | \$ (12,748) | \$ (69,604) | \$ 22,834 |

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Operations****For the Six Months Ended June 30, 2008****(in thousands)**

| | The ServiceMaster Company | Guarantors | Non- Guarantors | Eliminations | Consolidated |
|---|--|-------------------|----------------------------|---------------------|---------------------|
| Operating Revenue | \$ | \$ 1,322,192 | \$ 342,706 | \$ (35,362) | \$ 1,629,536 |
| Operating Costs and Expenses: | | | | | |
| Cost of services rendered and products sold | | 876,752 | 165,712 | (35,362) | 1,007,102 |
| Selling and administrative expenses | 3,259 | 261,726 | 153,245 | | 418,230 |
| Amortization expense | 111 | 69,656 | 22,875 | | 92,642 |
| Merger related charges | 355 | | | | 355 |
| Restructuring charges | | 1,394 | 5,936 | | 7,330 |
| Total operating costs and expenses | 3,725 | 1,209,528 | 347,768 | (35,362) | 1,525,659 |
| Operating (Loss) Income | (3,725) | 112,664 | (5,062) | | 103,877 |
| Non-operating Expense (Income): | | | | | |
| Interest expense (income) | 170,874 | 3,781 | (1,644) | | 173,011 |
| Interest and net investment loss (income) | 3,449 | 1,296 | (2,864) | | 1,881 |
| Other expense | | | 277 | | 277 |
| (Loss) Income from Continuing Operations before Income Taxes | (178,048) | 107,587 | (831) | | (71,292) |
| (Benefit) provision for income taxes | (51,513) | 22,504 | 11,985 | | (17,024) |
| (Loss) Income from Continuing Operations | (126,535) | 85,083 | (12,816) | | (54,268) |
| Loss from discontinued operations, net of income taxes | | | (3,484) | | (3,484) |
| Equity in earnings (losses) of subsidiaries (net of tax) | 68,783 | (18,615) | | (50,168) | |
| Net (Loss) Income | \$ (57,752) | \$ 66,468 | \$ (16,300) | \$ (50,168) | \$ (57,752) |

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Financial Position**

As of June 30, 2009

(in thousands)

| | The ServiceMaster Company | | Non- Guarantors | | Eliminations | Consolidated | | | | |
|--|---------------------------------|-----------|--------------------|-----------|--------------|--------------|----|-------------|-----------|-----------|
| Assets | | | | | | | | | | |
| Current Assets: | | | | | | | | | | |
| Cash and cash equivalents | \$ | 217,207 | \$ | 18,390 | \$ | 132,563 | \$ | 368,160 | | |
| Marketable securities | | | | | | 24,309 | | 24,309 | | |
| Receivables | | 1,151 | | 173,234 | | 413,923 | | (198,380) | 389,928 | |
| Inventories | | | | 78,194 | | 2,966 | | | 81,160 | |
| Prepaid expenses and other assets | | 5,885 | | 49,839 | | 17,372 | | | 73,096 | |
| Deferred customer acquisition costs | | | | 33,540 | | 20,987 | | | 54,527 | |
| Deferred taxes | | 2,994 | | 28,666 | | 1,245 | | | 32,905 | |
| Assets of discontinued operations | | | | | | 49 | | | 49 | |
| Total Current Assets | | 227,237 | | 381,863 | | 613,414 | | (198,380) | 1,024,134 | |
| Property and Equipment: | | | | | | | | | | |
| At cost | | | | 246,267 | | 79,750 | | | 326,017 | |
| Less: accumulated depreciation | | | | (73,386) | | (30,186) | | | (103,572) | |
| Net property and equipment | | | | 172,881 | | 49,564 | | | 222,445 | |
| Other Assets: | | | | | | | | | | |
| Goodwill | | | | 2,735,244 | | 362,599 | | | 3,097,843 | |
| Intangible assets, primarily trade names, service marks and trademarks, net | | | | 2,072,511 | | 817,074 | | | 2,889,585 | |
| Notes receivable | | 325,844 | | 781 | | 23,632 | | (325,845) | 24,412 | |
| Long-term marketable securities | | 8,495 | | | | 94,290 | | | 102,785 | |
| Investments in and advances to subsidiaries | | 5,584,461 | | 1,676,992 | | 62,163 | | (7,323,616) | | |
| Other assets | | 92,798 | | 739 | | 5,536 | | (62,715) | 36,358 | |
| Debt issuance costs | | 74,057 | | | | | | | 74,057 | |
| Total Assets | \$ | 6,312,892 | \$ | 7,041,011 | \$ | 2,028,272 | \$ | (7,910,556) | \$ | 7,471,619 |
| Liabilities and Shareholders Equity | | | | | | | | | | |
| Current Liabilities: | | | | | | | | | | |
| Accounts payable | \$ | 537 | \$ | 74,723 | \$ | 41,182 | \$ | | 116,442 | |
| Accrued liabilities: | | | | | | | | | | |
| Payroll and related expenses | | 2,028 | | 39,786 | | 34,455 | | | 76,269 | |
| Self-insured claims and related expenses | | | | 22,166 | | 72,321 | | | 94,487 | |
| Other | | 58,808 | | 40,973 | | 66,012 | | | 165,793 | |
| Deferred revenue | | | | 194,965 | | 294,791 | | | 489,756 | |
| Liabilities of discontinued operations | | | | | | 2,912 | | | 2,912 | |
| Current portion of long-term debt | | 286,565 | | 16,971 | | 113,949 | | (198,380) | 219,105 | |
| Total Current Liabilities | | 347,938 | | 389,584 | | 625,622 | | (198,380) | 1,164,764 | |
| Long-Term Debt | | 3,900,496 | | 340,587 | | 22,372 | | (325,845) | 3,937,610 | |
| Other Long-Term Liabilities: | | | | | | | | | | |

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| | | | | | |
|--|---------------------|---------------------|---------------------|-----------------------|------------------|
| Deferred taxes | | 771,640 | 282,292 | (62,715) | 991,217 |
| Intercompany payable | 806,421 | | | (806,421) | |
| Liabilities of discontinued operations | | | 4,059 | | 4,059 |
| Other long-term obligations, primarily self-insured claims | 80,038 | 2,796 | 113,136 | | 195,970 |
| Total Other Long-Term Liabilities | 886,459 | 774,436 | 399,487 | (869,136) | 1,191,246 |
| Shareholder s Equity | 1,177,999 | 5,536,404 | 980,791 | (6,517,195) | 1,177,999 |
| Total Liabilities and Shareholder s Equity \$ | 6,312,892 \$ | 7,041,011 \$ | 2,028,272 \$ | (7,910,556) \$ | 7,471,619 |

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Financial Position**

As of December 31, 2008

(in thousands)

| | The ServiceMaster Company | | Non- Guarantors | | Eliminations | Consolidated | | | | |
|--|---------------------------------|-----------|--------------------|-----------|--------------|--------------|----|-------------|-----------|-----------|
| Assets | | | | | | | | | | |
| Current Assets: | | | | | | | | | | |
| Cash and cash equivalents | \$ | 300,362 | \$ | 12,105 | \$ | 93,120 | \$ | 405,587 | | |
| Marketable securities | | | | | | 22,928 | | 22,928 | | |
| Receivables | | 1,100 | | 138,623 | | 387,271 | | (191,067) | 335,927 | |
| Inventories | | | | 77,740 | | 2,278 | | | 80,018 | |
| Prepaid expenses and other assets | | 11,130 | | 16,687 | | 9,831 | | | 37,648 | |
| Deferred customer acquisition costs | | | | 14,576 | | 21,938 | | | 36,514 | |
| Deferred taxes | | 10,249 | | 27,755 | | 4,941 | | | 42,945 | |
| Assets of discontinued operations | | | | | | 412 | | | 412 | |
| Total Current Assets | | 322,841 | | 287,486 | | 542,719 | | (191,067) | 961,979 | |
| Property and Equipment: | | | | | | | | | | |
| At cost | | | | 213,036 | | 74,782 | | | 287,818 | |
| Less: accumulated depreciation | | | | (50,917) | | (21,272) | | | (72,189) | |
| Net property and equipment | | | | 162,119 | | 53,510 | | | 215,629 | |
| Other Assets: | | | | | | | | | | |
| Goodwill | | | | 2,732,432 | | 361,477 | | | 3,093,909 | |
| Intangible assets, primarily trade names, service marks and trademarks, net | | | | 2,133,376 | | 834,608 | | | 2,967,984 | |
| Notes receivable | | 323,688 | | 778 | | 24,850 | | (323,688) | 25,628 | |
| Long-term marketable securities | | 9,901 | | | | 100,233 | | | 110,134 | |
| Investments in and advances to subsidiaries | | 5,515,710 | | 1,579,274 | | 138,363 | | (7,233,347) | | |
| Other assets | | 93,283 | | 933 | | 7,494 | | (66,360) | 35,350 | |
| Debt issuance costs | | 83,014 | | | | | | | 83,014 | |
| Total Assets | \$ | 6,348,437 | \$ | 6,896,398 | \$ | 2,063,254 | \$ | (7,814,462) | \$ | 7,493,627 |
| Liabilities and Shareholders Equity | | | | | | | | | | |
| Current Liabilities: | | | | | | | | | | |
| Accounts payable | \$ | 370 | \$ | 44,096 | \$ | 44,776 | \$ | | 89,242 | |
| Accrued liabilities: | | | | | | | | | | |
| Payroll and related expenses | | 1,888 | | 34,515 | | 46,633 | | | 83,036 | |
| Self-insured claims and related expenses | | | | 21,257 | | 70,666 | | | 91,923 | |
| Other | | 95,582 | | 38,259 | | 68,333 | | | 202,174 | |
| Deferred revenue | | | | 147,421 | | 296,005 | | | 443,426 | |
| Liabilities of discontinued operations | | | | | | 4,870 | | | 4,870 | |
| Current portion of long-term debt | | 285,365 | | 17,538 | | 109,433 | | (191,067) | 221,269 | |
| Total Current Liabilities | | 383,205 | | 303,086 | | 640,716 | | (191,067) | 1,135,940 | |
| Long-Term Debt | | 4,000,424 | | 347,301 | | 20,786 | | (323,688) | 4,044,823 | |
| Other Long-Term Liabilities: | | | | | | | | | | |

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| | | | | | |
|--|---------------------|---------------------|---------------------|-----------------------|------------------|
| Deferred taxes | | 769,146 | 278,960 | (66,360) | 981,746 |
| Intercompany payable | 749,800 | | | (749,800) | |
| Liabilities of discontinued operations | | | 4,077 | | 4,077 |
| Other long-term obligations, primarily self-insured claims | 82,649 | 3,381 | 108,652 | | 194,682 |
| Total Other Long-Term Liabilities | 832,449 | 772,527 | 391,689 | (816,160) | 1,180,505 |
| Shareholder s Equity | 1,132,359 | 5,473,484 | 1,010,063 | (6,483,547) | 1,132,359 |
| Total Liabilities and Shareholder s Equity \$ | 6,348,437 \$ | 6,896,398 \$ | 2,063,254 \$ | (7,814,462) \$ | 7,493,627 |

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Cash Flows****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: | | | | | |
| Borrowings of debt | | | | | |
| Payments of debt | (54,635) | (8,249) | (1,923) | | (64,807) |
| Shareholders' dividends | | (21,817) | (21,817) | 43,634 | |
| Debt issuance costs paid | (369) | | | | (369) |
| Net intercompany advances | 55,670 | (132,980) | 77,310 | | |
| Net Cash Provided from (Used for) Financing Activities from Continuing Operations | 666 | (163,046) | 53,570 | 43,634 | (65,176) |
| Cash Flows from Discontinued Operations: | | | | | |
| Cash provided from operating activities | | | (1,209) | | (1,209) |
| Cash used for investing activities | | | (914) | | (914) |
| Cash used for financing activities | | | | | |
| Net Cash Provided from 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 |
|---|----|---------|----|--------|----|---------|----|---------|

Table of Contents**THE SERVICEMASTER COMPANY AND SUBSIDIARIES****Condensed Consolidating Statement of Cash Flows****For the Six Months Ended June 30, 2008****(in thousands)**

| | The ServiceMaster Company | Guarantors | Non- Guarantors | Eliminations | Consolidated |
|--|---------------------------------|------------|--------------------|--------------|--------------|
| Cash and Cash Equivalents at Beginning of Period | \$ 100,429 | \$ 14,999 | \$ 91,791 | \$ | \$ 207,219 |
| Net Cash (Used for) Provided from Operating Activities from Continuing Operations | (76,190) | 180,662 | (3,806) | (86,742) | 13,924 |
| Cash Flows from Investing Activities from Continuing Operations: | | | | | |
| Property additions | | (13,300) | (4,821) | | (18,121) |
| Sale of equipment and other assets | | 4,505 | 55 | | 4,560 |
| Acquisition of The ServiceMaster Company | (20,957) | | | | (20,957) |
| Other business acquisitions, net of cash acquired | | (9,847) | (114) | | (9,961) |
| Notes receivable, financial investments and securities, net | 1,003 | | 75,984 | | 76,987 |
| Net Cash (Used for) Provided from Investing Activities from Continuing Operations | (19,954) | (18,642) | 71,104 | | 32,508 |
| Cash Flows from Financing Activities from Continuing Operations: | | | | | |
| Borrowings of debt | 182,000 | | | | 182,000 |
| Payments of debt | (195,625) | (19,858) | (1,805) | | (217,288) |
| Shareholders' dividends | | (43,371) | (43,371) | 86,742 | |
| Debt issuance costs paid | (99) | | | | (99) |
| Net intercompany advances | 62,741 | (95,245) | 32,504 | | |
| Net Cash Provided from (Used for) Financing Activities from Continuing Operations | 49,017 | (158,474) | (12,672) | 86,742 | (35,387) |
| Cash Flows from Discontinued Operations: | | | | | |
| Cash provided from operating activities | | | 7,389 | | 7,389 |
| Cash used for investing activities | | | (191) | | (191) |
| Cash used for financing activities | | | (96) | | (96) |
| Net Cash Provided from Discontinued Operations | | | 7,102 | | 7,102 |
| Cash (Decrease) Increase During the Period | (47,127) | 3,546 | 61,728 | | 18,147 |

| | | | | | | | | |
|---|----|--------|----|--------|----|---------|----|---------|
| Cash and Cash Equivalents at End of Period | \$ | 53,302 | \$ | 18,545 | \$ | 153,519 | \$ | 225,366 |
|---|----|--------|----|--------|----|---------|----|---------|

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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. 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.

On the Closing Date, the Merger was completed, and each issued and outstanding share of ServiceMaster common stock, other than shares held by ServiceMaster or Holdings or their subsidiaries and shares held by stockholders who validly perfected their appraisal rights under Delaware law, was converted into the right to receive \$15.625 in cash. Each share of ServiceMaster common stock owned by ServiceMaster, Holdings or Acquisition Co. or any of their respective direct or indirect wholly-owned subsidiaries was cancelled and retired, and no consideration was paid in exchange for it.

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 million from the Equity Sponsors, together with (i) borrowings under the Interim Loan Facility, (ii) borrowings under a new \$2,650 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 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 draw under, 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 the Permanent Notes. The Permanent Notes were issued pursuant to a refinancing indenture. In connection with the issuance of Permanent Notes, ServiceMaster entered into a 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's obligation under the Registration Rights Agreement to keep the registration statement effective has terminated. Accordingly, ServiceMaster may choose to deregister the Permanent Notes and terminate the effectiveness of the registration statement at any time.

Results of Operations

Second Quarter 2009 Compared to 2008

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The Company reported second quarter 2009 revenue of \$957.3 million, a \$40.0 million or 4.0 percent decrease compared to 2008. Revenue for the second quarter of 2008 has been reduced by \$11.6 million (non-cash) resulting from recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, revenue for the second quarter of 2009 decreased \$51.6 million, or 5.1 percent, from 2008 levels, driven by the results of our business units as described in our Segment Reviews for the Second Quarter 2009 Compared to 2008 .

Operating income was \$118.0 million for the second quarter of 2009 compared to \$114.2 million for the second quarter of 2008. Income from continuing operations before income taxes was \$46.6 million for the second quarter of 2009 compared to \$34.8 million for the second quarter of 2008. The increase in income from continuing operations before income taxes of \$11.8 million reflects the net effect of:

(In millions)

| | | |
|---|----|-------|
| Non-cash purchase accounting adjustments(1) | \$ | 9.6 |
| Decreased interest expense(2) | | 8.8 |
| Decreased interest and net investment income(3) | | (0.8) |
| Increased restructuring and merger related charges(4) | | (1.3) |
| Decline in segment results(5) | | (4.5) |
| | \$ | 11.8 |

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- (1) The net favorable impact of non-cash purchase accounting adjustments for the second quarter of 2009 compared to 2008 of \$9.6 million consists primarily of decreased amortization of intangible assets of \$2.2 million and an \$11.6 million increase in revenue resulting from recording deferred revenue at its fair value in conjunction with purchase accounting partially offset by increased deferred customer acquisition expense of \$4.3 million.
- (2) Represents a decrease in interest expense as a result of decreases in our weighted average interest rates, partially offset by increases in our weighted average long-term debt balances as compared to the second quarter of 2008.
- (3) As further described in *Operating and Non-Operating Expenses*, represents a decrease in interest and net investment income.
- (4) Represents (i) an increase in restructuring charges primarily resulting from Fast Forward and (ii) an increase in Merger related charges, primarily related to change in control severance agreements.
- (5) Represents a net decrease in income from continuing operations before income taxes, non-cash purchase accounting adjustments, interest expense, interest and net investment loss, gain on extinguishment of debt, merger related charges and restructuring charges resulting from a decline in results at TruGreen LawnCare partially offset by improved results at American Home Shield, Terminix, TruGreen LandCare, and Other Operations and Headquarters as described in our *Segment Reviews for the Second Quarter 2009 Compared to 2008*.

Operating and Non-Operating Expenses

The Company reported cost of services rendered and products sold of \$553.4 million for the second quarter of 2009 compared to \$589.7 million for the second quarter of 2008. Excluding the unfavorable non-cash reduction of revenue of \$11.6 million for the second quarter of 2008 resulting from recording deferred revenue at its fair value in conjunction with purchase accounting, as a percentage of revenue, these costs decreased to 57.8 percent for the second quarter of 2009 from 58.5 percent for the second quarter of 2008. This primarily reflects the impact of improved labor efficiency and favorable damage claim trends at Terminix, reduced fertilizer costs at TruGreen LawnCare and lower vehicle counts and reduced fuel costs for the Company, offset, in part, by increases in other factor costs throughout the enterprise.

The Company reported selling and administrative expenses of \$239.9 million for the second quarter of 2009 compared to \$247.1 million for the second quarter of 2008. The second quarter of 2008 includes a \$4.3 million (non-cash) decrease in selling and administrative expenses resulting from recording deferred customer acquisition costs at their fair value in connection with purchase accounting. Excluding the impact of purchase accounting, these costs increased, as a percentage of revenue, to 25.1 percent for the second quarter of 2009 from 24.9 percent for the second quarter of 2008. This primarily reflects decreased leverage of selling and administrative expenses at TruGreen LawnCare, increased compensation charges for the Company 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 within interest and net investment loss), offset, in part, by lower advertising costs and provisions for certain legal matters at American Home Shield and lower overhead charges at Other Operations and Headquarters.

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Amortization expense was \$40.4 million for the second quarter of 2009 compared to \$42.0 million for the second quarter of 2008. The decrease is a result of amortization being included in the second quarter of 2008 related to finite lived intangible assets recorded in connection with the Merger which had lives of one year or less and were fully amortized as of July 24, 2008.

The Company reviews goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter and between annual test dates in certain circumstances. The majority of the Company's goodwill and indefinite-lived intangible assets (mainly trade names) relate to the Merger. The Company does not believe a triggering event requiring the Company to conduct an interim impairment test had occurred as of June 30, 2009. However, due to the potential for prolonged economic softness in the markets in which we operate, the Company believes it is reasonably possible that we will record a non-cash impairment charge in the third or fourth quarter. As of June 30, 2009, the balances of the Company's goodwill and indefinite-lived intangible assets were \$3.1 billion and \$2.9 billion, respectively.

Non-operating expense totaled \$71.4 million for the second quarter of 2009 compared to \$79.4 million for the second quarter of 2008. This change includes an \$8.8 million decrease in interest expense primarily resulting from decreases in our weighted average interest rates, partially offset by increases in our weighted average long-term debt balances, and a \$0.8 million decrease in interest and net investment income. Interest and net investment income was comprised of the following for the three months ended June 30, 2009 and 2008:

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| (In millions) | Three months ended | | |
|----------------------------------|--------------------|----------|--------|
| | | June 30, | |
| | 2009 | | 2008 |
| Realized gains(1) | \$ | 2.1 | \$ 6.5 |
| Impairments of securities(2) | | (0.5) | (3.0) |
| Deferred compensation trust(3) | | 1.2 | (0.1) |
| Other(4) | | 0.6 | 0.8 |
| Interest and net investment loss | \$ | 3.4 | \$ 4.2 |

(1) Represents the net investment gains (losses) 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 income (loss) 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 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 interest income on other cash balances.

The effective tax rate on income from continuing operations was 51.9 percent for the second quarter of 2009 compared to 40.1 percent for the second quarter of 2008. The change in the effective tax rate is primarily due to state tax expense offsetting the statutory federal benefit generated due to losses in 2008 compared to state tax expense increasing the annual projected tax expense in 2009.

Restructuring and Merger Related Charges

The Company is engaged in a reorganization and restructuring of certain of its businesses and support functions known as Fast Forward. Among the purposes of Fast Forward is to eliminate layers and bureaucracy and simplify work processes in order to better align the Company's work processes around its operational and strategic objectives. Fast Forward is being implemented in phases. The first phase involved, among other things, a reduction in work force and various process improvements, including the closing of American Home Shield's call center located in Santa Rosa, California. The second phase includes, among other things, the organization of certain corporate support functions into centers of excellence which are expected to deliver higher quality services to our business units at lower costs, the outsourcing to third party vendors of various business activities that currently are handled internally, as well as other employee workforce reductions expected to result in cost-savings. The first phase of Fast Forward was substantially completed in the first quarter of 2008, and the second phase is underway.

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As part of the second phase of Fast Forward, on December 11, 2008, the Company entered into an agreement with IBM pursuant to which IBM will provide information technology operations and applications development services to the Company. The initial term of the agreement is seven years. The agreement commenced on December 11, 2008 and the services were phased in during the first half of 2009. In connection with the agreement, the Company eliminated approximately 275 positions. As a result of the elimination of positions and the transition of information technology services to IBM, the Company incurred charges related to, among other things, employee retention and severance costs, and transition fees paid to IBM and other consulting fees. Almost all charges related to the agreement were cash charges and were expensed throughout the transition period. Such charges amounted to approximately \$3.5 million, pre-tax, during 2008 and approximately \$9.5 million, pre-tax, during the first half of 2009. These charges were recorded as restructuring charges in the condensed consolidated statement of operations as incurred. The Company expects to continue to transition services to IBM during the remainder of 2009 and expects charges for these services to amount to approximately \$1.0 million, pre-tax. These charges will be recorded as restructuring charges in the condensed consolidated statement of operations as incurred.

The Company expects that it will incur additional costs in order to implement the second phase of Fast Forward, but is currently unable to estimate the aggregate amount or timing of such charges or the anticipated related cash outlays. The Company is on schedule with respect to realizing its previously forecasted savings from Fast Forward and believes that it will

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ultimately realize annualized pre-tax savings of at least \$60 million by the end of 2009. Most of these savings are expected to benefit the selling, general and administrative line in the statement of operations.

In connection with Fast Forward, the Company incurred costs of approximately \$4.5 million and \$4.1 million for the three months ended June 30, 2009 and 2008, respectively, which included the costs described above. For the three months ended June 30, 2009, such costs included transition fees paid to IBM of approximately \$3.4 million, employee retention and severance costs of approximately \$0.7 million and consulting and other costs of approximately \$0.4 million. For the three months ended June 30, 2008, these charges included consulting fees of approximately \$2.1 million and severance, lease termination and other costs of approximately \$2.0 million.

For the three months ended June 30, 2009, Terminix reversed restructuring costs of approximately \$0.1 million relating to a branch optimization project, which was a reduction in lease termination costs.

The results for the three months ended June 30, 2008 include restructuring charges related to the Company's consolidation of its corporate headquarters into its operations support center in Memphis, Tennessee and the closing of its headquarters in Downers Grove, Illinois. The transition to Memphis was substantially completed in 2007. Almost all costs related to the transition were cash expenditures, and were expensed throughout the transition period. During the three months ended June 30, 2008, the Company reversed net expenses of approximately \$0.1 million relating to this relocation.

During the three months ended June 30, 2009 and 2008, the Company incurred Merger related charges totaling \$1.2 million and \$0.3 million, respectively. These Merger related charges include investment banking, accounting, legal, change in control severance and other costs associated with the Merger.

Key Performance Indicators

The table below presents selected operating metrics related to customer counts and customer retention for the three largest profit 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, | |
|---|--|-------|
| | 2009 | 2008 |
| TruGreen LawnCare(1) | | |
| Reduction in Full Program Accounts(1) | (3)% | (4)% |
| Customer Retention Rate(1) | 68.3% | 68.4% |
| Terminix | | |
| Growth in Pest Control Customers | 1% | 1% |
| Pest Control Customer Retention Rate | 77.9% | 78.5% |
| (Reduction) Growth in Termite Customers | (1)% | 2% |
| Termite Customer Retention Rate | 86.2% | 88.1% |
| American Home Shield | | |

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| | | |
|--|-------|-------|
| (Reduction) Growth in Warranty Contracts | (3)% | 2% |
| Customer Retention Rate | 62.6% | 61.9% |

(1) During the third quarter of 2008, TruGreen LawnCare changed its definition of Full Program Accounts to include sales in the second half of the year with the completion of the initial full program to occur in the first half of the following year. Prior to the third quarter of 2008 such sales were reflected as full program accounts and included in customer retention in the first quarter of the year following the sale. Reduction in Full Program Accounts and Customer Retention Rate for 2008 have been adjusted to conform to the new definition.

Segment Reviews for the Second Quarter 2009 Compared to 2008

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 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

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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 before net income (loss) from discontinued operations; provision (benefit) for income taxes; minority interest and other expense, net; interest expense and interest and net investment income; and depreciation and amortization expense; as well as adding back interest and net investment income and non-cash trade name impairment. Comparable Operating Performance is calculated by adding back to Adjusted EBITDA non-cash option and restricted stock 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. The Company uses Comparable Operating Performance as a supplemental measure to assess the Company's performance because it excludes non-cash option and restricted stock 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 option and restricted stock 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 option and restricted stock 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 purchase accounting and non-cash option and restricted stock expense adjustments 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

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- Comparable Operating Performance does not include purchase accounting adjustments and option and restricted stock expense, the latter of which exclusion may cause the overall compensation cost of the business to be understated.

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

| (In thousands) | Three months ended | |
|---|--------------------|-------------------|
| | 2009 | June 30, 2008 |
| Operating Revenue: | | |
| TruGreen LawnCare | \$ 348,403 | \$ 377,296 |
| TruGreen LandCare | 69,433 | 83,877 |
| Terminix | 307,375 | 311,774 |
| American Home Shield | 179,823 | 167,570 |
| Other Operations and Headquarters | 52,258 | 56,788 |
| Total Operating Revenue | \$ 957,292 | \$ 997,305 |
| Comparable Operating Performance: | | |
| TruGreen LawnCare | \$ 61,591 | \$ 75,336 |
| TruGreen LandCare | 1,395 | (66) |
| Terminix | 77,957 | 73,513 |
| American Home Shield | 38,954 | 36,419 |
| Other Operations and Headquarters | 569 | (230) |
| Total Comparable Operating Performance | \$ 180,466 | \$ 184,972 |
| Memo: Items included in Comparable Operating Performance | | |
| Restructuring charges and Merger related charges(1) | \$ 5,584 | \$ 4,310 |
| Management fee(2) | \$ 500 | \$ 500 |
| Memo: Items excluded from Comparable Operating Performance | | |
| Comparable Operating Performance of InStar | \$ 45 | \$ 133 |
| Comparable Operating Performance of all other discontinued operations | (222) | 1,633 |
| Comparable Operating Performance of discontinued operations | \$ (177) | \$ 1,766 |

(1) Includes (i) charges related to Fast Forward, (ii) charges related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downer's Grove, Illinois and (iii) Merger related charges.

(2) Represents a management fee 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 \$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 to \$6.25 million. The full year management fee will apply in 2009 and the fees relating to the first three quarters of 2009 will be paid to CD&R in the third quarter of 2009.

In August 2009, the boards of directors of the Company and Holdings approved 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 will provide the Company with on-going consulting and management advisory services until June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company will pay annual management fees of \$0.5 million, \$0.5 million

and \$0.25 million, respectively, to Citigroup, BAS and JPMorgan. The full year management fees will apply in 2009, and the fees relating to the first three quarters of 2009 will be paid to Citigroup, BAS and J.P. Morgan in the third quarter of 2009. A form of the consulting agreements is attached as Exhibit 10.1 and is incorporated herein by reference. The definitive agreements with Citigroup, BAS and JPMorgan are in the process of being executed.

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The following table presents reconciliations of operating (loss) 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 | Other Operations & Headquarters | Total |
|---|----------------------|----------------------|-----------|----------------------------|---------------------------------------|------------|
| Three Months Ended June 30, 2009 | | | | | | |
| Operating income (loss)(1) | \$ 39,513 | \$ (1,479) | \$ 62,172 | \$ 26,607 | \$ (8,808) | \$ 118,005 |
| Depreciation and amortization expense | 22,107 | 3,037 | 15,885 | 10,624 | 5,687 | 57,340 |
| EBITDA before interest and net investment income | 61,620 | 1,558 | 78,057 | 37,231 | (3,121) | 175,345 |
| Interest and net investment income(2) | | | | 1,672 | 1,723 | 3,395 |
| Adjusted EBITDA | 61,620 | 1,558 | 78,057 | 38,903 | (1,398) | 178,740 |
| Non-cash option and restricted stock expense | | | | | 1,967 | 1,967 |
| Non-cash (credits) charges attributable to purchase accounting(3) | (29) | (163) | (100) | 51 | | (241) |
| Comparable Operating Performance | \$ 61,591 | \$ 1,395 | \$ 77,957 | \$ 38,954 | \$ 569 | \$ 180,466 |
| Memo: Items included in Comparable Operating Performance | | | | | | |
| Restructuring charges and merger related charges(4) | \$ | \$ (21) | \$ (69) | \$ 36 | \$ 5,638 | \$ 5,584 |
| Management fee(5) | \$ | \$ | \$ | \$ | \$ 500 | \$ 500 |
| Memo: Items excluded from Comparable Operating Performance | | | | | | |
| Comparable Operating Performance of InStar | \$ | \$ | \$ | \$ | \$ 45 | \$ 45 |
| Comparable Operating Performance of all other discontinued operations | | | | | (222) | (222) |
| Comparable Operating Performance of discontinued operations(6) | \$ | \$ | \$ | \$ | \$ (177) | \$ (177) |
| Three Months Ended June 30, 2008 | | | | | | |
| Operating income (loss)(1) | \$ 55,913 | \$ (2,693) | \$ 59,682 | \$ 9,401 | \$ (8,124) | \$ 114,179 |
| Depreciation and amortization expense | 19,402 | 2,789 | 14,879 | 12,759 | 5,532 | 55,361 |
| EBITDA before interest and net investment income | 75,315 | 96 | 74,561 | 22,160 | (2,592) | 169,540 |
| Interest and net investment income(2) | | | | 3,539 | 625 | 4,164 |
| Adjusted EBITDA | 75,315 | 96 | 74,561 | 25,699 | (1,967) | 173,704 |

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| | | | | | | |
|---|-----------|---------|-----------|-----------|----------|---------|
| Non-cash option and restricted stock expense | | | | | 1,737 | 1,737 |
| Non-cash charges (credits) attributable to purchase accounting(3) | 21 | (162) | (1,048) | 10,720 | | 9,531 |
| Comparable Operating Performance | \$ 75,336 | \$ (66) | \$ 73,513 | \$ 36,419 | \$ (230) | 184,972 |
| Memo: Items included in Comparable Operating Performance | | | | | | |
| Restructuring charges and merger related charges(4) | \$ 35 | \$ 623 | \$ | \$ 448 | \$ 3,204 | 4,310 |
| Management fee(5) | \$ | \$ | \$ | \$ | \$ 500 | 500 |
| Memo: Items excluded from Comparable Operating Performance | | | | | | |
| Comparable Operating Performance of InStar | \$ | \$ | \$ | \$ | \$ 133 | 133 |
| Comparable Operating Performance of all other discontinued operations | | | | | 1,633 | 1,633 |
| Comparable Operating Performance of discontinued operations(6) | \$ | \$ | \$ | \$ | \$ 1,766 | 1,766 |

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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, | |
| | 2009 | | 2008 |
| Total Segment Operating Income | \$ | 118,005 | \$ 114,179 |
| Non-operating expense (income): | | | |
| Interest expense | | 74,656 | 83,425 |
| Interest and net investment income | | (3,395) | (4,164) |
| Other expense | | 179 | 145 |
| Income from Continuing Operations before Income Taxes | \$ | 46,565 | \$ 34,773 |
| Provision for income taxes | | 24,173 | 13,947 |
| Income from Continuing Operations | \$ | 22,392 | \$ 20,826 |
| Loss from discontinued operations, net of income taxes | | (107) | (2,736) |
| Net Income | \$ | 22,285 | \$ 18,090 |

(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 approximately \$286.3 million as of June 30, 2009. American Home Shield interest and net investment income was \$1.7 million and \$3.5 million for the second quarter of 2009 and 2008, respectively. The balance of interest and investment income primarily relates to (i) a portion of the earnings generated by SMAC, (ii) investment income 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) 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.

(4) Includes (i) charges related to Fast Forward, (ii) charges related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downer's Grove, Illinois and (iii) Merger related charges.

(5) Represents a management fee 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 \$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 to \$6.25 million. The full year management fee will apply in 2009 and the fees relating to the first three quarters of 2009 will be paid to CD&R in the third quarter of 2009.

In August 2009, the boards of directors of the Company and Holdings approved 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 will provide the Company with on-going consulting and management advisory services until June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company will pay annual management fees of \$0.5 million, \$0.5 million and \$0.25 million, respectively, to Citigroup, BAS and JPMorgan. The full year management fees will apply in 2009, and the fees relating to the

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first three quarters of 2009 will be paid to Citigroup, BAS and J.P. Morgan in the third quarter of 2009. A form of the consulting agreements is attached as Exhibit 10.1 and is incorporated herein by reference. The definitive agreements with Citigroup, BAS and JPMorgan are in the process of being executed.

(6) The table included in *Discontinued Operations* presents reconciliations of operating (loss) income, the most directly comparable financial measure under GAAP, to Adjusted EBITDA and Comparable Operating Performance for the periods presented.

TruGreen LawnCare Segment

The TruGreen LawnCare segment, which includes lawn, tree and shrub care services, reported a 7.7 percent decrease in revenue, a 29.3 percent decrease in operating income and an 18.2 percent decrease in Comparable Operating Performance for the second quarter of 2009 compared to 2008. The revenue results were adversely impacted by soft customer demand. Customer counts at June 30, 2009 were 2.5 percent lower than last year's level due primarily to a decline in new unit sales as well as a 10 basis point decline in the rolling twelve-month customer retention rate. Trends in revenue were also adversely impacted by discounts offered on Full Program Accounts in 2009 designed to offset the impacts of a difficult economic environment. TruGreen LawnCare remains committed to improving customer retention by focusing on the overall quality of service delivery, including the Lawn Quality Audit program, the reduction of route manager turnover and the continued improvement of overall communication with customers.

TruGreen LawnCare's Comparable Operating Performance declined \$13.7 million for the second quarter of 2009 compared to 2008, which also reflects decreased leverage of selling and administrative expenses, offset, in part, by lower

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vehicle counts, reduced fuel and fertilizer costs and the favorable impact of acquiring assets in connection with exiting certain fleet leases in 2008.

TruGreen LandCare Segment

The TruGreen LandCare segment, which includes landscape maintenance services, reported a 17.2 percent decrease in revenue, a 45.1 percent decrease in operating loss and a \$1.5 million increase in Comparable Operating Performance for the second quarter of 2009 compared to 2008. The decline in revenue included a 10.2 percent decline in base contract maintenance revenue and a 26.8 percent decline in enhancement revenue. Revenue trends were adversely impacted by soft customer demand.

TruGreen LandCare's Comparable Operating Performance improved \$1.5 million for the second quarter of 2009 compared to 2008, which also reflects improved materials management, lower vehicle fleet counts, reduced overhead spending and the favorable impact of acquiring assets in connection with exiting certain fleet leases in 2008. These factors were offset, in part, by increased fuel costs.

Terminix Segment

The Terminix segment, which includes termite and pest control services, reported a 1.4 percent decrease in revenue for the second quarter of 2009 compared to 2008. Revenue for the second quarter of 2008 has been reduced by \$1.0 million (non-cash) as a result of recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, revenue decreased 1.7 percent for the second quarter of 2009 compared to 2008. Terminix reported a 4.2 percent increase in operating income and a 6.0 percent increase in Comparable Operating Performance for the second quarter of 2009 compared to 2008. The segment's overall revenue results, excluding purchase accounting, reflected modest growth in pest control revenues offset by a decline in revenue from termite contract renewals and termite completions. Pest control revenues increased 2.0 percent for the second quarter of 2009 compared to 2008, reflecting increased customer counts and improved price realization. The increase in customer counts was driven by tuck-in acquisitions, partially offset by a decline in new unit sales and a 60 basis point decline in customer retention. A 4.8 percent decline in termite renewal revenues for the second quarter of 2009 compared to 2008 was due to a 190 basis point decline in termite customer retention. Revenue from termite completions declined 6.7 percent for the second quarter of 2009 compared to 2008, due, in part, to reduced average pricing on new termite treatments and fewer units sold. Trends in retention and new unit sales were adversely impacted by soft customer demand.

Terminix's Comparable Operating Performance improved \$4.4 million for the second quarter of 2009 compared to 2008, which also reflects favorable termite damage claims trends, effective management of seasonal staffing of production and sales labor, reduced fuel costs and overhead spending and the favorable impact of acquiring assets in connection with exiting certain fleet leases in 2008.

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 7.3 percent increase in revenue for the second quarter of 2009 compared to 2008.

Revenue for the second quarter of 2008 has been reduced by \$10.6 million (non-cash) as a result of recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, American Home Shield reported a 0.9 percent increase in revenue for the second quarter of 2009 compared to 2008. The annual value of warranty contracts written increased 2.2 percent, which is comprised of a 4.5 percent increase in the average price per contract offset by a 2.2 percent decline in total new contract and renewal sales units. This decline in sales units is primarily comprised of a 14.4 percent decline in sales in the real estate market and a 0.7 percent decline in consumer sales partially offset by a 2.4 percent increase in renewal sales. American Home Shield's sales in the real estate market were significantly impacted by the continued softness in the home resale market throughout most of the country.

American Home Shield reported a 183.0 percent increase in operating income and a \$2.5 million increase in Comparable Operating Performance for the second quarter of 2009 compared to 2008. The increase in Comparable Operating Performance also reflects a decrease in advertising spending primarily due to differences between the years in the timing of the advertising activities and reduced provisions for certain legal matters.

Other Operations and Headquarters Segment

This segment includes the operations of ServiceMaster Clean and Merry Maids, as well as the Company's

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headquarters functions. The segment reported an 8.0 percent decrease in revenue, an 8.4 percent increase in operating loss and a \$0.8 million increase in Comparable Operating Performance for the second quarter of 2009 compared to 2008. The segment's Comparable Operating Performance includes the reduced provisions for incentive compensation partially offset by an increase in restructuring and Merger related charges for the second quarter of 2009 compared to 2008. The ServiceMaster Clean and Merry Maids operations reported a combined 8.2 percent decrease in revenue for the second quarter of 2009 compared to 2008. The decrease in revenue resulted from decreases in product sales and other franchise revenues. The ServiceMaster Clean and Merry Maids operations reported a combined increase in operating income of 0.3 percent and a decrease in Comparable Operating Performance of 1.4 percent for the second quarter of 2009 compared to 2008.

Discontinued Operations

The components of loss from discontinued operations, net of income taxes, and the reconciliation of operating (loss) income to Adjusted EBITDA and Comparable Operating Performance for the three months ended June 30, 2009 and 2008 are as follows:

| (In thousands) | Three months ended | |
|--|--------------------|------------|
| | 2009 | 2008 |
| Operating (loss) income | \$ (177) | \$ 1,766 |
| Interest expense | | (29) |
| Impairment charge | | (6,317) |
| Loss from discontinued operations, before income taxes | (177) | (4,580) |
| Benefit for income taxes | (70) | (1,844) |
| Loss from discontinued operations, net of income taxes | \$ (107) | \$ (2,736) |
| Operating (loss) income | \$ (177) | \$ 1,766 |
| Depreciation and amortization expense | | |
| EBITDA before interest and net investment income | (177) | 1,766 |
| Interest and net investment income | | |
| Adjusted EBITDA | (177) | 1,766 |
| Non-cash option and restricted stock expense | | |
| Non-cash charges attributable to purchase accounting | | |
| Comparable Operating Performance | \$ (177) | \$ 1,766 |

Six Months Ended June 30, 2009 Compared to 2008

The Company reported revenue of \$1,603.2 million for the six months ended June 30, 2009, a \$26.3 million or 1.6 percent decrease compared to 2008. The revenue for the six months ended June 30, 2009 has been reduced by \$33.4 million (non-cash) resulting from recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, revenue for the six months ended June 30, 2009 decreased \$59.7 million or 3.6 percent, from 2008 levels, driven by the results of our business units as described in our Segment Reviews for the Six Months Ended June 30, 2009 Compared to 2008 .

Operating income was \$146.7 million in the six months ended June 30, 2009 compared to operating income of \$103.9 million in 2008. Income from continuing operations before income taxes was \$39.7 million in the six months ended June 30, 2009 compared to loss from continuing operations before income taxes of \$71.3 million in 2008. The increase in income from continuing operations before income taxes of \$111.0

million primarily reflects the net effect of:

| (In millions) | | |
|---|----|-------|
| Non-cash purchase accounting adjustments(1) | \$ | 32.6 |
| Decreased interest expense(2) | | 21.7 |
| Decreased interest and net investment loss(3) | | 0.5 |
| Increased restructuring and merger related charges(4) | | (6.7) |
| Gain on extinguishment of debt(5) | | 46.1 |
| Improved segment results(6) | | 16.8 |
| | \$ | 111.0 |

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(1) The net favorable impact of non-cash purchase accounting adjustments in the six months ended June 30, 2009 of \$32.6 million consists primarily of decreased amortization of intangible assets of \$12.9 million and a \$33.4 million increase in revenue resulting from recording deferred revenue at its fair value in conjunction with purchase accounting partially offset by increased deferred customer acquisition expense of \$13.9 million.

(2) Represents a decrease in interest expense as a result of decreases in our weighted average interest rates, partially offset by increases in our weighted average long-term debt balances as compared to the first half of 2008.

(3) As further described in *Operating and Non-Operating Expenses*, represents a decrease in interest and net investment loss.

(4) Represents (i) an increase in restructuring charges primarily resulting from Fast Forward, (ii) a branch optimization project at Terminix and (iii) an increase in Merger related charges, primarily related to change in control severance agreements.

(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 our Permanent Notes.

(6) Represents an increase in income from continuing operations before income taxes, non-cash purchase accounting adjustments, interest expense, interest and net investment income, merger related charges and restructuring charges supported by the improved results at Terminix, American Home Shield and TruGreen LandCare as described in our *Segment Reviews for the Six Months Ended June 30, 2009 Compared to 2008*.

Operating and Non-Operating Expenses

The Company reported cost of services rendered and products sold of \$947.8 million for the six months ended June 30, 2009 compared to \$1,007.1 million in 2008. Excluding the unfavorable non-cash reduction of revenue of \$33.4 million for the six months ended June 30, 2008 resulting from recording deferred revenue at its fair value in conjunction with purchase accounting, as a percentage of revenue, these costs decreased to 59.2 percent for the six months ended June 30, 2009 from 60.6 percent in 2008. This primarily reflects the impact of improved labor efficiency and lower vehicle fleet counts for the Company, reduced fuel costs and favorable damage claim trends at Terminix and reduced fuel and fertilizer costs at TruGreen LawnCare, offset, in part, by other factor costs throughout the enterprise.

The Company reported selling and administrative expenses of \$413.7 million for the six months ended June 30, 2009 compared to \$418.2 million in 2008. The six months ended June 30, 2008 include a \$13.9 million (non-cash) increase in selling and administrative expenses resulting from recording deferred customer acquisition costs at their fair value in connection with purchase accounting. Excluding the impact of purchase accounting, these costs decreased, as a percentage of revenue, to 25.8 percent for the six months ended June 30, 2009 from 26.0 percent in 2008. This primarily reflects decreased leverage of selling and administrative expenses at TruGreen LawnCare and increased

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compensation charges for the Company 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 within interest and net investment loss), partially offset by lower advertising costs, provisions for certain legal matters at American Home Shield and lower overhead charges at Other Operations and Headquarters.

Amortization expense was \$80.7 million for the six months ended June 30, 2009 compared to \$92.6 million for 2008. The decrease is a result of amortization being included in the first half of 2008 related to finite lived intangible assets recorded in connection with the Merger which had lives of one year or less and were fully amortized as of July 24, 2008.

The Company reviews goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter and between annual test dates in certain circumstances. The majority of the Company's goodwill and indefinite-lived intangible assets (mainly trade names) relate to the Merger. The Company does not believe a triggering event requiring the Company to conduct an interim impairment test had occurred as of June 30, 2009. However, due to the potential for prolonged economic softness in the markets in which we operate, the Company believes it is reasonably possible that we will record a non-cash impairment charge in the third or fourth quarter. As of June 30, 2009, the balances of the Company's goodwill and indefinite-lived intangible assets were \$3.1 billion and \$2.9 billion, respectively.

Non-operating expense totaled \$107.0 million for the six months ended June 30, 2009 compared with \$175.2 million for 2008. This change includes a \$46.1 million gain on extinguishment of debt, a \$21.7 million decrease in interest expense, primarily resulting from decreases in our weighted average interest rates, partially offset by increases in our weighted average

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long-term debt balances, and a \$0.5 million decrease in interest and net investment loss. Interest and net investment loss was comprised of the following for the six months ended June 30, 2009 and 2008:

| (In millions) | Six months ended | | | |
|----------------------------------|------------------|-------|---------------|-------|
| | 2009 | | June 30, 2008 | |
| Realized gains(1) | \$ | 2.8 | \$ | 7.2 |
| Impairments of securities(2) | | (5.9) | | (8.2) |
| Deferred compensation trust(3) | | 0.5 | | (2.7) |
| Other(4) | | 1.2 | | 1.8 |
| Interest and net investment loss | \$ | (1.4) | \$ | (1.9) |

(1) Represents the net investment gains (losses) 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 income (loss) 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 and interest income on other cash balances.

The effective tax rate on income (loss) from continuing operations was a provision of 41.8 percent for the six months ended June 30, 2009 compared to a benefit of 23.9 percent for 2008. The change in the effective tax rate is primarily due to state tax expense offsetting the statutory federal benefit generated due to losses in 2008 compared to state tax expense increasing the annual projected tax expense in 2009.

Restructuring and Merger Related Charges

The Company is engaged in a reorganization and restructuring of certain of its businesses and support functions known as Fast Forward. Among the purposes of Fast Forward is to eliminate layers and bureaucracy and simplify work processes in order to better align the Company's work processes around its operational and strategic objectives. Fast Forward is being implemented in phases. The first phase involved, among other things, a reduction in work force and various process improvements, including the closing of American Home Shield's call center located in Santa Rosa, California. The second phase includes, among other things, the organization of certain corporate support functions into centers of excellence which are expected to deliver higher quality services to our business units at lower costs, the outsourcing to third party vendors of various business activities that currently are handled internally, as well as other employee workforce reductions expected to result in cost-savings. The first phase of Fast Forward was substantially completed in the first quarter of 2008, and the second phase is underway.

As part of the second phase of Fast Forward, on December 11, 2008, the Company entered into an agreement with IBM pursuant to which IBM will provide information technology operations and applications development services to the Company. The initial term of the agreement is seven years. The agreement commenced on December 11, 2008 and the services were phased in during the first half of 2009. In connection with the agreement, the Company eliminated approximately 275 positions. As a result of the elimination of positions and the transition of information technology services to IBM, the Company incurred charges related to, among other things, employee retention and severance costs, and transition fees paid to IBM and other consulting fees. Almost all charges related to the agreement were cash charges and were expensed throughout the transition period. Such charges amounted to approximately \$3.5 million, pre-tax, during 2008 and approximately \$9.5 million, pre-tax, during the first half of 2009. These charges were recorded as restructuring charges in the condensed consolidated statement of operations as incurred. The Company expects to continue to transition services to IBM during the remainder of 2009 and expects charges for the services to amount to approximately \$1.0 million, pre-tax. These charges will be recorded as restructuring charges in the condensed consolidated statement of operations as incurred.

The Company expects that it will incur additional costs in order to implement the second phase of Fast Forward, but is currently unable to estimate the aggregate amount or timing of such charges or the anticipated related cash outlays. The Company is on schedule with respect to realizing its previously forecasted savings from Fast Forward and believes that it will

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ultimately realize annualized pre-tax savings of at least \$60 million by the end of 2009. Most of these savings are expected to benefit the selling, general and administrative line in the statement of operations.

In connection with Fast Forward, the Company incurred costs of approximately \$9.8 million and \$6.7 million for the six months ended June 30, 2009 and 2008 respectively, which included the costs described above. For the six months ended June 30, 2009, such costs included transition fees paid to IBM of approximately \$7.2 million, employee retention and severance costs of approximately \$1.6 million and consulting and other costs of approximately \$1.0 million. For the six months ended June 30, 2008 these charges included consulting fees of approximately \$3.7 million and severance, lease termination and other costs of approximately \$3.0 million.

For the six months ended June 30, 2009, Terminix incurred restructuring costs of approximately \$3.1 million relating to a branch optimization project, which included approximately \$2.8 million of lease termination costs and approximately \$0.3 million of severance costs.

The results for the six months ended June 30, 2008 include restructuring charges related to the Company's consolidation of its corporate headquarters into its operations support center in Memphis, Tennessee and the closing of its headquarters in Downers Grove, Illinois. The transition to Memphis was substantially completed in 2007. Almost all costs related to the transition were cash expenditures, and were expensed throughout the transition period. During the six months ended June 30, 2008, the Company incurred an additional \$0.6 million relating to this relocation, which includes additional severance and other costs.

During the six months ended June 30, 2009 and 2008, the Company incurred Merger related charges totaling \$1.4 million and \$0.4 million, respectively. These Merger related charges include investment banking, accounting, legal, change in control severance and other costs associated with the Merger.

Segment Reviews for the Six Months Ended June 30, 2009 Compared to 2008

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 (loss) income to (loss) 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 2009 compared to 2008, the Company uses Adjusted EBITDA and Comparable Operating Performance to facilitate operating performance comparisons from period to period.

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

| (In thousands) | Six months ended | |
|---|---------------------|---------------------|
| | 2009 | June 30, 2008 |
| Operating Revenue: | | |
| TruGreen LawnCare | \$ 483,069 | \$ 511,738 |
| TruGreen LandCare | 136,318 | 162,529 |
| Terminix | 570,536 | 573,422 |
| American Home Shield | 310,691 | 272,988 |
| Other Operations and Headquarters | 102,605 | 108,859 |
| Total Operating Revenue | \$ 1,603,219 | \$ 1,629,536 |
| Comparable Operating Performance: | | |
| TruGreen LawnCare | \$ 63,788 | \$ 68,599 |
| TruGreen LandCare | 9,821 | 4,631 |
| Terminix | 140,070 | 129,012 |
| American Home Shield | 49,927 | 42,203 |
| Other Operations and Headquarters | (1,622) | 1,702 |
| Total Comparable Operating Performance | \$ 261,984 | \$ 246,147 |
| Memo: Items included in Comparable Operating Performance | | |
| Restructuring charges and Merger related expenses(1) | \$ 14,361 | \$ 7,685 |
| Management fee(2) | \$ 1,000 | \$ 1,000 |
| Memo: Items excluded from Comparable Operating Performance | | |
| Comparable Operating Performance of InStar | \$ (199) | \$ (843) |
| Comparable Operating Performance of all other discontinued operations | (242) | 1,472 |
| Comparable Operating Performance of discontinued operations | \$ (441) | \$ 629 |

(1) Includes (i) charges related to Fast Forward, (ii) a branch optimization project at Terminix, (iii) charges related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downers Grove, Illinois and (iv) Merger related charges.

(2) Represents a management fee 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 \$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 to \$6.25 million. The full year management fee will apply in 2009 and the fees relating to the first three quarters of 2009 will be paid to CD&R in the third quarter of 2009.

In August 2009, the boards of directors of the Company and Holdings approved 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 will provide the Company with on-going consulting and management advisory services until June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company will pay annual management fees of \$0.5 million, \$0.5 million and \$0.25 million, respectively, to Citigroup, BAS and JPMorgan. The full year management fees will apply in 2009, and the fees relating to the first three quarters of 2009 will be paid to Citigroup, BAS and J.P. Morgan in the third quarter of 2009. A form of the consulting agreements is attached as Exhibit 10.1 and is incorporated herein by reference. The definitive agreements with Citigroup, BAS and JPMorgan are in the process of being executed.

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The following table presents reconciliations of operating income (loss) to Adjusted EBITDA and Comparable Operating Performance for the periods presented.

| (In thousands) | TruGreen LawnCare | TruGreen LandCare | Terminix | American Home Shield | Other Operations & Headquarters | Total |
|---|----------------------|----------------------|------------|----------------------------|---------------------------------------|------------|
| Six Months Ended June 30, 2009 | | | | | | |
| Operating income (loss)(1) | \$ 20,126 | \$ 4,217 | \$ 108,663 | \$ 32,061 | \$ (18,384) | \$ 146,683 |
| Depreciation and amortization expense | 43,720 | 5,930 | 31,449 | 21,027 | 11,134 | 113,260 |
| EBITDA before interest and net investment (loss) income | 63,846 | 10,147 | 140,112 | 53,088 | (7,250) | 259,943 |
| Interest and net investment (loss) income(2) | | | | (3,093) | 1,727 | (1,366) |
| Adjusted EBITDA | 63,846 | 10,147 | 140,112 | 49,995 | (5,523) | 258,577 |
| Non-cash option and restricted stock expense | | | | | 3,901 | 3,901 |
| Non-cash (credits) charges attributable to purchase accounting(3) | (58) | (326) | (42) | (68) | | (494) |
| Comparable Operating Performance | \$ 63,788 | \$ 9,821 | \$ 140,070 | \$ 49,927 | \$ (1,622) | \$ 261,984 |
| Memo: Items included in Comparable Operating Performance | | | | | | |
| Restructuring charges and merger related charges(4) | \$ | \$ (51) | \$ 3,151 | \$ 75 | \$ 11,186 | \$ 14,361 |
| Management fee(5) | \$ | \$ | \$ | \$ | \$ 1,000 | \$ 1,000 |
| Memo: Items excluded from Comparable Operating Performance | | | | | | |
| Comparable Operating Performance of InStar | \$ | \$ | \$ | \$ | \$ (199) | \$ (199) |
| Comparable Operating Performance of all other discontinued operations | | | | | (242) | (242) |
| Comparable Operating Performance of discontinued operations(6) | \$ | \$ | \$ | \$ | \$ (441) | \$ (441) |
| Six Months Ended June 30, 2008 | | | | | | |
| Operating income (loss)(1) | \$ 21,854 | \$ (602) | \$ 102,895 | \$ (8,291) | \$ (11,979) | \$ 103,877 |
| Depreciation and amortization expense | 46,711 | 5,558 | 29,891 | 25,442 | 10,991 | 118,593 |
| EBITDA before interest and net investment loss | 68,565 | 4,956 | 132,786 | 17,151 | (988) | 222,470 |
| Interest and net investment loss(2) | | | | (962) | (919) | (1,881) |
| Adjusted EBITDA | 68,565 | 4,956 | 132,786 | 16,189 | (1,907) | 220,589 |
| Non-cash option and restricted stock expense | | | | | 3,401 | 3,401 |
| | 34 | (325) | (3,774) | 26,014 | 208 | 22,157 |

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| | | | | | | | | | | | | |
|---|----|--------|----|-------|----|---------|----|--------|----|-------|----|---------|
| Non-cash charges (credits) attributable to purchase accounting(3) | | | | | | | | | | | | |
| Comparable Operating Performance | \$ | 68,599 | \$ | 4,631 | \$ | 129,012 | \$ | 42,203 | \$ | 1,702 | \$ | 246,147 |

| | | | | | | | | | | | | |
|--|----|-----|----|-----|----|----|----|-----|----|-------|----|-------|
| Memo: Items included in Comparable Operating Performance | | | | | | | | | | | | |
| Restructuring charges and merger related charges(4) | | | | | | | | | | | | |
| | \$ | 316 | \$ | 202 | \$ | 57 | \$ | 448 | \$ | 6,662 | \$ | 7,685 |
| Management fee(5) | | | | | | | | | | | | |
| | \$ | | \$ | | \$ | | \$ | | \$ | 1,000 | \$ | 1,000 |

| | | | | | | | | | | | | |
|---|----|--|----|--|----|--|----|--|----|-------|----|-------|
| Memo: Items excluded from Comparable Operating Performance | | | | | | | | | | | | |
| Comparable Operating Performance of InStar | | | | | | | | | | | | |
| | \$ | | \$ | | \$ | | \$ | | \$ | (843) | \$ | (843) |
| Comparable Operating Performance of all other discontinued operations | | | | | | | | | | | | |
| | | | | | | | | | | 1,472 | | 1,472 |
| Comparable Operating Performance of discontinued operations(6) | | | | | | | | | | | | |
| | \$ | | \$ | | \$ | | \$ | | \$ | 629 | \$ | 629 |

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

| (In thousands) | Six months ended | |
|--|------------------|-------------|
| | 2009 | 2008 |
| Total Segment Operating Income | \$ 146,683 | \$ 103,877 |
| Non-operating expense (income): | | |
| Interest expense | 151,322 | 173,011 |
| Interest and net investment loss | 1,366 | 1,881 |
| Gain on extinguishment of debt | (46,106) | |
| Other expense | 379 | 277 |
| Income (Loss) from Continuing Operations before Income Taxes | \$ 39,722 | \$ (71,292) |
| Provision (Benefit) for income taxes | 16,618 | (17,024) |
| Income (Loss) from Continuing Operations | \$ 23,104 | \$ (54,268) |
| Loss from discontinued operations, net of income taxes | (270) | (3,484) |
| Net Income (Loss) | \$ 22,834 | \$ (57,752) |

(2) Interest and net investment 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 approximately \$286.3 million as of June 30, 2009. American Home Shield interest and net investment loss was \$3.1 million and \$1.0 million for the six months ended June 30, 2009 and 2008, respectively. The balance of interest and net investment loss primarily relates to (i) a portion of the earnings generated by SMAC; (ii) investment income 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) 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.

(4) Includes (i) charges related to Fast Forward, (ii) a branch optimization project at Terminix, (iii) charges related to the Company's decision to consolidate its corporate headquarters into its operations support center in Memphis, Tennessee and close its former headquarters in Downers Grove, Illinois and (iv) Merger related charges.

(5) Represents a management fee 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 \$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 to \$6.25 million. The full year management fee will apply in 2009 and the fees relating to the first three quarters of 2009 will be paid to CD&R in the third quarter of 2009.

In August 2009, the boards of directors of the Company and Holdings approved 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 will provide the Company with on-going consulting and management advisory services until June 30, 2016 or the earlier termination of the existing consulting agreement between the Company and CD&R. The Company will pay annual management fees of \$0.5 million, \$0.5 million

and \$0.25 million, respectively, to Citigroup, BAS and JPMorgan. The full year management fees will apply in 2009, and the fees relating to the first three quarters of 2009 will be paid to Citigroup, BAS and J.P. Morgan in the third quarter of 2009. A form of the consulting agreements is attached as Exhibit 10.1 and is incorporated herein by reference. The definitive agreements with Citigroup, BAS and JPMorgan are in the process of being executed.

(6) The table included in *Discontinued Operations* presents reconciliations of operating (loss) income, the most directly comparable financial measure under GAAP, to Adjusted EBITDA and Comparable Operating Performance for the periods presented.

TruGreen LawnCare Segment

The TruGreen LawnCare segment reported a 5.6 percent decrease in revenue, a 7.9 percent decrease in operating income and a 7.0 percent decrease in Comparable Operating Performance for the six months ended June 30, 2009 compared to 2008. The revenue results were adversely impacted by soft customer demand. Customer counts at June 30, 2009 were 2.5 percent lower than last year's level due primarily to a decline in new unit sales as well as a 10 basis point decline in the rolling twelve-month customer retention rate. Trends in revenue were also adversely impacted by discounts offered on Full Program Accounts in 2009 designed to offset the impacts of a difficult economic environment. TruGreen LawnCare remains committed to improving customer retention by focusing on the overall quality of service delivery, including the Lawn Quality Audit program, the reduction of route manager turnover and the continued improvement of overall communication with customers.

TruGreen LawnCare's Comparable Operating Performance declined \$4.8 million for the six months ended June 30, 2009 compared to 2008, which also reflects decreased leverage of selling and administrative expenses, offset, in part, by effective management of seasonal staffing of production labor, lower vehicle counts, reduced fuel and fertilizer costs and the

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favorable impact of acquiring assets in connection with exiting certain fleet leases in 2008.

TruGreen LandCare Segment

The TruGreen LandCare segment reported a 16.1 percent decrease in revenue, an 800.5 percent increase in operating income and a 112.1 percent increase in Comparable Operating Performance for the six months ended June 30, 2009 compared to 2008. The decline in revenue included a 10.0 percent decline in base contract maintenance revenue and a 29.4 percent decline in enhancement revenue. Revenue for the first half of 2009 was adversely impacted by TruGreen LandCare's continued efforts to improve the quality of its customer base with a better customer mix by pruning less profitable jobs, implementing stricter pricing on new sales, and increasing the average size of new proposals and sales. In addition, revenue trends were adversely impacted by soft customer demand.

TruGreen LandCare's Comparable Operating Performance improved \$5.2 million for the six months ended June 30, 2009 compared to 2008, which also reflects improved materials and labor management, reduced overhead spending, lower vehicle fleet counts and the favorable impact of acquiring assets in connection with exiting certain fleet leases in 2008. These factors were offset, in part, by increased fuel costs.

Terminix Segment

The Terminix segment reported a 0.5 percent decrease in revenue for the six months ended June 30, 2009 compared to 2008. Revenue for the six months ended June 30, 2008 has been reduced by \$3.2 million (non-cash) as a result of recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, revenue decreased 1.1 percent for the six months ended June 30, 2009 compared to 2008. Terminix reported a 5.6 percent increase in operating income and an 8.6 percent increase in Comparable Operating Performance for the six months ended June 30, 2009 compared to 2008. The segment's overall revenue results, excluding purchase accounting, reflected modest growth in pest control revenues offset by a decline in revenue from termite contract renewals and termite completions. Pest control revenues increased 2.3 percent for the six months ended June 30, 2009 compared to 2008, reflecting increased customer counts and improved price realization. The increase in customer counts was driven by tuck-in acquisitions, partially offset by a decline in new unit sales and a 60 basis point decline in customer retention. A 2.6 percent decline in termite renewal revenues for the six months ended June 30, 2009 compared to 2008 was due to a 190 basis point decline in termite customer retention. Revenue from termite completions declined 6.4 percent for the six months ended June 30, 2009 compared to 2008, due, in part, to reduced average pricing on new termite treatments and fewer units sold. Trends in retention and new unit sales were adversely impacted by soft customer demand.

Terminix's Comparable Operating Performance improved \$11.1 million for the six months ended June 30, 2009 compared to 2008, which includes the impact of \$3.1 million of restructuring charges relating to a branch optimization program. Terminix's Comparable Operating Performance also reflects favorable termite damage claim trends, effective management of seasonal staffing of production and sales labor, reduced fuel costs and overhead spending and the favorable impact of acquiring assets in connection with exiting certain fleet leases in 2008.

American Home Shield Segment

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The American Home Shield segment reported a 13.8 percent increase in revenue for the six months ended June 30, 2009 compared to 2008. Revenue for the six months ended June 30, 2008 has been reduced by \$30.2 million (non-cash) as a result of recording deferred revenue at its fair value in connection with purchase accounting. Excluding this impact of purchase accounting, revenue increased 2.5 percent for the six months ended June 30, 2009 compared to 2008. The annual value of home service contracts written increased 1.2 percent, which is comprised of a 4.6 percent increase in the average price per contract offset by a 3.3 percent decline in total new contract and renewal sales units. This decline in sales units is primarily comprised of a 15.3 percent decline in sales in the real estate market and a 5.1 percent decline in consumer sales partially offset by a 1.7 percent increase in renewal sales. American Home Shield's sales in the real estate market were significantly impacted by the continued softness in the home resale market throughout most of the country.

American Home Shield reported a 486.7 percent increase in operating income and an \$7.7 million increase in Comparable Operating Performance for the six months ended June 30, 2009 compared to 2008. The increase in Comparable Operating Performance also reflects a decrease in advertising spending primarily due to differences between the years in the timing of advertising activities and reduced provisions for certain legal matters.

Table of Contents***Other Operations and Headquarters Segment***

The Other Operations and Headquarters segment reported a 5.7 percent decrease in revenue, a 53.5 percent increase in operating loss and a \$3.3 million decrease in Comparable Operating Performance for the six months ended June 30, 2009 compared to 2008. The segment's Comparable Operating Performance includes the impact of \$4.5 million of restructuring and merger related charges partially offset by reduced provisions for incentive compensation for the six months ended June 30, 2009 compared to 2008. The ServiceMaster Clean and Merry Maids operations reported a combined 5.8 percent decrease in revenue for the six months ended June 30, 2009. The decrease in revenue resulted from decreases in product sales and other franchise revenues. The ServiceMaster Clean and Merry Maids operations reported a combined increase in operating income of 9.4 percent and an increase in Comparable Operating Performance of 5.4 percent for six months ended June 30, 2009 compared to 2008 driven primarily by a shift in mix of ServiceMaster Clean's revenue to higher margin disaster restoration services and reduced overhead spending as compared to 2008.

Discontinued Operations

The components of loss from discontinued operations, net of income taxes, and the reconciliation of operating loss (income) to Adjusted EBITDA and Comparable Operating Performance for the six months ended June 30, 2009 and June 30, 2008 are as follows:

| (In thousands) | Six months ended | |
|--|-------------------------|-------------|
| | June 30, | |
| | 2009 | 2008 |
| Operating (loss) income | \$ (441) | \$ 629 |
| Interest expense | | (70) |
| Impairment charge | | (6,317) |
| Loss from discontinued operations, before income taxes | (441) | (5,758) |
| Benefit from income taxes | (171) | (2,274) |
| Loss from discontinued operations, net of income taxes | \$ (270) | \$ (3,484) |
| Operating (loss) income | \$ (441) | \$ 629 |
| Depreciation and amortization expense | | |
| EBITDA before interest and net investment income | (441) | 629 |
| Interest and net investment income | | |
| Adjusted EBITDA | (441) | 629 |
| Non-cash option and restricted stock expense | | |
| Non-cash charges attributable to purchase accounting | | |
| Comparable Operating Performance | \$ (441) | \$ 629 |

FINANCIAL POSITION AND LIQUIDITY***Cash Flows from Operating Activities from Continuing Operations***

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Net cash provided from operating activities from continuing operations was \$71.2 million for the six months ended June 30, 2009 compared to \$13.9 million for 2008.

The principal components (in millions) of the net increase for the six months ended June 30, 2009 were:

| | |
|---|---------|
| Increase in net income before Merger related charges, restructuring charges, discontinued operations and non-cash charges | 68.0 |
| Decrease in restructuring payments | 6.3 |
| Increase in working capital requirements | (17.0) |
| | \$ 57.3 |

The increase in net income before Merger related charges, restructuring charges, discontinued operations and non-cash charges for the six months ended June 30, 2009 was driven by Comparable Operating Performance growth at Terminix, American Home Shield, and TruGreen LandCare, lower interest expense and non-cash purchase accounting adjustments recorded in connection with the Merger. The increase in working capital requirements for the six months ended June 30, 2009 was driven primarily by decreased customer prepayments, reduced seasonal inventory growth and non-cash purchase

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accounting adjustments recorded in connection with the Merger.

Cash Flows from Investing Activities from Continuing Operations

Net cash used for investing activities from continuing operations was \$41.4 million for the six months ended June 30, 2009 compared to net cash provided from investing activities from continuing activities of \$32.5 million for the six months ended June 30, 2008 and included \$1.1 million and \$21.0 million paid in connection with the Merger for the six months ended June 30, 2009 and 2008, respectively. Amounts paid in connection with the Merger in 2009 and 2008 were primarily related to payments under change in control severance agreements.

Capital expenditures increased to \$38.9 million for the six months ended June 30, 2009 from \$18.1 million for the six months ended June 30, 2008 and included vehicle purchases of \$22.0 million, recurring capital needs and information technology projects. The Company anticipates that capital expenditures for the remainder of 2009 will total approximately \$30.0 million to \$40.0 million, reflecting the purchases of vehicles and the continuation of investments in information systems and productivity enhancing operating systems. The Company has no additional material capital commitments at this time.

Acquisitions, excluding the Merger, for the six months ended June 30, 2009 totaled \$7.3 million, compared with \$10.0 million for the six months ended June 30, 2008. Consideration paid for tuck-in acquisitions consisted of cash payments and debt payable to sellers. The Company expects to continue its tuck-in 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, 2009 and 2008 includes the net sales of marketable securities at American Home Shield due in part to lowering the amount of excess reserves over minimum statutory reserve requirements in certain states in accordance with our investment policy and reduced statutory reserve requirements. During the six months ended June 30, 2008, the Company sold certain marketable securities and subsequently invested in cash equivalents in an effort to limit our exposure to changing market conditions.

Cash Flows from Financing Activities from Continuing Operations

Net cash used for financing activities from continuing operations was \$65.2 million for the six months ended June 30, 2009 compared to \$35.4 million for the six months ended June 30, 2008. During the first quarter of 2009, the Company completed open market purchases of \$89.0 million in face value of our 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. During the six months ended June 30, 2008, the Company made borrowings of \$182.0 million and repayments of \$182.0 million under the Revolving Credit Facility reflecting normal seasonal working capital needs and made scheduled principal payments of long-term debt of \$35.3 million.

Liquidity

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The Merger was completed on the Closing Date. Following the completion of the Merger, 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. Equity contributions totaling \$1,431 million from the Equity Sponsors, together with (i) borrowings under the \$1,150 million Interim Loan Facility, (ii) borrowings under a new \$2,650 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 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 draw under, the \$500 million Revolving Credit Facility.

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, 2009.

The Interim Loan Facility matured on July 24, 2008. On the maturity date, outstanding amounts under the Interim

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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 a 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's obligation under the Registration Rights Agreement to keep the registration statement effective has terminated. Accordingly, ServiceMaster may choose to deregister the Permanent Notes and terminate the effectiveness of the registration statement at any time.

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% as Cash Interest and 50% as PIK Interest. Interest payable after July 15, 2011 is payable entirely as Cash Interest. The Company elected to pay interest payable in January 2010 entirely as Cash Interest.

Cash and short-term and long-term marketable securities totaled \$495.3 million at June 30, 2009, compared with \$538.6 million at December 31, 2008. Approximately \$286.3 million and \$244.5 million of the cash and short-term and long-term marketable securities balance as of June 30, 2009 and December 31, 2008, respectively, is 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 would 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, 2009, the Company's residual value guarantees related to the leased assets totaled \$94 million for which the Company has recorded the estimated fair value of these guarantees of approximately \$1.8 million in the condensed consolidated statement of financial position. We expect to fulfill our ongoing vehicle fleet needs through direct purchases of vehicles.

The Company maintains lease facilities with banks totaling \$65 million, which provide for the financing of branch properties to be leased by the Company. At June 30, 2009, approximately \$65 million was funded under these facilities. Approximately \$12 million of these leases are treated as capital leases and have been included on the balance sheet as assets with related debt as of June 30, 2009. The balance of the funded amount is treated as operating leases. The Company has guaranteed the residual value of the properties under the leases up to 73 percent of the fair market value at the commencement of the lease. At June 30, 2009, the Company's residual value guarantees related to the leased assets totaled \$53 million, for which the Company has recorded the estimated fair value of these guarantees of approximately \$0.1 million in the condensed consolidated statements of financial position. 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. The operating lease and capital lease classifications of these leases did not change as a result of the modifications.

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, 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 the event that the fair value of the contracts exceeds a certain agreed upon liability level. As of June 30, 2009, the fair value of the Company's fuel swap contracts was a liability of \$4.8 million and the Company posted approximately \$10.0 million in letters of credit as collateral for these contracts, \$5.0 million of which were posted 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 contracts to materially impact its financial position or liquidity.

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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. 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 twelve months, including payment of interest and principal on our debt. As of June 30, 2009, the Company had \$330.0 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 and other retirements of outstanding 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 from time to time, the Company's cash position 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 statement of financial position.

The Company was advised by Holdings that, during the first quarter of 2009, Holdings completed open market purchases of \$11.0 million in face value of our Permanent Notes for a cost of \$4.5 million. As of June 30, 2009, Holdings has completed open market purchases totaling \$65.0 million in face value of our 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. During the six months ended June 30, 2009, the Company recorded interest expense of \$3.4 million and made cash payments to Holdings of \$3.0 million. Interest accrued by the Company and payable to Holdings as of June 30, 2009 amounted to \$3.2 million.

During the first quarter of 2009, the Company completed open market purchases of \$89.0 million in face value of our Permanent Notes for a cost of \$41.0 million. The debt acquired by the Company has been retired, and the Company has discontinued the payment of interest. The Company recorded a gain on extinguishment of debt of \$46.1 million in its condensed consolidated statement of operations for the six months ended June 30, 2009 related to these retirements. Included in the gain on extinguishment of debt are write-offs of unamortized debt issuance costs related to the extinguished debt of \$1.9 million.

In light of the uncertainty in the credit and financial markets, in September 2008, the Company borrowed \$165.0 million under its existing \$500.0 million Revolving Credit Facility to increase its cash position to preserve financial flexibility. The Company invested \$125.0 million of the borrowings in money market funds which were invested in short term U.S. Government securities and placed the remaining borrowings in a money market account used to fund working capital needs. On July 22, 2009, the Company liquidated its investments in these money market funds and used the proceeds to make a repayment of \$125.0 million under the Revolving Credit Facility.

The Company has entered into an accounts receivable securitization arrangement under which TruGreen LawnCare and Terminix 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 business and could, at times, limit the amount available to the Company from the sale of these interests.

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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 may be reduced or eliminated. As part of the annual renewal of the facility, which occurred on July 21, 2009, this Purchaser agreed to continue its participation in the arrangement at least through July 2010.

During the six months ended June 30, 2009 and 2008, there were no transfers of interests in the pool of accounts receivables to Purchasers under this arrangement. As of June 30, 2009, the Company had \$10.0 million outstanding under the arrangement and had \$40.0 million of remaining capacity available under the accounts receivable securitization arrangement. As of June 30, 2008, there were no amounts outstanding under the arrangement.

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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 warranty 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% of their capital as of the most recent year end, as determined in accordance with prescribed insurance accounting practices in those states. Of the \$286.3 million as of June 30, 2009, which we identify as being potentially unavailable to be paid to the Company by its subsidiaries, approximately \$224.3 million is held by our home warranty and insurance subsidiaries and is subject to these regulatory limitations on the payment of funds to us. Such limitations will be in effect throughout 2009 and similar limitations will be re-computed as of December 31, 2009 and will be in effect in 2010. The remainder of the \$286.3 million, or \$62.0 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, 2008 included disclosure of the Company's contractual obligations and commitments as of December 31, 2008. The Company continues to make the contractually required payments and, therefore, the 2009 obligations and commitments as listed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 have been reduced by the required payments. There were no material changes outside of ordinary course of business in the Company's previously disclosed contractual obligations and commitments during the six months ended June 30, 2009.

Financial Position - Continuing Operations

Receivables increased from year-end levels, reflecting increased seasonal activity.

Inventories increased from year-end levels, reflecting increased seasonal activity.

Prepaid expenses and other assets increased from year-end levels primarily reflecting preseason advertising costs at TruGreen LawnCare and other advertising costs of the Company which are incurred early in the year and deferred on an interim basis and recognized approximately in proportion to revenue over the balance of the fiscal year.

Deferred customer acquisition costs increased from year-end levels, reflecting the seasonality in the lawn care operations. In the winter and spring, this business sells a series of lawn applications to customers, which are rendered primarily in March through October. Certain incremental selling expenses which relate to successful sales are deferred and recognized over the production season and are not deferred beyond the fiscal year-end. The Company capitalizes sales commissions and other direct contract acquisition costs relating to lawn care, termite baiting and pest contracts, as well as home service contracts. These costs vary with and are directly related to a new sale and are amortized over the life of the related contract.

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Property and equipment increased from year-end levels, reflecting vehicle purchases, other recurring capital purchases and information technology projects.

Accounts payable increased from year-end levels, reflecting increased seasonal activity.

Deferred revenue increased from year-end levels, reflecting the significant amount of customer prepayments recorded in the first quarter (pre-season) at TruGreen LawnCare, growth in prepaid contracts written at American Home Shield and growth in Termite Inspection and Protection Plan customers at Terminix.

Accrued self-insurance claims and related expenses increased from year-end levels, reflecting an increase in accruals for warranty claims in the American Home Shield business partially offset by a reduction in required reserve levels under certain of our self-insurance programs.

Accrued payroll and related expenses decreased from year-end levels, reflecting the first quarter 2009 payment of incentive compensation related to 2008 performance.

Other accrued liabilities decreased from year-end levels due primarily to reductions in accrued interest due to

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changes in the timing of interest payments on our permanent financing.

Total shareholder's equity was \$1,178.0 million at June 30, 2009 as compared to \$1,132.4 million at December 31, 2008.

Financial Position - Discontinued Operations

The assets and liabilities related to discontinued operations have been classified in a separate caption on the condensed consolidated statements of financial position.

As part of the InStar, American Residential Services and American Mechanical Services sale agreements, the Company guaranteed obligations to third parties with respect to bonds (primarily performance and license type), operating leases for which the Company has been released as being the primary obligor, real estate leased and operated by the buyers, and other guarantees of payment. 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.

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, intends, plans, estimates, and 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 or current expectations concerning, among other things, our results of operations; financial condition; liquidity; prospects; growth strategies; future impairments; capital expenditures; customer retention; communications improvements; the continuation of tuck-in acquisitions; the impact of interest rate hedges and fuel swaps; the amounts we will pay in connection with restructurings and reorganizations, including Fast Forward; the cost savings from such 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 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, 2008, could cause actual results and outcomes to differ materially from those in the forward-looking statements. Factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

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- 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;
- our ability to secure sources of financing or other funding to allow for direct purchases of commercial vehicles;
- changes in interest rates;
- weather conditions and seasonality factors that affect the demand for our services;
- changes in the source and intensity of competition in our markets;
- higher commodity prices and lack of availability, including fuel and fertilizers;
- increases in operating costs, such as higher insurance premiums, self-insurance costs and health care costs;

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- employee retention, labor shortages or increases in compensation and benefits costs;
- epidemics, pandemics or other public health concerns or crises;
- the risk that the benefits from Fast Forward may not be fully realized or may take longer to realize than expected;
- a continued downturn 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 a downturn may affect home sales, consumer or business liquidity, consumer or commercial confidence or spending levels including as a result of inflation or deflation, unemployment, interest rate fluctuations, mortgage foreclosures, subprime credit dislocations;
- a failure of any banking institution with which we deposit our funds or 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, direct mail or other marketing activities, the Termite Inspection Protection Plan, pesticides and/or fertilizers;
- the success of our current restructuring initiatives, including the implementation of centers of excellence;
- the number, type, outcomes and costs of legal or administrative proceedings;
- possible labor organizing activities at the Company or its franchisees;
- risks inherent in acquisitions and dispositions;

- the timing and structuring of our business process outsourcing, including the outsourcing of portions of our information technology function, and risks associated with such outsourcing; and
- other factors described from time to time in documents that we file with the Securities and Exchange Commission.

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 contracts for trading or speculative purposes. The market risk associated with debt obligations and other significant instruments as of June 30, 2009 has not materially changed from December 31, 2008 (see Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2008).

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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 28 million gallons of fuel on an annual basis. A 10% change in fuel prices would result in a change of approximately \$7.3 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, 2009, the Company had fuel swap contracts to pay fixed prices for fuel with an aggregate notional amount of \$96.8 million, maturing through 2010. The estimated fair value of these contracts at June 30, 2009 was a liability of \$4.8 million. These fuel swap contracts provide a fixed price for approximately 90% and 75% of the Company's estimated fuel usage for the remainder of 2009 and 2010, respectively.

ITEM 4T. 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 2009 that has materially affected, or is reasonably likely to materially affect, ServiceMaster s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6: EXHIBITS

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| Exhibit No. | Description of Exhibit |
|-------------|---|
| 10.1 | Form of Consulting Agreements to be entered into among the Company, Holdings and Citigroup Alternative Investments LLC, BAS Capital Funding Corporation and JPMorgan Chase |
| 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 |

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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 14, 2009

THE SERVICEMASTER COMPANY
(Registrant)

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

ServiceMaster Global Holdings, Inc.

The ServiceMaster Company

860 Ridge Lake Boulevard

Memphis, Tennessee 38120

[•], 2009

[Consultant name]

[address]

Ladies and Gentlemen:

Since the 2007 acquisition of The ServiceMaster Company (the Company) by a wholly-owned subsidiary of ServiceMaster Global Holdings, Inc. (Parent), you and the other equity sponsors of that acquisition have received regular reports and participated in numerous monthly operating review meetings regarding the business, operations and financial condition of the Parent, the Company and its and their subsidiaries (the Company Group) in order to enable you to provide oversight and input as to the performance of the Company Group. The Company has concluded that, in light of the scope and extent of the on-going management and consulting services being provided by [Consultant name] (you or Consultant), it would be appropriate to compensate you for those services on the terms and subject to conditions that follow:

1. The Company has retained you, and you hereby agree to accept such retention, to provide to the Company Group, when and if called upon, management and consulting services in the form of making available one of your employees to serve as a member of, or observer to, the Board of Directors of Parent and/or the Company and to participate in periodic operating reviews conducted with senior management of the Company Group (the Consulting Services) and such other ancillary advice as may be reasonably requested by the Company Group. As compensation for the Consulting Services, commencing on the date hereof, the Company agrees to pay you a fee (the Consulting Fee) as follows: (i) \$[(1)] within five business days of your returning to the Company a countersigned copy of this agreement, and \$[(2)] on October 1, 2009, for the calendar year 2009, and (ii) \$[(3)] per year thereafter, one quarter of which shall be payable quarterly in advance on the first day of each January, April, July and October, beginning on January 1, 2010.

2. The Company will, and will cause each member of the Company Group to, use its commercially reasonable efforts to furnish, or to cause their respective subsidiaries and agents to furnish, Consultant with such information (the Information) as may be reasonably needed in order for the Consultant to fulfill its engagement hereunder. The Company acknowledges and

2. The Company will, and will cause each member of the Company Group to, use its commercially reasonable efforts to furnish, or to cause their respective subsidiaries and agents to furnish, Consultant with such information (the Information) as may be reasonably needed in order for the Consultant to fulfill its engagement hereunder. The Company acknowledges and

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- (1) \$375,000 in the case of BAS and Citigroup; \$187,500 in the case of JPMorgan.
 - (2) \$125,000 in the case of BAS and Citigroup; \$62,500 in the case of JPMorgan.
 - (3) \$500,000 in the case of BAS and Citigroup; \$250,000 in the case of JPMorgan.
-

agrees that (a) Consultant will rely on the Information and on information available from generally recognized public sources in performing the Consulting Services and the services contemplated by paragraph 1 and (b) Consultant does not assume responsibility for the accuracy or completeness of the Information and such other information.

3. Consultant acknowledges that, concurrently with the execution of this agreement, the Company is entering into substantially similar agreements with [•] and [•] and that the Company has previously entered into a Consulting Agreement, dated as of July 24, 2007 (as the same may be amended from time to time, the CD&R Consulting Agreement), with Clayton, Dubilier & Rice, Inc. (collectively, the Other Consultants), pursuant to which the Other Consultants are to provide consulting services to the Company Group. The Consultant will coordinate with the Other Consultants in connection with its provision of such services to the Company Group, provided that Consultant shall not be liable to any member of the Company Group as a result of any such services provided, or the failure to provide such services, by the Other Consultants.

4. Parent and the Company (on behalf of itself and the other members of the Company Group) hereby acknowledge and agree that the services provided by Consultant hereunder are being provided subject to the terms of this agreement (including, without limitation, paragraph 10) and that Consultant shall be entitled to the benefits of the Indemnification Agreement, dated as of the July 24, 2007, among Parent, the Company, Consultant and certain of its affiliates (as the same may be amended from time to time, the Indemnification Agreement) with respect to the services provided by Consultant hereunder to the same extent as is provided for in the Indemnification Agreement with respect to the Initial Services (as defined in the Indemnification Agreement).

5. You shall act as an independent contractor, with duties solely to the Company Group. The provisions hereof shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns. Nothing in this agreement, expressed or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights or remedies under or by reason of this agreement. Without limiting the generality of the foregoing, the parties acknowledge that nothing in this agreement, expressed or implied, is intended to confer on any present or future holders of any securities of the Parent or its subsidiaries or affiliates, or any present or future creditor of the Parent or its subsidiaries or affiliates, any rights or remedies under or by reason of this agreement or any performance hereunder.

6. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS TO THE EXTENT THAT SUCH PRINCIPLES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION. Each of the parties hereto irrevocably and unconditionally (a) agrees that any legal suit, action or proceeding brought by any party hereto arising out of or based upon this agreement or the transactions contemplated hereby may be brought in any court of the State of New York or Federal District Court for the Southern District of New York located in the City, County and State of New York (each, a New York Court), (b) waives, to the fullest extent that it may effectively do so, any objection that it may now or hereafter have to the laying of venue of any such proceeding brought in a New York Court, and any claim that any such

action or proceeding brought in a New York Court has been brought in an inconvenient forum, (c) submits to the exclusive jurisdiction of any New York Court in any suit, action or proceeding and (d) ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE HEREBY WAIVES ANY RIGHT THAT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT. With respect to clause (d) of the immediately preceding sentence, each of the parties hereto acknowledges and certifies that (i) no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the waiver contained therein, (ii) it understands and has considered the implications of such waiver, (iii) it makes such waiver voluntarily and (iv) it has been induced to enter into this agreement by, among other things, the mutual waivers and certifications contained in this paragraph 6.

7. All notices and other communications to be given to any party hereunder shall be sufficiently given for all purposes hereunder if in writing and delivered by hand, courier or overnight delivery service, or three days after being mailed by certified or registered mail, return receipt requested, with appropriate postage prepaid, or when received in the form of a facsimile (receipt confirmation requested), and shall be directed to the address set forth below (or at such other address or facsimile number as such party shall designate by like notice):

If to Parent or the Company:

The ServiceMaster Company

860 Ridge Lake Boulevard

Memphis, Tennessee 38120

Attention: General Counsel

Facsimile: (901) 597-8025

with a copy to:

Clayton, Dubilier & Rice, Inc.

375 Park Avenue

18th Floor

New York, New York 10152

Attention: Theresa Gore

Facsimile: (212) 407-5252

3. Consultant acknowledges that, concurrently with the execution of this agreement, the Co

if to Consultant, at the address set forth below its signature.

8. This agreement shall continue in effect until June 30, 2016 or the earlier termination of the CD&R Consulting Agreement, and may be earlier terminated by Consultant on 30 days prior written notice to the Company. The provisions of this agreement shall survive any termination hereof, provided that, notwithstanding the foregoing, paragraph 1 shall survive any termination solely as to any portion of any Consulting Fee not paid or reimbursed prior to such termination.

9. Except in cases of gross negligence or willful misconduct, Consultant, its affiliates and any of its and their respective employees, officers, directors, partners, consultants, members or stockholders shall have no liability of any kind whatsoever to any member of the Company Group for any damages, losses or expenses (including, without limitation, interest, penalties and fees and disbursements of attorneys, accountants, investment bankers and other professional advisors) with respect to the provision of services hereunder. In no event shall Consultant, its affiliates and any of its and their respective employees, officers, directors, partners, consultants, members or stockholders have liability of any kind whatsoever to any member of the Company Group for any special, punitive, incidental or consequential damages.

10. This agreement, together with the Indemnification Agreement, the Stockholders Agreement, dated as of July 24, 2007, among the Parent and certain of its stockholders, and the Registration Rights Agreement, dated as of July 24, 2007, among the Parent and certain of its stockholders, constitute the entire agreement between Consultant, the Company and the Parent with respect to the subject matter of this agreement and supersede any prior discussions, correspondence, negotiation, proposed term sheet, agreement, understanding or arrangement, and there are no agreements or understandings between the parties in respect of the subject matter hereof other than those set forth or referred to in this agreement. The Company and the Parent acknowledge and agree that Consultant makes no representations or warranties in connection with this agreement or its provision of services pursuant hereto. The Company agrees that any acknowledgment or agreement made by the Company in this agreement is made on behalf of the Company and the other members of the Company Group.

11. This agreement shall be binding upon and inure to the benefit of the parties to this agreement and their respective successors and assigns; provided, that (i) neither this agreement nor any right, interest or obligation hereunder may be assigned by either party, whether by operation of law or otherwise, without the express written consent of the other party hereto and (ii) any assignment by Consultant of its rights but not the obligations under this agreement to any entity directly or indirectly controlling, controlled by or under common control with Consultant shall be expressly permitted hereunder and shall not require the prior written consent of the Company. This agreement is not intended to confer any right or remedy hereunder upon any person or entity other than the parties to this agreement and their respective successors and assigns.

12. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and which together shall constitute one agreement. This Agreement may not be amended, restated, supplemented or otherwise modified, and no provision of this Agreement may be waived, other than in a writing (a) duly executed by the parties hereto, and (b) approved by a majority of the members of the Parent's board of directors who are not employees of the Parent or its subsidiaries or Consultant or its affiliates.

[Remainder of page intentionally left blank.]

If the foregoing sets forth the understanding between us, please so indicate on the enclosed signed copy of this letter in the space provided therefor and return it to us, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

THE SERVICEMASTER COMPANY

By:

Name:
Title:

SERVICEMASTER GLOBAL HOLDINGS, INC.

By:

Name:
Title:

Agreed to and accepted as of the date first
above written:

[insert name of Consultant]

By:

Name:
Title:

Address for Notice:

Attention:
Facsimile:

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, J. Patrick Spainhour, certify that:

1. I have reviewed this Report on Form 10-Q of The ServiceMaster Company;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

3. Consultant acknowledges that, concurrently with the execution of this agreement, the Co

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2009

/s/ J. Patrick Spainhour
J. Patrick Spainhour

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Steven J. Martin, certify that:

1. I have reviewed this Report on Form 10-Q of The ServiceMaster Company;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

3. Consultant acknowledges that, concurrently with the execution of this agreement, the Co

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2009

/s/ Steven J. Martin
Steven J. Martin

Certification of Chief Executive Officer Pursuant to Section 1350 of Chapter 63 of Title 18 Of The United States Code

I, J. Patrick Spainhour, the Chief Executive Officer of The ServiceMaster Company, certify that (i) the Report on Form 10-Q for the quarter ended June 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of The ServiceMaster Company.

/s/ J. Patrick Spainhour
J. Patrick Spainhour
August 14, 2009

Certification of Chief Financial Officer Pursuant to Section 1350 of Chapter 63 of Title 18 Of The United States Code

I, Steven J. Martin, the Senior Vice President and Chief Financial Officer of The ServiceMaster Company, certify that (i) the Report on Form 10-Q for the quarter ended June 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of The ServiceMaster Company.

/s/ Steven J. Martin
Steven J. Martin
August 14, 2009

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All dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

10.75%/11.50% Senior Toggle Notes due 2015

PROSPECTUS SUPPLEMENT

August 19, 2009
