

ABM INDUSTRIES INC /DE/

Form 10-Q

March 04, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended January 31, 2010  
OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-8929**

**ABM INDUSTRIES INCORPORATED**

**(Exact name of registrant as specified in its charter)**

**Delaware**

**94-1369354**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**551 Fifth Avenue, Suite 300, New York,  
New York**

**10176**

(Address of principal executive offices)

(Zip Code)

**212/297-0200**

(Registrant's telephone number, including area code)

**None**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Edgar Filing: ABM INDUSTRIES INC /DE/ - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 26, 2010
Common Stock, \$0.01 par value per share	51,917,607 shares

---

**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**FORM 10-Q**  
**For the quarterly period ended January 31, 2010**  
**Table of Contents**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
<u>Item 1. Financial Statements</u>	3
<u>Condensed Consolidated Financial Statements</u>	3
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	22
<u>Item 4. Controls and Procedures</u>	23
<b><u>PART II. OTHER INFORMATION</u></b>	23
<u>Item 1. Legal Proceedings</u>	23
<u>Item 1A Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 3. Defaults Upon Senior Securities</u>	24
<u>Item 4. Reserved</u>	24
<u>Item 5. Other Information</u>	24
<u>Item 6. Exhibits</u>	24
<b><u>SIGNATURES</u></b>	25
<u>Exhibit 10.1</u>	
<u>Exhibit 10.2</u>	
<u>Exhibit 10.3</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	
<u>Exhibit 99.1</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)	<b>January 31, 2010</b>	<b>October 31, 2009</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 21,177	\$ 34,153
Trade accounts receivable, net of allowances of \$11,235 and \$10,772 at January 31, 2010 and October 31, 2009, respectively	476,910	445,241
Prepaid income taxes	12,205	13,473
Current assets of discontinued operations	8,480	10,787
Prepaid expenses	40,332	38,781
Notes receivable and other	17,567	21,374
Deferred income taxes, net	49,729	52,171
Insurance recoverables	4,917	5,017
Total current assets	631,317	620,997
Non-current assets of discontinued operations	3,573	4,567
Insurance deposits	42,289	42,500
Other investments and long-term receivables	5,884	6,240
Deferred income taxes, net	61,018	63,444
Insurance recoverables	65,800	67,100
Other assets	31,852	32,446
Investments in auction rate securities	19,651	19,531
Property, plant and equipment, net of accumulated depreciation of \$96,715 and \$92,563 at January 31, 2010 and October 31, 2009, respectively	57,562	56,892
Other intangible assets, net of accumulated amortization of \$46,239 and \$43,464 at January 31, 2010 and October 31, 2009, respectively	57,425	60,199
Goodwill	547,830	547,237
Total assets	\$ 1,524,201	\$ 1,521,153

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

(Continued)

(in thousands, except share amounts)	<b>January 31, 2010</b>	<b>October 31, 2009</b>
	(Unaudited)	
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Trade accounts payable	\$ 79,524	\$ 84,701
Accrued liabilities		
Compensation	83,658	93,095
Taxes other than income	20,401	17,539
Insurance claims	78,174	78,144
Other	70,629	66,279
Income taxes payable	1,950	1,871
Current liabilities of discontinued operations	1,170	1,065
Total current liabilities	335,506	342,694
Income taxes payable	20,713	17,763
Line of credit	172,000	172,500
Retirement plans and other	31,983	32,963
Insurance claims	267,883	268,183
Total liabilities	828,085	834,103
Commitments and Contingencies		
<b>Stockholders equity</b>		
Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 51,884,698 and 51,688,218 shares issued at January 31, 2010 and October 31, 2009, respectively	519	517
Additional paid-in capital	179,813	176,480
Accumulated other comprehensive loss, net of taxes	(2,350)	(2,423)
Retained earnings	518,134	512,476
Total stockholders equity	696,116	687,050
Total liabilities and stockholders equity	\$ 1,524,201	\$ 1,521,153

See accompanying notes to the condensed consolidated financial statements.



**Table of Contents**

**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)	<b>Three Months Ended</b> <b>January 31</b>	
	<b>2010</b>	<b>2009</b>
	(Unaudited)	
<b>Revenues</b>	\$ 869,884	\$ 887,472
<b>Expenses</b>		
Operating	782,101	787,268
Selling, general and administrative	62,802	71,387
Amortization of intangible assets	2,775	2,823
Total expenses	847,678	861,478
Operating profit	22,206	25,994
Interest expense	1,215	1,668
Income from continuing operations before income taxes	20,991	24,326
Provision for income taxes	8,155	9,571
Income from continuing operations	12,836	14,755
Loss from discontinued operations, net of taxes	(61)	(538)
<b>Net income</b>	<b>\$ 12,775</b>	<b>\$ 14,217</b>
<b>Net income per common share Basic</b>		
Income from continuing operations	\$ 0.25	\$ 0.29
Loss from discontinued operations		(0.01)
Net Income	\$ 0.25	\$ 0.28
<b>Net income per common share Diluted</b>		
Income from continuing operations	\$ 0.24	\$ 0.29
Loss from discontinued operations		(0.01)
Net Income	\$ 0.24	\$ 0.28
<b>Weighted-average common and common equivalent shares outstanding</b>		
Basic	51,821	51,110
Diluted	52,548	51,470
<b>Dividends declared per common share</b>	<b>\$ 0.135</b>	<b>\$ 0.130</b>

See accompanying notes to the condensed consolidated financial statements.





**Table of Contents**

**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	<b>Three Months Ended</b> <b>January 31</b>	
	<b>2010</b>	<b>2009 (Note 1)</b> (Unaudited)
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,775	\$ 14,217
Loss from discontinued operations, net of taxes	(61)	(538)
Income from continuing operations	12,836	14,755
<b>Adjustments to reconcile income from continuing operations to net cash (used in) provided by continuing operating activities:</b>		
Depreciation and amortization of intangible assets	8,493	7,306
Deferred income taxes	4,868	3,361
Share-based compensation expense	1,960	1,493
Provision for bad debt	606	1,286
Discount accretion on insurance claims	228	312
Gain on sale of assets	(92)	(43)
Changes in operating assets and liabilities, net of effects of acquisitions		
Trade accounts receivable	(32,276)	(28,253)
Prepaid expenses and other current assets	2,241	(2,642)
Insurance recoverables	1,400	
Other assets and long-term receivables	1,161	(2,147)
Income taxes payable	4,286	2,306
Retirement plans and other non-current liabilities	(928)	(1,776)
Insurance claims payable	(498)	615
Trade accounts payable and other accrued liabilities	(16,505)	16,887
Total adjustments	(25,056)	(1,295)
Net cash (used in) provided by continuing operating activities	(12,220)	13,460
Net cash provided by discontinued operating activities	3,307	12,619
<b>Net cash (used in) provided by operating activities</b>	<b>(8,913)</b>	<b>26,079</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(7,379)	(5,441)
Proceeds from sale of assets	1,043	415
Purchase of businesses	(588)	(623)
<b>Net cash used in investing activities</b>	<b>(6,924)</b>	<b>(5,649)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercises of stock options (including income tax benefit)	1,251	463
Dividends paid	(6,992)	(6,641)
Borrowings from line of credit	131,000	173,000
Repayment of borrowings from line of credit	(131,500)	(176,000)

Edgar Filing: ABM INDUSTRIES INC /DE/ - Form 10-Q

Changes in book cash overdrafts	9,102	(13,852)
<b>Net cash provided by (used in) financing activities</b>	2,861	(23,030)
Net decrease in cash and cash equivalents	(12,976)	(2,600)
Cash and cash equivalents at beginning of period	34,153	26,741
<b>Cash and cash equivalents at end of period</b>	\$ 21,177	\$ 24,141

**Supplemental Data:**

Cash (refunded) paid for income taxes, net of refunds received	\$ (1,243)	\$ 3,915
Tax effect from exercise of options	241	8
Cash received from exercise of options	1,010	455
Interest paid on line of credit	\$ 979	\$ 1,908

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of Presentation**

The accompanying condensed consolidated financial statements of ABM Industries Incorporated ( ABM , and together with its subsidiaries, the Company ) contained in this report are unaudited and should be read in conjunction with the consolidated financial statements and accompanying notes filed with the U.S. Securities and Exchange Commission ( SEC ) in ABM 's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. All references to years are to the Company 's fiscal year, which ends on October 31.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in ABM 's condensed consolidated financial statements and the accompanying notes. These estimates are based on information available as of the date of these financial statements. The current economic environment and its potential effect on the Company 's clients have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are normal and recurring, necessary to fairly state the information for each period contained therein. The results of operations for the three months ended January 31, 2010 are not necessarily indicative of the operating results that might be expected for the full fiscal year or any future periods.

*Immaterial Correction*

The presentation of the accompanying condensed consolidated statements of cash flows for the three months ended January 31, 2009, corrects the presentation of cash and cash equivalents and changes in book cash overdrafts related to offsetting of positive and negative book cash balances. The effects of the correction, which had no impact on the Company 's previously reported earnings for any periods, are presented in the following table:

	Three Months Ended January 31, 2009	
	As Previously Reported	As Corrected
(in thousands)		
Net cash used in financing activities	\$ (9,178)	\$ (23,030)

**2. Recently Adopted Accounting Pronouncements**

Effective November 1, 2009, the Company adopted the Financial Accounting Standards Board ( FASB ) updated authoritative standard for accounting for business combinations, which is included in Accounting Standards Codification™ ( ASC ) Topic 805 Business Combinations ( ASC 805 ). Upon adoption, on November 1, 2009, the Company expensed approximately \$1.0 million of deferred acquisition costs for acquisitions currently being pursued. This authoritative standard will impact the way in which the Company accounts for future business combinations. Effective November 1, 2009, the Company adopted the FASB updated authoritative standard for determining the useful life of intangible assets, which is included in ASC Topic 350-30 General Intangibles Other than Goodwill ( ASC 350-30 ). This authoritative standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and requires additional disclosures. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date. This authoritative standard had no impact on the Company 's condensed consolidated interim financial statements, but could impact the way in which the useful lives of intangible assets acquired in a business combination will be determined for future acquisitions, if renewal or extension terms are apparent.



**Table of Contents**

Effective November 1, 2009, the Company adopted the FASB updated authoritative standard on employers disclosures about post-retirement benefit plan assets, which is included in ASC Topic 715 Compensation Retirement Benefits ( ASC 715 ). The authoritative standard expands the annual disclosures by adding required disclosures about how investment allocation decisions are made by management, major categories of plan assets and significant concentrations of risk. Additionally, it is now required for an employer to disclose information about the valuation of plan assets similar to that required under ASC Topic 820 Fair Value Measurements and Disclosures ( ASC 820 ). This authoritative standard will not have an impact on the Company s condensed consolidated interim financial statements as it only amends required annual disclosures.

Effective November 1, 2009, the Company adopted the FASB authoritative standard on fair value measurements for non-financial assets and non-financial liabilities measured on a non-recurring basis, which is included in ASC 820. The Company s non-financial assets and non-financial liabilities principally consist of intangible assets acquired through business combinations and long-lived assets. During the three months ended January 31, 2010, the Company did not re-measure any non-financial assets or non-financial liabilities at fair value, therefore, this authoritative standard did not have an impact on the Company s condensed consolidated interim financial statements. This authoritative standard will impact the way in which fair value is measured and disclosed for non-financial assets and non-financial liabilities that are measured at fair value on a non-recurring basis in periods subsequent to initial recognition.

**3. Fair Value Measurements**

As required by ASC 820, fair value is determined based on inputs or assumptions that market participants would use in pricing an asset or a liability. These assumptions consist of (1) observable inputs - market data obtained from independent sources, or (2) unobservable inputs - market data determined using the company s own assumptions about valuation. ASC 820 establishes a hierarchy to prioritize the inputs to valuation techniques, with the highest priority being given to Level 1 inputs and the lowest priority to Level 3 inputs, as described below:

**Level 1** Quoted prices for identical instruments in active markets;

**Level 2** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets; and

**Level 3** Unobservable inputs.

Financial assets and liabilities measured at fair value on a recurring basis are summarized in the table below:

(in thousands)	Fair Value at January 31, 2010	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Assets held in funded deferred compensation plan (a)	\$ 5,468	\$ 5,468	\$	\$
Investments in auction rate securities (b)	19,651			19,651
Total assets	\$ 25,119	\$ 5,468	\$	\$ 19,651
<b>Liabilities</b>				
Interest rate swap (c)	\$ 1,062	\$	\$ 1,062	\$
Total liabilities	\$ 1,062	\$	\$ 1,062	\$

- (a) The fair value of the assets held in the deferred compensation plan is based on quoted market prices.
  
- (b) The fair value of the investments in auction rate securities is based on discounted cash flow valuation models, primarily utilizing unobservable inputs. See Note 4, Auction Rate Securities .
  
- (c) The fair value of the interest rate swap is estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates using observable benchmarks for LIBOR forward rates at the end of the period. See Note 7, Line of Credit Facility .

See Note 4, Auction Rate Securities , for a roll-forward of assets measured at fair value using significant unobservable Level 3 inputs.



**Table of Contents***Other Financial Assets and Liabilities*

Due to the short-term maturities of the Company's cash, cash equivalents, receivables, payables, and current assets and liabilities of discontinued operations, the carrying value of these financial instruments approximates their fair market values. Due to the variable interest rates, the fair value of outstanding borrowings under the Company's \$450.0 million line of credit approximates its carrying value of \$172.0 million. The carrying value of the receivables included in non-current assets of discontinued operations of \$3.6 million and the acquired insurance deposits related to acquired self-insurance claims of \$42.3 million approximates fair market value.

Other financial instruments of \$1.4 million included in other investments and long-term receivables have no quoted market prices and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

**4. Auction Rate Securities**

As of January 31, 2010, the Company held investments in auction rate securities from five different issuers having an original principal amount of \$5.0 million each (aggregating \$25.0 million). At January 31, 2010 and October 31, 2009, the estimated fair value of these securities, in total, was approximately \$19.7 million and \$19.5 million, respectively. These auction rate securities are debt instruments with stated maturities ranging from 2025 to 2050, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. However, auctions for these securities have not occurred since August 2007.

The Company estimates the fair values of auction rate securities it holds utilizing a discounted cash flow model, which considers, among other factors, assumptions about: (1) the underlying collateral; (2) credit risks associated with the issuer; (3) contractual maturity; (4) credit enhancements associated with financial insurance guarantees, if any; and (5) assumptions about when, if ever, the security might be re-financed by the issuer or have a successful auction (presently assumed to be approximately 4 to 8 years). Since there can be no assurance that auctions for these securities will be successful in the near future, the Company has classified its auction rate securities as long-term investments.

The Company's determination of whether impairments of its auction rate securities are other-than-temporary is based on an evaluation of several factors, circumstances and known or reasonably supportable trends including, but not limited to: (1) the Company's intent to not sell the securities; (2) the Company's assessment that it is not more likely than not that the Company will be required to sell the securities before recovering its cost basis; (3) expected defaults; (4) the decline in ratings for the auction rate securities or the underlying collateral; (5) the rating of the associated guarantor (where applicable); (6) the nature and value of the underlying collateral expected to service the investment; (7) actual historical performance of the security in servicing its obligations; and (8) actuarial experience of the underlying re-insurance arrangement (where applicable) which in certain circumstances may have preferential rights to the underlying collateral. Based on the Company's analysis of the above factors, no other-than-temporary impairment was identified during the three months ended January 31, 2010.

The Company's determination of whether an other-than-temporary impairment represents a credit loss is based upon the difference between the present value of the expected cash flows to be collected and the amortized cost basis of the security. Significant assumptions used in estimating the credit loss include: (1) default rates for the security and the monoline insurer, if any (which were based on published historical default rates of similar securities and consideration of current market trends) and (2) the expected terms of the securities (which represents the Company's view of when market efficiencies for the securities may be restored). Adverse changes in any of these factors could result in further material declines in fair value and an additional other-than-temporary impairment in the future.

The following table presents the changes in the cost basis and fair value of the Company's auction rate securities for the three months ended January 31, 2010:

(in thousands)	Cost Basis	Fair Value (Level 3)
Balance at beginning of year	\$ 23,434	\$ 19,531
Unrealized gains		171
Unrealized losses		(51)

Balance at January 31, 2010	\$ 23,434	\$ 19,651
-----------------------------	-----------	-----------

**Table of Contents**

At January 31, 2010 and October 31, 2009, unrealized losses of \$3.8 million (\$2.2 million net of tax) and \$3.9 million (\$2.3 million net of tax) were recorded in accumulated other comprehensive loss, respectively.

**5. Net Income per Common Share**

Basic net income per common share is net income divided by the weighted average number of shares outstanding during the period. Diluted net income per common share is based on the weighted average number of shares outstanding during the period, adjusted to include the assumed exercise and conversion of certain stock options, restricted stock units and performance shares. The calculation of basic and diluted net income per common share is as follows:

(in thousands, except per share data)	Three Months Ended January 31	
	2010	2009
Income from continuing operations	\$ 12,836	\$ 14,755
Loss from discontinued operations, net of taxes	(61)	(538)
Net income	\$ 12,775	\$ 14,217
Weighted-average common shares outstanding Basic	51,821	51,110
Effect of dilutive securities:		
Stock options	389	196
Restricted stock units	262	105
Performance shares	76	59
Weighted-average common shares outstanding Diluted	52,548	51,470
Net income per common share		
Basic	\$ 0.25	\$ 0.28
Diluted	\$ 0.24	\$ 0.28

The diluted net income per common share excludes certain stock options and restricted stock units since the effect of including these stock options and restricted stock units would have been anti-dilutive as follows:

(in thousands)	Three Months Ended January 31	
	2010	2009
Stock options	846	2,399
Restricted stock units	23	209

**6. Self-Insurance**

The Company provides for self-insurance expense during interim periods using actuarial rates established from its most recent actuarial review, considering known or expected trends. Actuarial evaluations are expected to be performed during the third and fourth quarters of 2010 using claims data as of April 2010 and July 2010, respectively. At January 31, 2010, the Company had \$101.5 million in standby letters of credit (primarily related to its workers compensation, general liability, automobile, and property damage programs), \$42.3 million in restricted insurance deposits and \$112.3 million in surety bonds supporting unpaid insurance claim liabilities. At October 31, 2009, the Company had \$118.6 million in stand by letters of credit, \$42.5 million in restricted insurance deposits and \$103.2 million in surety bonds supporting unpaid insurance claim liabilities.



**Table of Contents****7. Line of Credit Facility**

The Company holds a \$450.0 million five-year syndicated line of credit that is scheduled to expire on November 14, 2012 (the Facility). The Facility is available for working capital, the issuance of standby letters of credit, the financing of capital expenditures, and other general corporate purposes.

The Facility includes covenants limiting liens, dispositions, fundamental changes, investments, indebtedness and certain transactions and payments. In addition, the Facility also requires that the Company maintain the following three financial covenants which are described in Note 9, Line of Credit Facility, to the Consolidated Financial Statements set forth in the Company's Annual Report on Form 10-K for 2009: (1) a fixed charge coverage ratio; (2) a leverage ratio; and (3) a combined net worth test. The Company was in compliance with all covenants as of January 31, 2010 and expects to be in compliance in the foreseeable future.

As of January 31, 2010, the total outstanding amount under the Facility in the form of cash borrowings was \$172.0 million. Available credit under the line of credit was \$176.5 million at January 31, 2010. The Company's ability to draw down available amounts under its line of credit is subject to compliance with the covenants described above.

As of January 31, 2010, the fair value of the interest rate swap was a \$1.1 million liability, which is included in retirement plans and other on the accompanying condensed consolidated balance sheet. No ineffectiveness existed at January 31, 2010. The amount included in accumulated other comprehensive loss is \$1.1 million (\$0.6 million, net of taxes).

**8. Benefit Plans**

The components of net periodic benefit cost of the Company's defined benefit plans and the post-retirement benefit plans, including participants associated with continuing operations, for the three months ended January 31, 2010 and 2009, were as follows:

(in thousands)	Three Months Ended	
	January 31 2010	2009
<b>Defined Benefit Plans</b>		
Service cost	\$ 11	\$ 10
Interest	148	194
Expected loss on plan assets	(100)	(80)
Amortization of actuarial loss	18	26
Net expense	\$ 77	\$ 150
<b>Post-Retirement Benefit Plan</b>		
Service cost	\$ 4	\$ 3
Interest	70	69
Amortization of actuarial gain		(51)
Net expense	\$ 74	\$ 21

**9. Contingencies**

The Company has been named as a defendant in certain proceedings arising in the ordinary course of business. Litigation outcomes are often difficult to predict and often are resolved over long periods of time. Estimating probable losses requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. Loss contingencies are recorded as liabilities in the accompanying condensed consolidated financial statements when it is both: (1) probable or known that a liability has been incurred and (2) the amount of the loss is reasonably estimable. If the reasonable estimate of the loss is a range and no amount within the range is a better estimate, the minimum amount of the range is recorded as a liability. Legal costs associated with loss contingencies

are expensed as incurred.

The Company is a defendant in several purported class action lawsuits related to alleged violations of federal or California wage-and-hour laws. The named plaintiffs in these lawsuits are current or former employees of ABM subsidiaries who allege, among other things, that they were required to work off the clock, were not paid for all overtime, were not provided work breaks or other benefits, and/or that they received pay stubs not conforming to California law. In all cases, the plaintiffs generally seek unspecified monetary damages, injunctive relief or both. The Company believes it has meritorious defenses to these claims and intends to continue to vigorously defend itself.

**Table of Contents**

The Company accrues amounts it believes are adequate to cover any liabilities related to litigation and arbitration proceedings, and other contingencies that the Company believes will result in a probable loss. However, the ultimate resolution of such matters is always uncertain. It is possible that any such proceedings brought against the Company could have a material adverse impact on its financial condition and results of operations. The total amount accrued for probable losses at January 31, 2010 was \$5.1 million.

**10. Share-Based Compensation Plans**

On January 11, 2010, the Company's Compensation Committee approved the grant of 256,637 performance share awards under the terms of the Company's 2006 Equity Incentive Plan, as amended and restated. The fair value of the performance share awards granted and valued as of January 28, 2010 was \$5.0 million, which vests over a period of three years.

**11. Comprehensive Income**

The following table presents the components of comprehensive income, net of taxes:

(in thousands)	Three Months Ended January 31	
	2010	2009
Net income	\$ 12,775	\$ 14,217
Other comprehensive income (loss):		
Unrealized gains (losses) on auction rate securities, net of taxes of \$49 and \$55 for January 31, 2010 and 2009, respectively	71	(85)
Unrealized loss on interest rate swap agreement, net of taxes of \$20 for January 31, 2010	(29)	
Foreign currency translation, net of taxes of \$14 and \$48 for January 31, 2010 and 2009, respectively	20	(74)
Actuarial gain (loss) adjustments to pension & other post-retirement plans, net of taxes of \$7 and \$9 for January 31, 2010 and 2009, respectively	11	(14)
Comprehensive income	\$ 12,848	\$ 14,044

**12. Income Taxes**

At January 31, 2010, the Company had unrecognized tax benefits of \$102.3 million, all of which, if recognized in the future, would affect its effective tax rate. The Company includes interest and penalties related to unrecognized tax benefits in income tax expense. As of January 31, 2010, the Company had accrued interest related to uncertain tax positions of \$0.6 million. The Company has recorded \$2.1 million of the unrecognized tax benefits as a current liability.

The effective tax rate on income from continuing operations for the three months ended January 31, 2010 and 2009 were 38.9% and 39.3%, respectively.

The Company's major tax jurisdiction is the United States. ABM and OneSource Services, Inc. U.S. federal income tax returns remain open for examination for the periods ending October 31, 2006 through October 31, 2009 and March 31, 2000 through November 14, 2007, respectively. The Company does business in all 50 states, significantly in California, Texas and New York, as well as Puerto Rico and Canada. In major state jurisdictions, the tax years 2005-2009 remain open and subject to examination by the appropriate tax authorities. The Company is currently being examined by Illinois, Minnesota, Arizona, Utah, New Jersey, Massachusetts, and Puerto Rico.

**Table of Contents****13. Segment Information**

The Company is organized into four reportable operating segments, Janitorial, Parking, Security and Engineering, which are summarized as follows:

(in thousands)	Three Months Ended January 31	
	2010	2009
<b>Revenues</b>		
Janitorial	\$ 584,079	\$ 608,420
Parking	112,588	115,669
Security	83,597	85,583
Engineering	89,351	77,216
Corporate	269	584
	\$ 869,884	\$ 887,472
<b>Operating profit</b>		
Janitorial	\$ 34,084	\$ 32,311
Parking	5,026	4,142
Security	1,346	1,794
Engineering	4,992	4,666
Corporate	(23,242)	(16,919)
<b>Operating profit</b>	22,206	25,994
Interest expense	1,215	1,668
Income from continuing operations before income taxes	\$ 20,991	\$ 24,326

Most Corporate expenses are not allocated. Such expenses include the adjustments to the Company's self-insurance reserves relating to prior years, certain legal costs and settlements, certain information technology costs, share-based compensation costs, severance costs associated with acquisitions and certain chief executive officer, and other finance and human resource departmental costs. Corporate expenses for the three months ended January 31, 2009 included the net benefit of a \$9.6 million legal settlement, related to a claim that was settled and resolved in the three months ended January 31, 2009.

**14. Discontinued Operations**

On October 31, 2008, the Company completed the sale of substantially all of the assets of its former Lighting segment, excluding accounts receivable and certain other assets and liabilities, to Sylvania Lighting Services Corp ( Sylvania ). The remaining assets and liabilities associated with the Lighting segment have been classified as assets and liabilities of discontinued operations for all periods presented. The results of operations of the Lighting segment for all periods presented are classified as Loss from discontinued operations, net of taxes.



**Table of Contents**

The carrying amounts of the major classes of assets and liabilities of the Lighting segment included in discontinued operations are as follows:

(in thousands)	January 31, 2010	October 31, 2009
Trade accounts receivable, net	\$ 224	\$ 499
Notes receivable and other	1,628	1,937
Other receivables due from Sylvania (a)	6,628	8,351
Current assets of discontinued operations	8,480	10,787
Long-term notes receivable	692	976
Other receivables due from Sylvania (a)	2,881	3,591
Non-current assets of discontinued operations	3,573	4,567
Trade accounts payable	834	840
Accrued liabilities	35	53
Due to Sylvania, net (b)	301	172
Current liabilities of discontinued operations	\$ 1,170	\$ 1,065

(a) In connection with the sale of the Lighting segment, Sylvania acquired certain contracts containing deferred charges. Payments received by Sylvania from clients with respect to the deferred charges for these contracts are paid to the Company.

(b) Represents net amounts

collected on  
Sylvania's behalf  
pursuant to a  
transition  
services  
agreement,  
which was  
entered into in  
connection with  
the sale of the  
Lighting  
segment.

#### **15. Parking Revenue Presentation**

The Company's Parking segment reports both revenues and expenses, in equal amounts, for costs directly reimbursed from its managed parking lot clients. Parking revenues related solely to the reimbursement of expenses totaled \$56.0 million and \$60.5 million for the three months ended January 31, 2010 and 2009, respectively.

#### **16. Recent Accounting Pronouncements**

In January 2010, the FASB issued updated standards for fair value measurements and disclosures. The update amends ASC 820 by requiring separate disclosure of significant transfers in and out of Level 1 and Level 2 items, which are assets and liabilities valued using observable inputs, as well as the reasons for such transfers. It also requires separate presentation, on a gross basis, of all changes in the fair values of Level 3 items, which are assets and liabilities valued using unobservable inputs, including purchases, sales, issuances and settlements, as well as separate presentation of transfers in and out of Level 3 and the reasons for those transfers. In addition, companies will be required to disclose quantitative information about the inputs used in determining fair values. The objective is to improve disclosures about fair value measurements by providing greater level of disaggregation and detail about valuation techniques and inputs to fair value measurements. These standards will be adopted in the second quarter of 2010, except for the additional gross presentation disclosure requirements for Level 3 changes which will be adopted in the second quarter of 2011. The adoption of these standards will have no impact on the Company's financial position or results of operations as it only amends required disclosures.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the unaudited accompanying condensed consolidated financial statements of ABM Industries Incorporated ( "ABM", and together with its subsidiaries, the "Company" ) included in this Quarterly Report on Form 10-Q and with the consolidated financial statements and accompanying notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended October 31, 2009. All information in the discussion and references to years are based on the Company's fiscal year, which ends on October 31.

**Overview**

The Company provides janitorial, parking, security and engineering services for thousands of commercial, industrial, institutional and retail client facilities in hundreds of cities, primarily throughout the United States. The Company's business is impacted by, among other things, commercial office building occupancy and rental rates, industrial activity, air travel levels, tourism and transportation needs at colleges, universities and health care service facilities. Revenues at the Company's Janitorial, Security and Engineering segments are primarily based on the performance of labor-intensive services at contractually specified prices. Revenues at the Parking segment relate to parking and transportation services, which are less labor-intensive. In addition to services defined within the scope of client contracts, the Janitorial segment also generates revenues from extra services (or tags) such as, but not limited to, flood cleanup services and snow removal, which generally provide higher margins.

During 2009, the Company experienced losses of client contracts that exceeded new business, reductions in the level and scope of services demanded by clients, contract price compression and declines in the level of tag work, primarily in the Janitorial and Security segments. These losses and reductions influenced results in the three months ended January 31, 2010. Total revenues in the three months ended January 31, 2010, as compared to the three months ended January 31, 2009, decreased \$17.6 million, or 2.0%, primarily related to the losses and reductions experienced during 2009, which exceeded new business. The Company's operating profit, excluding Corporate, increased \$2.5 million, or 5.9%, in the three months ended January 31, 2010 compared to the three months ended January 31, 2009, primarily related to the successful execution and continuation of the Company's operating strategies around cost control, partially offset by increases in payroll related costs from increases in state unemployment insurance rates that went into effect on January 1, 2010. Beginning in the second half of 2009 and continuing through January 31, 2010, the net impact of client contract losses decreased (as compared to the first half of 2009). As a result, total revenues in the three months ended January 31, 2010, as compared to the three months ended October 31, 2009, remained relatively flat.

In addition to revenues and operating profit, the Company's management views operating cash flows as a good indicator of financial performance, as strong operating cash flows provide opportunities for growth both organically and through acquisitions. Operating cash flows primarily depend on revenue levels, the timing of collections and payments to suppliers and other vendors, the quality of receivables, and the timing and amount of self-insured claims. The Company's cash flows used in operating activities was \$8.9 million for the three months ended January 31, 2010 and was consistent with the Company's expectations. Typically, the operating cash flows in the Company's first quarter are lower than the remaining subsequent quarters in the Company's fiscal year.

The Company believes that achieving desired levels of revenues and profitability in the future will depend upon, among other things, its ability to attract and retain clients at desirable profit margins, to pass on cost increases to clients, and to keep overall costs low. In the short term, the Company plans to remain competitive by, among other things, continued cost control strategies. The Company is continuing to monitor, and in some cases exit, client arrangements where the Company believes the client is at high risk of bankruptcy or which produce low profit margins and focus on client arrangements that may generate less revenues but produce higher profit margins. Additionally, the Company is exploring acquisitions, both domestically and internationally. In the long-term, the Company expects to continue to grow organically and through acquisitions (including international expansion) in response to the perceived growing demand for a global integrated facility services solution provider.



Table of Contents**Liquidity and Capital Resources**

(in thousands)	January 31, 2010	October 31, 2009	Change
Cash and cash equivalents	\$ 21,177	\$ 34,153	\$ (12,976)
Working capital	\$ 295,811	\$ 278,303	\$ 17,508

(in thousands)	Three Months Ended January 31,		
	2010	2009	Change
Net cash (used in) provided by operating activities	\$ (8,913)	\$ 26,079	\$ (34,992)
Net cash used in investing activities	\$ (6,924)	\$ (5,649)	\$ (1,275)
Net cash provided by (used in) financing activities	\$ 2,861	\$ (23,030)	\$ 25,891

As of January 31, 2010, the Company's cash and cash equivalents balance was \$21.2 million, compared to \$34.2 million as of October 31, 2009. The decrease in cash is principally due to the timing of payments made on vendor invoices and collections of accounts receivable.

The Company believes that the cash generated from operations and amounts available under its \$450.0 million line of credit will be sufficient to meet the Company's cash requirements for the long-term, except to the extent cash is required for significant acquisitions, if any. As of January 31, 2010, the total outstanding amounts under the Company's line of credit in the form of cash borrowings and standby letters of credit were \$172.0 million and \$101.5 million, respectively. Available credit under the line of credit was \$176.5 million as of January 31, 2010. The Company's ability to draw down available amounts under its \$450.0 million line of credit is subject to compliance with certain financial covenants, including covenants relating to consolidated net worth, a fixed charge coverage ratio and a leverage ratio. In addition, other covenants under the line of credit include limitations on liens, dispositions, fundamental changes, investments and certain transactions and payments. As of January 31, 2010, the Company was in compliance with all covenants and expects to be in the foreseeable future.

**Working Capital.** Working capital increased by \$17.5 million to \$295.8 million at January 31, 2010 from \$278.3 million at October 31, 2009. Excluding the effects of discontinued operations, working capital increased by \$19.9 million to \$288.5 million at January 31, 2010 from \$268.6 million at October 31, 2009.

The increase was primarily related to:

- a \$31.7 million increase in trade accounts receivable, net, primarily related to the timing of collections received from clients; and
- a \$5.2 million decrease in trade accounts payable, primarily related to the timing of payments made on vendor invoices;

partially offset by:

- a \$13.0 million decrease in cash and cash equivalents; and
- a \$3.8 million decrease in notes receivable and other, primarily related to collections received during the three months ended January 31, 2010.

**Cash Flows from Operating Activities.** Net cash used in operating activities was \$8.9 million for the three months ended January 31, 2010, compared to net cash provided by operating activities of \$26.1 million for the three months ended January 31, 2009. The decrease in cash flows from operating activities was primarily related to a \$33.4 million year-over-year decrease in trade accounts payable and accrued liabilities as a result of the timing of payments made on vendor invoices.

Net cash provided by discontinued operating activities was \$3.3 million for the three months ended January 31, 2010, compared to \$12.6 million for the three months ended January 31, 2009. The cash provided by discontinued operating activities for the three months ended January 31, 2010 primarily related to cash collections from the transferred client contracts that contained deferred charges related to services performed by the Company prior to the sale.



**Table of Contents**

**Cash Flows from Investing Activities.** Net cash used in investing activities for the three months ended January 31, 2010 was \$6.9 million, compared to \$5.6 million for the three months ended January 31, 2009. The increase in cash used in investing activities was primarily related to a \$1.9 million increase in capital expenditures in the three months ended January 31, 2010.

**Cash Flows from Financing Activities.** Net cash provided by financing activities was \$2.9 million for the three months ended January 31, 2010, compared to net cash used in financing activities of \$23.0 million for the three months ended January 31, 2009. The increase in cash flows from financing activities was primarily related to a \$23.0 million year-over-year change in the book overdraft payables (i.e., negative cash balances that have not been presented for payment by the bank).

**Results of Operations**

*Three Months Ended January 31, 2010 vs. Three Months Ended January 31, 2009*

(\$ in thousands)	Three Months Ended January 31, 2010	Three Months Ended January 31, 2009	Increase (Decrease) \$	Increase (Decrease) %
<b>Revenues</b>	\$ 869,884	\$ 887,472	\$ (17,588)	(2.0)%
<b>Expenses</b>				
Operating	782,101	787,268	(5,167)	(0.7)%
Selling, general and administrative	62,802	71,387	(8,585)	(12.0)%
Amortization of intangible assets	2,775	2,823	(48)	(1.7)%
Total expense	847,678	861,478	(13,800)	(1.6)%
Operating profit	22,206	25,994	(3,788)	(14.6)%
Interest expense	1,215	1,668	(453)	(27.2)%
Income from continuing operations before income taxes	20,991	24,326	(3,335)	(13.7)%
Provision for income taxes	8,155	9,571	(1,416)	(14.8)%
Income from continuing operations	12,836	14,755	(1,919)	(13.0)%
Loss from discontinued operations, net of taxes	(61)	(538)	477	NM*
<b>Net income</b>	\$ 12,775	\$ 14,217	\$ (1,442)	(10.1)%

\* Not meaningful

**Net Income.** Net income in the three months ended January 31, 2010 decreased by \$1.4 million, or 10.1%, to \$12.8 million (\$0.24 per diluted share) from \$14.2 million (\$0.28 per diluted share) in the three months ended January 31, 2009. Net income included a loss of \$0.1 million and \$0.5 million from discontinued operations in the three months ended January 31, 2010 and 2009, respectively.

**Income from Continuing Operations.** Income from continuing operations in the three months ended January 31, 2010 decreased by \$1.9 million, or 13.0%, to \$12.8 million (\$0.24 per diluted share) from \$14.8 million (\$0.29 per diluted share) in the three months ended January 31, 2009.

The decrease in income from continuing operations was primarily related to:

the absence of a \$9.6 million net legal settlement, related to a claim that was settled and resolved in the three months ended January 31, 2009; and  
deferred acquisition costs of \$1.0 million, expensed in the three months ended January 31, 2010, due to the adoption of Accounting Standards Codification<sup>TM</sup> Topic 805 Business Combinations (ASC 805);



**Table of Contents**

partially offset by:

- a \$3.4 million year-over-year decrease in information technology costs, primarily related to the upgrade of the payroll, human resources and accounting systems in 2009;
- a \$2.5 million increase in operating profit, excluding the Corporate segment, primarily related to continued effective cost control measures;
- a \$1.4 million decrease in income taxes, primarily related to the decrease in income from continuing operations before income taxes; and
- a \$0.5 million decrease in interest expense as a result of a lower average outstanding balance and lower average interest rate under the line of credit.

**Revenues.** Revenues in the three months ended January 31, 2010 decreased \$17.6 million, or 2.0%, to \$870.0 million from \$887.5 million in the three months ended January 31, 2009. The decrease in revenues was primarily related to the continued impact of losses of client contracts that exceeded new business, reductions in the level and scope of services demanded by clients, contract price compression and declines in the level of tag work experienced in 2009, primarily in the Janitorial and Security segments. However, beginning in the second half of 2009 and continuing through January 31, 2010, the net impact of client contract losses decreased (as compared to the first half of 2009). As a result, total revenues in the three months ended January 31, 2010, as compared to the three months ended October 31, 2009, were relatively flat. Additionally, approximately \$4.5 million, or 25.8%, of the decrease in revenues was due to the reduction of expenses incurred on the behalf of managed parking facilities, which are reimbursed to the Company. These reimbursed expenses are recognized as parking revenues and expenses and have no impact on operating profit.

**Operating Expenses.** As a percentage of revenues, gross margin was 10.1% and 11.3% in the three months ended January 31, 2010 and 2009, respectively. The decrease in gross margin percentage was primarily related to a \$9.6 million net legal settlement for a claim that was settled and resolved in the three months ended January 31, 2009.

**Selling General and Administrative Expenses.** Selling, general and administrative expenses decreased \$8.6 million, or 12.0%, in the three months ended January 31, 2010 compared to the three months ended January 31, 2009.

The decrease in selling, general and administrative expenses was primarily related to:

- a \$5.0 million decrease in selling, general and administrative costs at the Janitorial segment, primarily related to cost control measures; and
- a \$3.4 million year-over-year decrease in information technology costs, primarily related to the upgrade of the payroll, human resources and accounting systems in 2009;

partially offset by:

- deferred acquisition costs of \$1.0 million, expensed in the three months ended January 31, 2010, due to the adoption of ASC 805.

**Interest Expense.** Interest expense in the three months ended January 31, 2010 decreased \$0.5 million, or 27.2%, to \$1.2 million from \$1.7 million in the three months ended January 31, 2009. The decrease was primarily related to a lower average outstanding balance and a lower average interest rate under the line of credit in the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The average outstanding balance under the Company's line of credit was \$169.6 million and \$237.0 million during the three months ended January 31, 2010 and 2009, respectively.

**Table of Contents**

**Segment Information.** The revenues and operating profits for the Company's reportable segments (Janitorial, Parking, Security, and Engineering) were as follows:

(\$ in thousands)	Three Months Ended January 31, 2010	Three Months Ended January 31, 2009	Increase (Decrease) \$	Increase (Decrease) %
<b>Revenues</b>				
Janitorial	\$ 584,079	\$ 608,420	\$ (24,341)	(4.0)%
Parking	112,588	115,669	(3,081)	(2.7)%
Security	83,597	85,583	(1,986)	(2.3)%
Engineering	89,351	77,216	12,135	15.7%
Corporate	269	584	(315)	(53.9)%
	\$ 869,884	\$ 887,472	\$ (17,588)	(2.0)%
<b>Operating profit</b>				
Janitorial	\$ 34,084	\$ 32,311	\$ 1,773	5.5%
Parking	5,026	4,142	884	21.3%
Security	1,346	1,794	(448)	(25.0)%
Engineering	4,992	4,666	326	7.0%
Corporate	(23,242)	(16,919)	(6,323)	(37.4)%
<b>Operating profit</b>	22,206	25,994	(3,788)	(14.6)%
Interest expense	1,215	1,668	(453)	(27.2)%
Income from continuing operations before income taxes	\$ 20,991	\$ 24,326	\$ (3,335)	(13.7)%

**Janitorial.** Janitorial revenues decreased \$24.3 million, or 4.0%, during the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The decrease in revenues was primarily related to the continued impact of losses of client contracts, reductions in the level and scope of services demanded by clients, contract price compression and declines in the level of tag work experienced in 2009, partially offset by additional revenues from new clients in the three months ended January 31, 2010.

Despite the reductions in revenue, operating profit increased \$1.8 million, or 5.5%, during the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The increase was primarily related to effective cost control measures put in place throughout 2009 which continued into the three months ended January 31, 2010, partially offset by increases in payroll related costs from increases in state unemployment insurance rates that went into effect on January 1, 2010.

**Parking.** Parking revenues decreased \$3.1 million, or 2.7%, during the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The decrease was primarily related to a \$4.5 million reduction of expenses incurred on the behalf of managed parking facilities, which are reimbursed to the Company. These reimbursed expenses are recognized as parking revenues and expenses, which have no impact on operating profit. The decrease in management reimbursement revenues was offset by a \$1.4 million increase in lease and allowance revenues from new clients and the expansion of service to existing clients.

Operating profit increased \$0.9 million, or 21.3%, during the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The increase was primarily related to effective cost control measures put in

place throughout 2009 which continued into the three months ended January 31, 2010, partially offset by increases in payroll related costs from increases in state unemployment insurance rates that went into effect on January 1, 2010.

**Security.** Security revenues decreased \$2.0 million, or 2.3%, during the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The decrease in revenues was primarily related to the continued impact of losses of client contracts and contract price compression experienced in 2009, partially offset by increases in revenues from new clients in the three months ended January 31, 2010.

Operating profit decreased \$0.4 million, or 25.0%, in the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The decrease was primarily related to the decrease in revenues and increases in payroll related costs from increases in the state unemployment insurance rates that went into effect on January 1, 2010.

## **Table of Contents**

**Engineering.** Engineering revenues increased \$12.1 million, or 15.7%, during the three months ended January 31, 2010 compared to the three months ended January 31, 2009. The increase was primarily related to additional revenues from new clients and the expansion of services to existing clients.

Operating profit increased by \$0.3 million, or 7.0%, in the three months ended January 31, 2010 compared to the three months ended January 31, 2009, primarily related to the increase in revenues at lower gross profit margins, partially offset by increases in payroll related costs from increases in state unemployment insurance rates that went into effect on January 1, 2010.

**Corporate.** Corporate expense increased \$6.3 million, or 37.4%, in the three months ended January 31, 2010 compared to the three months ended January 31, 2009.

The increase in Corporate expense was primarily related to:

- the absence of a \$9.6 million net legal settlement related to a claim that was settled and resolved in the three months ended January 31, 2009; and
- deferred acquisition costs of \$1.0 million, expensed in the three months ended January 31, 2010, due to the adoption of ASC 805;

partially offset by:

- a \$3.4 million year-over-year decrease in information technology costs, primarily related to the upgrade of the payroll, human resources and accounting systems in 2009.

## **Contingencies**

The Company has been named a defendant in certain proceedings arising in the ordinary course of business. Litigation outcomes are often difficult to predict and often are resolved over long periods of time. Estimating probable losses requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. Loss contingencies are recorded as liabilities in the accompanying condensed consolidated financial statements when it is both: (1) probable or known that a liability has been incurred and (2) the amount of the loss is reasonably estimable. If the reasonable estimate of the loss is a range and no amount within the range is a better estimate, the minimum amount of the range is recorded as a liability. Legal costs associated with loss contingencies are expensed as incurred.

The Company is a defendant in several purported class action lawsuits related to alleged violations of federal or California wage-and-hour laws. The named plaintiffs in these lawsuits are current or former employees of ABM subsidiaries who allege, among other things, that they were required to work off the clock, were not paid for all overtime, were not provided work breaks or other benefits, and/or that they received pay stubs not conforming to California law. In all cases, the plaintiffs generally seek unspecified monetary damages, injunctive relief or both. The Company believes it has meritorious defenses to these claims and intends to continue to vigorously defend itself.

The Company accrues amounts it believes are adequate to cover any liabilities related to litigation and arbitration proceedings, and other contingencies that the Company believes will result in a probable loss. However, the ultimate resolution of such matters is always uncertain. It is possible that any such proceedings brought against the Company could have a material adverse impact on its financial condition and results of operations. The total amount accrued for probable losses at January 31, 2010 was \$5.1 million.

## **Accounting Pronouncements**

See Note 2, Recently Adopted Accounting Pronouncements and Note 16, Recent Accounting Pronouncements in the Notes to the Condensed Consolidated Financial Statements contained in Item 1, Financial Statements for a discussion of recently adopted and recently issued accounting pronouncements.

## **Critical Accounting Policies and Estimates**

The Company's accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates in the application of its accounting policies based on the best assumptions, judgments, and opinions of management. For a description of the Company's critical accounting policies, see Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations, in the Company's 2009 Annual Report on Form 10-K for the year ended October 31, 2009. Management does not believe that there has been any material changes in the Company's critical accounting policies and estimates during the three months ended January 31, 2010.



**Table of Contents**

**Forward-Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q, and in particular, statements found in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature, constitute forward-looking statements. These statements are often identified by the words, will, may, should, continue to anticipate, believe, expect, plan, appear, project, estimate, intend, and words of a similar nature. Such statements reflect the current views of the Company with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Any number of factors could cause the Company's actual results to differ materially from those anticipated. These factors include but are not limited to the following:

- risks relating to our acquisition strategy may adversely impact our results of operations;
- intense competition can constrain our ability to gain business, as well as our profitability;
- we are subject to volatility associated with high deductibles for certain insurable risks;
- an increase in costs that we cannot pass on to clients could affect our profitability;
- we provide our services pursuant to agreements which are cancelable by either party upon 30 to 60 days notice;
- our success depends on our ability to preserve our long-term relationships with clients;
- our transition to a shared services function could create disruption in functions affected;
- we incur significant accounting and other control costs that reduce profitability;
- a decline in commercial office building occupancy and rental rates could affect our revenues and profitability;
- deterioration in economic conditions in general could further reduce the demand for facility services and, as a result, reduce our earnings and adversely affect our financial condition;
- financial difficulties or bankruptcy of one or more of our major clients could adversely affect results;
- our ability to operate and pay our debt obligations depends upon our access to cash;
- future declines or fluctuations in the fair value of our investments in auction rate securities that are deemed other-than-temporarily impaired could negatively impact our earnings;
- uncertainty in the credit markets may negatively impact our costs of borrowings, our ability to collect receivables on a timely basis and our cash flow;
- any future increase in the level of debt or in interest rates can affect our results of operations;
- an impairment charge could have a material adverse effect on our financial condition and results of operations;
- we are defendants in several class and representative actions or other lawsuits alleging various claims that could cause us to incur substantial liabilities;
- since we are an attractive employer for recent émigrés to this country and many of our jobs are filled by such, changes in immigration laws or enforcement actions or investigations under such laws could significantly adversely affect our labor force, operations and financial results and our reputation;
- labor disputes could lead to loss of revenues or expense variations;
- we participate in multi-employer defined benefit plans which could result in substantial liabilities being incurred; and
- natural disasters or acts of terrorism could disrupt our services.

Additional information regarding these and other risks and uncertainties the Company faces is contained in the Company's Annual Report on Form 10-K for the year ended October 31, 2009 and in other reports it files from time to time with the Securities and Exchange Commission.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk****Market Risk Sensitive Instruments**

The Company's primary market risk exposure is interest rate risk. The potential impact of adverse increases in this risk is discussed below. The following sensitivity analysis does not consider the effects that an adverse change may have on the overall economy nor does it consider actions the Company may take to mitigate its exposure to these changes. Results of changes in actual rates may differ materially from the following hypothetical results.

**Interest Rate Risk***Line of Credit*

The Company's exposure to interest rate risk primarily relates to its cash equivalents and London Interbank Offered Rate (LIBOR) and Interbank Offered Rate (IBOR) based borrowings under the \$450.0 million five year syndicated line of credit that expires in November 2012. At January 31, 2010, outstanding LIBOR and IBOR based borrowings of \$172.0 million represented 100% of the Company's total debt obligations. While these borrowings mature over the next 60 days, the line of credit extends through November 2012, subject to the terms of the line of credit. The Company anticipates borrowing similar amounts for periods of one week to three months. A hypothetical 1% increase in interest rates would add an additional interest expense of \$0.5 million on the average outstanding borrowings under the Company's line of credit, net of the interest rate swap agreement, during the remainder of 2010.

*Interest Rate Swap*

On February 19, 2009, the Company entered into a two-year interest rate swap agreement with an underlying notional amount of \$100.0 million, pursuant to which the Company receives variable interest payments based on LIBOR and pays fixed interest at a rate of 1.47%. This swap is intended to hedge the interest risk associated with \$100.0 million of the Company's floating-rate, LIBOR-based debt. The critical terms of the swap match the terms of the debt, resulting in no hedge ineffectiveness. On an ongoing basis (no less than once each quarter), the Company assesses whether its LIBOR-based interest payments are probable of being paid during the life of the hedging relationship. The Company also assesses the counterparty credit risk, including credit ratings and potential non-performance of the counterparty when determining the fair value of the swap.

As of January 31, 2010, the fair value of the interest rate swap was a \$1.1 million liability, which is included in retirement plans and other on the accompanying condensed consolidated balance sheet. The effective portion of this cash flow hedge is recorded as accumulated other comprehensive loss in the Company's accompanying condensed consolidated balance sheet and reclassified into interest expense in the Company's accompanying condensed consolidated statements of income in the same period during which the hedged transaction affects earnings. Any ineffective portion of the hedge is recorded immediately to interest expense. No ineffectiveness existed at January 31, 2010. The amount included in accumulated other comprehensive loss is \$1.1 million (\$0.6 million, net of taxes).

*Investment in Auction Rate Securities*

At January 31, 2010, the Company held investments in auction rate securities from five different issuers having an aggregate original principal amount of \$25.0 million. The investments are not subject to material interest rate risk. These auction rate securities are debt instruments with stated maturities ranging from 2025 to 2050, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days based on spreads to a base rate (i.e., LIBOR). A hypothetical 1% increase in interest rates would add approximately \$0.2 million of additional interest income during the remainder of 2010.

*Foreign Currency*

Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk.

**Table of Contents**

**Item 4. Controls and Procedures**

**a. Disclosure Controls and Procedures.** As required by paragraph (b) of Rules 13a-15 or 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act), the Company's principal executive officer and principal financial officer evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, these officers concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, these disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and include controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

**b. Changes in Internal Control Over Financial Reporting.** There were no changes in the Company's internal control over financial reporting during the quarter ended January 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, as well as, from time to time, in additional matters. The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available.

The Company is a defendant in the following class action or purported class action lawsuits related to alleged violations of federal and/or state wage-and-hour laws:

the consolidated cases of Augustus, Hall and Davis v. American Commercial Security Services (ACSS) filed July 12, 2005, in the Superior Court of California, Los Angeles County (L.A. Superior Ct.) (the Augustus case );

the consolidated cases of Bucio and Martinez v. ABM Janitorial Services filed on April 7, 2006, in the Superior Court of California, County of San Francisco ( the Bucio case );

the consolidated cases of Batiz/Heine v. ACSS filed on June 7, 2006, in the U.S. District Court of California, Central District (the Batiz case );

the consolidated cases of Diaz/Morales/Reyes v. Ampco System Parking filed on December 5, 2006, in L.A. Superior Ct (the Diaz case );

Khadera v. American Building Maintenance Co.-West and ABM Industries filed on March 24, 2008, in U.S. District Court of Washington, Western District (the Khadera case ); and

Villacres v. ABM Security filed on August 15, 2007, in the U.S. District Court of California, Central District ( the Villacres case. )

The named plaintiffs in the lawsuits described above are current or former employees of ABM subsidiaries who allege, among other things, that they were required to work off the clock, were not paid proper minimum wage or overtime, were not provided work breaks or other benefits, and/or that they received pay stubs not conforming to state law. In all cases, the plaintiffs generally seek unspecified monetary damages, injunctive relief or both. The Company believes it has meritorious defenses to these claims and intends to continue to vigorously defend itself.



**Table of Contents**

The previously reported case of Chen v. Ampco System Parking and ABM Industries filed on March 6, 2008, in the U.S. District Court of California, Southern District was settled on November 23, 2009. On January 5, 2010, a judge of the L.A. Superior Court, denied in part, and granted in part, certification of the Diaz class action. On February 19, 2010, a judge of the U.S. District Court of Court of Washington granted conditional certification in the Khadera case.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors identified in the Annual Report on Form 10-K for the year ended October 31, 2009, in response to Item 1A, Risk Factors, to Part I of the Annual Report.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Reserved**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

- 10.1\* 2006 Equity Incentive Plan, as Amended and Restated January 11, 2010.
- 10.2\* Statement of Terms and Conditions Applicable to Options, Restricted Stock, Restricted Stock Units and Performance Shares Granted to Employees Pursuant to the 2006 Equity Incentive Plan, as Amended and Restated January 11, 2010.
- 10.3\* Amended and Restated Employment by and between Henrik C. Slipsager and ABM Industries Incorporated, dated December 16, 2009.
- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Director Stock Ownership Guidelines

\* Indicated management contract, plan or arrangement.

Indicates filed herewith

Indicates furnished herewith

**Table of Contents**

**SIGNATURES**

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.

ABM Industries Incorporated

March 4, 2010

/s/ James S. Lusk  
James S. Lusk  
Executive Vice President and  
Chief Financial Officer  
(Duly Authorized Officer)

25