

ABM INDUSTRIES INC /DE/

Form 10-K/A

January 20, 2009

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K/A**

**(Amendment No. 1 to Form 10-K)**

(Mark One)

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

**For The Fiscal Year Ended October 31, 2008**

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**  
(State of Incorporation)

**94-1369354**  
(I.R.S. Employer Identification No.)

**551 Fifth Avenue, Suite 300, New York,  
New York**  
(Address of principal executive offices)

**10176**  
(Zip Code)

**212/297-0200**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
<b>Common Stock, \$.01 par value</b>	<b>New York Stock Exchange</b>

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 the filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

As of April 30, 2008 (the last business day of registrant's most recently completed second fiscal quarter), non-affiliates of the registrant beneficially owned shares of the registrant's common stock with an aggregate market value of \$945,025,173, computed by reference to the price at which the common stock was last sold.

Number of shares of common stock outstanding as of November 28, 2008: 50,987,158.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement to be used by the Company in connection with its 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K/A.

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**EXPLANATORY NOTE**

This Amendment on Form 10-K/A ( Amendment ) constitutes Amendment No. 1 to the registrant s Annual Report on Form 10-K for the fiscal year ended October 31, 2008 ( Form 10-K ). This Amendment is being filed to correct two clerical errors contained in the last paragraph of the Report of Independent Registered Public Accounting Firm related to (i) an inaccurate footnote reference, and (ii) an incomplete reference to an accounting standard. All other information contained in this Amendment is identical to the information contained in the Form 10-K as filed on December 22, 2008.

**ABM Industries Incorporated  
Form 10-K/A  
For the Fiscal Year Ended October 31, 2008**

**TABLE OF CONTENTS**

**PART I**

<u>Item 1.</u>	<u>Business</u>	3
	<u>Executive Officers of the Registrant</u>	7
<u>Item 1A.</u>	<u>Risk Factors</u>	8
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	13
<u>Item 2.</u>	<u>Properties</u>	13
<u>Item 3.</u>	<u>Legal Proceedings</u>	13
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	14

**PART II**

<u>Item 5.</u>	<u>Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
<u>Item 6.</u>	<u>Selected Financial Data</u>	17
<u>Item 7.</u>	<u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	38
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	67
<u>Item 9A.</u>	<u>Controls and Procedures</u>	67
<u>Item 9B.</u>	<u>Other Information</u>	67

**PART III**

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	68
<u>Item 11.</u>	<u>Executive Compensation</u>	68
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	68
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	69
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	69

**PART IV**

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	70
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<u>Signatures</u>	71
<u>Schedule II</u>	72
<u>Exhibit Index</u>	73

EX-10.17: ABM DEFERRED COMPENSATION PLAN

EX-21.1: SUBSIDIARIES OF THE REGISTRANT

EX-23.1: CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

EX-31.1: CERTIFICATION

EX-31.2: CERTIFICATION

EX-32.1: CERTIFICATION

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**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

ABM Industries Incorporated ( ABM ), through its subsidiaries, is a leading provider of facility services in the United States. With 2008 revenues in excess of \$3.6 billion, ABM and its subsidiaries (the Company or we ) provide janitorial, parking, security and engineering services for thousands of commercial, industrial, institutional and retail facilities in hundreds of cities, primarily throughout the United States. ABM was reincorporated in Delaware on March 19, 1985, as the successor to a business founded in California in 1909.

On November 14, 2007, ABM acquired OneSource Services, Inc. ( OneSource ), a company formed under the laws of Belize, with U.S. operations headquartered in Atlanta, Georgia for an aggregate purchase price of \$390.5 million, including payment of its \$21.5 million line of credit and direct acquisition costs of \$4.0 million. The purchase price was paid from a combination of current cash and borrowings from the Company s line of credit. With annual revenues of approximately \$825.0 million during its fiscal year ended March 31, 2007 and approximately 30,000 employees, OneSource was a provider of outsourced facilities services including janitorial, landscaping, general repair and maintenance and other specialized services, for more than 10,000 commercial, industrial, institutional and retail accounts, primarily in the United States. OneSource s operations are included in the Janitorial segment from the date of its acquisition.

On October 31, 2008, ABM, and certain of its subsidiaries, completed the sale of substantially all of the assets of the Company s Lighting division, excluding accounts receivable and certain other assets, to Sylvania Lighting Services Corp ( Sylvania ). The assets sold included customer contracts, inventory and other assets, as well as rights to the name Amtech Lighting. The consideration received in connection with the sale was approximately \$34.0 million in cash, which included certain adjustments and payment to the Company of \$0.6 million pursuant to a transition services agreement. Further post closing adjustments may be made. Sylvania assumed certain liabilities under certain contracts and leases relating to the period after the closing. The proceeds already received from the sale of the Lighting division, and amounts anticipated to be realized over time from retained assets, primarily accounts and other receivables, are expected to total approximately \$70.0 to \$75.0 million.

The Company s Website is [www.abm.com](http://www.abm.com). Through the Financials link on the Investor Relations section of the Company s Website, the following filings and amendments to those filings are made available free of charge, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: (1) Annual Reports on Form 10-K, (2) Quarterly Reports on Form 10-Q, (3) Current Reports on Form 8-K, (4) Proxy Statements, and (5) filings by ABM s directors and executive officers under Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act ). The Company s Corporate Governance Guidelines, Code of Business Conduct and the charters of its Audit, Compensation and Governance Committees are available through the Governance link on the Investor Relations section of its Website and are also available in print, free of charge, to those who request them. Information contained on the Company s Website shall not be deemed incorporated into, or to be a part of, this Annual Report on Form 10-K/A.

During 2008, the Company moved its corporate headquarters from San Francisco, California to 551 Fifth Avenue, Suite 300, New York, New York 10176. The Company s telephone number at that location is (212) 297-0200.

**Industry Information**

Throughout fiscal year 2008, the Company was organized into five divisions comprised of five reportable segments. As described above, on October 31, 2008, the Company sold substantially all of the assets of its Lighting division. The

Company's Lighting division is now classified as discontinued operations. Accordingly, the Company now has four reportable segments and the financial results of the Lighting division have been classified as discontinued operations in the Company's Consolidated Financial Statements and the accompanying notes for all periods presented. The four reportable segments are as follows:

- Janitorial
- Parking
- Security
- Engineering

The business activities of the Company by reportable segment are more fully described below.

**n Janitorial.** The Company performs janitorial services through a number of its subsidiaries, primarily operating under the names ABM Janitorial Services and American Building Maintenance. The Company provides a wide range of essential janitorial services for customers in a variety of facilities, including commercial office buildings, industrial facilities, financial institutions,

**Table of Contents**

retail stores, shopping centers, warehouses, airport terminals, health facilities and educational institutions, stadiums and arenas, and government buildings. Services provided include floor cleaning and finishing, window washing, furniture polishing, carpet cleaning and dusting, as well as other building cleaning services. The Company's Janitorial subsidiaries primarily operate in all 50 states. The Janitorial business operates under thousands of individually negotiated building maintenance contracts, nearly all of which are obtained by competitive bidding. The Company's Janitorial contracts are fixed price agreements, cost-plus or tag (extra service) work. Fixed price arrangements are contracts in which the customer agrees to pay a fixed fee every month over the specified contract term. A variation of a fixed price arrangement is a square-foot arrangement. Square-foot arrangements are ones in which monthly billings are fixed, however, the customer is given a vacancy credit, that is, a credit calculated based on vacant square footage that is not serviced. Cost-plus arrangements are ones in which the customer agrees to reimburse the Company for the agreed upon amount of wages and benefits, payroll taxes, insurance charges and other expenses plus a profit percentage. Tag revenue is additional services (or tags) requested by the customer outside of the standard contract terms. This work is usually performed on short notice due to unforeseen events. Generally, profit margins on contracts tend to be inversely proportional to the size of the contract, as large-scale contracts tend to be more competitively priced than small or standalone agreements. In addition to services defined within the scope of the contract, the Company also generates revenues from tags, such as additional cleaning requirements, with these extra services frequently providing higher margins. The majority of Janitorial contracts are for one to three year periods, but are subject to termination by either party after 30 to 90 days' written notice and contain automatic renewal clauses.

**n Parking.** The Company provides parking and transportation services through a number of subsidiaries, primarily operating under the names Ampco System Parking, Ampco System Airport Parking, Ampco Express Airport Parking, Ampco System Transportation Services and HealthCare Parking Services of America. The Company's Parking subsidiaries maintain 26 offices and operate in 37 states. The Company operates approximately 1,633 parking lots and garages, including, but not limited to, facilities at the following airports: Austin, Texas; Dallas/Ft. Worth, Texas; Honolulu, Hawaii; Minneapolis/St. Paul, Minnesota; Omaha, Nebraska; Orlando, Florida; San Jose, California; Tampa, Florida; and Toronto, Canada. The Company also operates off-airport parking facilities in Houston, Texas and San Diego, California, and provides parking shuttle bus services at an additional 10 airports. Approximately 33% of the parking lots and garages are leased and 67% are operated through management contracts for third parties, nearly all of which contracts are obtained by competitive bidding. The Company operated nearly 715,000 parking spaces as of October 31, 2008. There are two types of arrangements for parking services: leased lot and managed lot. Under leased lot arrangements, the Company leases the parking facility from the owner and is responsible for all expenses incurred, retains all revenues from monthly and transient parkers and pays rent to the owner per the terms and conditions of the lease. The lease terms generally range from one to five years and provide for payment of a fixed amount of rent plus a percentage of revenue. The leases usually contain renewal options and may be terminated by the owner for various reasons, including development of the real estate. Leases which expire may continue on a month-to-month basis. Under the management contracts, the Company manages the parking facility for the owner in exchange for a management fee, which may be a fixed fee, a performance-based fee such as a percentage of gross or net revenues, or a combination of both. Management contract terms are generally from one to three years, and often can be terminated without cause upon 30 days' notice and may also contain renewal clauses. The revenue and expenses are passed through, by the Company, to the owner under the terms and conditions of the management contract.

**n Security.** The Company provides security services through a number of subsidiaries, primarily operating under the names ABM Security Services, SSA Security, Inc., Security Services of America, Silverhawk Security Specialists and Elite Protection Services. The Company provides security officers, investigative services, electronic monitoring of fire, life safety systems and access control devices, and security consulting services to a wide range of businesses. The Company's Security subsidiaries maintain 60 offices and operate in 36 states and the District of Columbia. Revenues are generally based on actual hours of service at contractually specified rates. The majority of Security contracts are for one year periods, but are subject to termination by either party after 30 to 90 days' written notice and contain automatic renewal clauses. Nearly all Security contracts are obtained by competitive bidding.





## **Table of Contents**

**n Engineering.** The Company provides engineering services through a number of subsidiaries, primarily operating under the name ABM Engineering Services. The Company provides customer facilities with on-site engineers to operate and maintain mechanical, electrical and plumbing systems utilizing, in part, computerized maintenance management systems. These services are designed to maintain equipment at optimal efficiency for customers such as high-rise office buildings, schools, computer centers, shopping malls, manufacturing facilities, museums and universities. The Company's Engineering subsidiaries maintain 9 branches and operate in 33 states and the District of Columbia. ABM Engineering Services Company has maintained national ISO 9000 Certification since 1999. ISO is a family of standards for quality management comprised of a rigorous set of guidelines and good business practices against which companies are evaluated through a comprehensive independent audit process. The majority of Engineering contracts contain clauses under which the customer agrees to reimburse the full amount of wages, payroll taxes, insurance charges and other expenses plus a profit percentage. Additionally, the majority of Engineering contracts are for three year periods, but are subject to termination by either party after 30 to 90 days' written notice and may contain renewal clauses. Nearly all Engineering contracts are obtained by competitive bidding.

The Company's Engineering segment also provides facility services through a number of subsidiaries, primarily operating under the name ABM Facility Services. The Company provides customers with streamlined, centralized control and coordination of multiple facility service needs. This approach offers the efficiencies, service and cost benefits expected by corporate and other customers in the highly-competitive market for outsourced business services. By leveraging the core competencies of the Company's other service offerings, the Company attempts to reduce overhead (such as redundant personnel) for its customers by providing multiple services under a single contract, with one contact and one invoice. Its National Service Call Center provides centralized dispatching, emergency services, accounting and related reports to financial institutions, high-tech companies and other customers regardless of industry or size.

The Company's Engineering segment also provides energy services primarily under the name ABM Energy Services. ABM Energy Services provides comprehensive, cost-efficient solutions in an effort to curb the rising cost of utilities within a facility reduce energy consumption and minimize the carbon footprint of a facility.

**n Lighting.** As noted above, in connection with the sale of substantially all of the assets of our Lighting division on October 31, 2008, the Company's Lighting division is now classified as discontinued operations. Accordingly, the financial results of our Lighting division have been classified as discontinued operations in the Company's Consolidated Financial Statements and the accompanying notes for all periods presented. The Company provided lighting services through a number of subsidiaries, primarily operating under the name Amtech Lighting Services. The Company provided relamping, fixture cleaning, energy retrofits and lighting maintenance service to a variety of commercial, industrial and retail facilities. The Company's Lighting subsidiaries also repaired and maintained electrical outdoor signage, and provided electrical service and repairs. The Company's Lighting subsidiaries maintained 24 offices and operated in 50 states and the District of Columbia. Lighting contracts were either fixed-priced (long-term full service or maintenance only contracts), project work or time and materials-based where the customer was billed according to actual hours of service and materials used at specified prices. Contracts ranged from one to six years, but the majority were subject to termination by either party after 30 to 90 days' written notice and may have contained renewal clauses. Nearly all Lighting contracts were obtained by competitive bidding.

Additional information relating to the Company's reportable segments, for the three most recent fiscal years, appears in Note 19 of the Notes to the Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data.

## **Trademarks**

We believe that the Company owns or is licensed to use all corporate names, tradenames, trademarks, service marks, copyrights, patents and trade secrets that are material to the Company's operations.

**Competition**

We believe that each aspect of the Company's business is highly competitive, and that such competition is based primarily on price and quality of service. The Company provides nearly all its services under contracts originally obtained through competitive bidding. The low cost of entry to the facility services business has led to strongly competitive markets made up of a large number of mostly regional and local owner-operated companies, primarily located in major cities throughout the United States (with particularly

## **Table of Contents**

intense competition in the janitorial business in the Southeast and South Central regions of the United States). The Company also competes with the operating divisions of a few large, diversified facility services and manufacturing companies on a national basis. Indirectly, the Company competes with building owners and tenants that can perform internally one or more of the services provided by the Company. These building owners and tenants might have a competitive advantage when the Company's services are subject to sales tax and internal operations are not. Furthermore, competitors may have lower costs because privately owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. These strong competitive pressures could inhibit the Company's success in bidding for profitable business and its ability to increase prices even as costs rise, thereby reducing margins.

## **Sales and Marketing**

The Company's sales and marketing efforts are conducted by its corporate, subsidiary, regional, branch and district offices. Sales, marketing, management and operations personnel in each of these offices participate directly in selling and servicing customers. The broad geographic scope of these offices enables the Company to provide a full range of facility services through intercompany sales referrals, multi-service bundled sales and national account sales.

The Company has a broad customer base, including, but not limited to, commercial office buildings, industrial facilities, financial institutions, retail stores, shopping centers, warehouses, airports, health facilities and educational institutions, stadiums and arenas, and government buildings. No customer accounted for more than 5% of its revenues during the fiscal year ended October 31, 2008.

## **Employees**

As of October 31, 2008, the Company employed approximately 100,000 persons, of whom the vast majority are service employees who perform janitorial, parking, security and engineering services. Approximately 43,000 of these employees are covered under collective bargaining agreements at the local level. There are approximately 5,300 employees with executive, managerial, supervisory, administrative, professional, sales, marketing or clerical responsibilities, or other office assignments.

## **Environmental Matters**

The Company's operations are subject to various federal, state and/or local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment, such as discharge into soil, water and air, and the generation, handling, storage, transportation and disposal of waste and hazardous substances. These laws generally have the effect of increasing costs and potential liabilities associated with the conduct of the Company's operations. In addition, from time to time the Company is involved in environmental issues at certain of its locations or in connection with its operations. Historically, the cost of complying with environmental laws or resolving environmental issues relating to United States locations or operations has not had a material adverse effect on the Company's financial position, results of operations or cash flows.

**Table of Contents****Executive Officers of the Registrant**

The executive officers of ABM on December 22, 2008 were as follows:

<b>Name</b>	<b>Age</b>	<b>Principal Occupations and Business Experience During Past Five Years</b>
Henrik C. Slipsager	53	President and Chief Executive Officer and a Director of ABM since November 2000.
James S. Lusk	52	Chief Financial Officer of ABM since January 2008; Executive Vice President of ABM since March 2007; Vice President, Business Services and Chief Operating Officer for the Europe, Middle East, and Africa regions for Avaya from January 2005 to January 2007; Executive Vice President, Chief Financial Officer and Treasurer of Bioscip/MIM Corporation from October 2002 to January 2005.
James P. McClure	51	Executive Vice President of ABM since September 2002; President of ABM Janitorial Services since November 2000.
Steven M. Zaccagnini	47	Executive Vice President of ABM since December 2005; Senior Vice President of ABM from September 2002 to December 2005; President of ABM Facility Services since April 2002; President of Amtech Lighting Services since November 2005; President of CommAir Mechanical Services from September 2002 to May 2005.
Erin M. Andre	49	Senior Vice President, Human Resources of ABM since August 2005; Vice President, Human Resources of National Energy and Gas Transmission, Inc. from April 2000 to May 2005.
David L. Farwell	47	Senior Vice President and Chief of Staff of ABM since September 2005; Treasurer of ABM since August 2002; Vice President of ABM from August 2002 to September 2005.
Sarah H. McConnell	44	Senior Vice President of ABM since September 2007; General Counsel and Corporate Secretary of ABM since May 2008; Deputy General Counsel of ABM from September 2007 to May 2008; Vice President, Assistant General Counsel and Secretary of Fisher Scientific International Inc. from December 2005 to November 2006; Vice President and Assistant General Counsel of Fisher Scientific International Inc, from July 2005 to December 2005; General Counsel of Benchmark Electronics Inc. from November 2004 to July 2005; Vice President and General Counsel of Fisher HealthCare, a division of Fisher Scientific International Inc., from September 2002 to November 2004.
Gary R. Wallace	58	Senior Vice President of ABM, Director of Business Development and Chief Marketing Officer since November 2000.
Joseph F. Yospe	50	Senior Vice President, Finance of ABM since September 2007; Controller and Chief Accounting Officer of ABM since January 2008; Vice President and Assistant Controller of Interpublic Group of Companies from September 2004 through September 2007; Corporate Controller and Chief Accounting Officer of Genmab AS from September 2002 through September 2004.

**Table of Contents**

**ITEM 1A. RISK FACTORS**

**Acquisitions may divert our focus and lead to unexpected difficulties.** A significant portion of our historic growth has come through acquisitions and we expect to continue to acquire businesses in the future as part of our growth strategy. A slowdown in acquisitions could lead to a slower growth rate. Because new contracts frequently involve start-up costs, revenues associated with acquired operations generally have higher margins than new revenues associated with internal growth. Therefore a slowdown in acquisition activity could lead to constant or lower margins, as well as lower revenue growth. There can be no assurance that any acquisition that we make in the future will provide us with the benefits that were anticipated when entering the transaction. The process of integrating an acquired business may create unforeseen difficulties and expenses. The areas in which we may face risks include:

Diversion of management time and focus from operating the business to acquisition integration;

The need to implement or improve internal controls, procedures and policies appropriate for a public company at businesses that prior to the acquisition lacked these controls, procedures and policies;

The need to integrate acquired businesses' accounting, management information, human resources and other administrative systems to permit effective management;

Inability to retain employees from businesses the Company acquires;

Inability to maintain relationships with customers of the acquired business;

Write-offs or impairment charges relating to goodwill and other intangible assets from acquisitions; and

Unanticipated or unknown liabilities relating to acquired businesses.

**Our transition to new information technology systems may result in functional delays and resource constraints.** Although we use centralized accounting systems, we rely on a number of legacy information technology systems, particularly our payroll systems, as well as manual processes, to operate. These systems and processes may be unable to provide adequate support for the business and create excessive reliance upon manual rather than system controls. Use of the legacy payroll systems could result, for instance, in delays in meeting payroll obligations, in difficulty calculating and tracking appropriate governmental withholding and other payroll regulatory obligations, and in higher internal and external expenses to work around these systems. Additionally, the current technology environment is unable to support the integration of acquired businesses and anticipated organic growth. Effective October 2006, we entered into a Master Professional Services Agreement with International Business Machines Corporation ( IBM ) to obtain information technology infrastructure and support services. In light of a recent evaluation of these services, we determined that the Company will likely transition one or more services away from IBM. We are considering various alternatives to the current arrangement with IBM under the Master Professional Services Agreement. Ultimately, we may use a different third party provider or use ABM employees to provide some or all of the services currently provided by IBM under the Master Professional Services Agreement. Any alternative arrangement involves potential failure of current projects which are under development relating to our information technology platforms and systems. In addition to the risk of potential failure in each project, supporting multiple concurrent projects, and moving away from IBM as a provider of one or more of these services may result in resource constraints and the inability to complete projects on schedule. The acquisition of OneSource necessitates information technology system integration and consolidation. We are continuing to use the OneSource information technology systems during the transition period and will then transfer OneSource operations to our new payroll and human resources information system and the upgraded accounting systems. To the extent that we continue to use IBM or

other third-parties for various services, the risks associated with outsourcing include the dependence upon a third party for essential aspects of our business and risks to the security and integrity of our data in the hands of third parties. We may also have potentially less control over costs associated with necessary systems when they are supported by a third party, as well as potentially less responsiveness from vendors than employees.

**Transition to a Shared Services Function could create disruption in functions affected.** We have historically performed accounting functions, such as accounts payable, accounts receivable payment applications and payroll, in a decentralized manner through regional accounting centers in our businesses. In 2007, we began consolidating these functions in a shared services center in Houston, Texas, and in 2008, an

## **Table of Contents**

additional facility in Atlanta, Georgia. The consolidation has taken place in certain accounting functions for Janitorial (including OneSource), Security, Engineering and the Corporate office, and over the next few years other functions and additional business units will be moved into the shared services centers. The timing of the consolidation of different functions is tied to the upgrade of the Company's accounting system, the introduction of ancillary software and implementation of a new payroll system and human resources information system. In addition to the risks associated with technology changes, the shared services centers implementation could lead to the turnover of personnel with critical knowledge about our customers and employees. As a result, our processes relating to accounts receivable and payroll might be impaired. Because the consolidation of functions in the shared services centers is tied to the upgrade of our accounting systems and implementation of a new payroll system and human resources information system, delays in the implementation of the technology changes would lead to delays in our ability to realize the benefits associated with the shared services centers.

**The move of our corporate headquarters has led to loss of personnel and institutional knowledge, and may disrupt the continuity of control functions.** In January 2008, we began to move our corporate headquarters to New York City from San Francisco. Although substantially complete, the transition will continue over the next 12 months. In addition, certain functions that have operated centrally from corporate headquarters, such as the finance and legal organizations, have been dispersed in a combination of corporate headquarters, division headquarters and the shared services function. These moves have caused employee turnover, particularly in finance, legal, insurance, and human resources. The loss of personnel could lead to disruptions in control functions stemming from delays in filling vacant positions and a lack of personnel with institutional knowledge.

**The sale of ABM's Lighting division could impact our ability to collect accounts receivables.** We may not realize anticipated amounts related to retained accounts receivable of the Lighting division due to the sale of substantially all of the operating assets of the Lighting division. Furthermore, it is possible that Sylvania Lighting Services' operation of our former Lighting division may make collection of our outstanding Lighting accounts receivable more difficult.

**A change in the frequency or severity of claims, a deterioration in claims management, the cancellation or non-renewal of primary insurance policies or a change in our customers' insurance needs could adversely affect results.** Many customers, particularly institutional owners and large property management companies, prefer to do business with contractors, such as us, with significant financial resources, who can provide substantial insurance coverage. In fact, many of our clients choose to obtain insurance coverage for the risks associated with our services by being named as additional insureds under our master liability insurance policies and by seeking contractual indemnification for any damages associated with our services. In addition, pursuant to our management and service contracts, we charge certain clients an allocated portion of our insurance-related costs, including workers compensation insurance, at rates that, because of the scale of our operations and claims experience, we believe are competitive. A material change in insurance costs due to a change in the number of claims, costs or premiums could have a material effect on our operating profit. In addition, should we be unable to renew our umbrella and other commercial insurance policies at competitive rates, it would have an adverse impact on our business, as would catastrophic uninsured claims or the inability or refusal of our insurance carriers to pay otherwise insured claims. Furthermore, where we self-insure, a deterioration in claims management, whether by us or by a third party claims administrator, could increase claim costs, particularly in the workers' compensation area.

**A change in estimated claims costs could affect results.** We periodically evaluate estimated claims costs and liabilities to ensure that self-insurance reserves are appropriate. Additionally, we monitor new claims and claims development to assess the adequacy of insurance reserves. Trend analysis is complex and highly subjective. The interpretation of trends requires the knowledge of all factors affecting the trends that may or may not be reflective of adverse developments (*e.g.*, changes in regulatory requirements). If the trends suggest that the frequency or severity of claims incurred has increased, we might be required to record additional expenses for self-insurance liabilities. In addition, variations in estimates that cause changes in our insurance reserves may not always be related to changes in



claims experience. Changes in insurance reserves as a result of our periodic evaluations of the liabilities can cause swings in operating results that may not be indicative of the operations of our ongoing business. In addition, because of the time required for the analysis,

**Table of Contents**

we may not learn of a deterioration in claims, particularly claims administered by a third party, until additional costs have been incurred or are projected. Because we base pricing in part on our estimated insurance costs, our prices could be higher or lower than they otherwise might be if better information were available resulting in a competitive disadvantage in the former case and reduced margins or unprofitable contracts in the latter.

**Any future increase in the level of debt or in interest rates, can affect our results of operations.** We incurred debt to acquire OneSource and Southern Management, and any future increase in the level of debt will likely increase our interest expense. Unless the operating income associated with the use of these funds exceeds the debt expense, borrowing money will have an adverse impact on our results. In addition, incurring debt requires that a portion of cash flow from operating activities be dedicated to interest payments and principal payments. Unless cash flows generated by these or future acquisitions funded by debt exceed the required payments, debt service requirements could reduce our ability to use our cash flow to fund operations and capital expenditures, and to capitalize on future business opportunities (including additional acquisitions). Because current interest rates on our debt are variable, an increase in prevailing rates would increase our interest costs. Further, our credit facility agreement contains both financial covenants and covenants that limit our ability to engage in specified transactions, which may also constrain our flexibility.

**Our ability to operate and pay our debt obligations depends upon our access to cash.** Because ABM conducts business operations through operating subsidiaries, we depend on those entities to generate the funds necessary to meet financial obligations. Delays in collections, which could be heightened by the current turmoil in the credit markets and the financial services industry, or legal restrictions could restrict ABM's subsidiaries' ability to make distributions or loans to ABM. The earnings from, or other available assets of, these operating subsidiaries may not be sufficient to make distributions to enable ABM to pay interest on debt obligations when due or to pay the principal of such debt. In addition, \$25.0 million original principal amount of our investment portfolio is invested in auction rate securities which are now illiquid. In the event we need to access these funds, we will not be able to do so until a future auction is successful, the issuer redeems the outstanding securities or the securities mature (between 20 and 50 years). The estimated values of these securities are no longer at par and we have booked an unrealized loss of \$6.0 million. If the issuer of the securities is unable to successfully close future auctions and its credit rating deteriorates and if the insurers are not financially able to honor their obligations as insurer, we may be required to record additional unrealized losses or an impairment charge.

**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.** Changes in national and local economic conditions could have a negative impact on our business. Adverse changes in occupancy levels may further reduce demand, depress prices for our services and cause our customers to cancel their agreements to purchase our services, thereby possibly reducing earnings and adversely affecting our business and results of operations. Additionally, the adverse economic conditions may result in customers cutting back on discretionary spending, such as tag work. In addition, a significant portion of Parking revenues is tied to the number of airline passengers and hotel guests, and Parking results could be adversely affected by curtailment of business and personal travel.

**A decline in commercial office building occupancy and rental rates could affect revenues and profitability.** Our revenues directly depend on commercial real estate occupancy levels. In certain geographic areas and service segments, our most profitable revenues are known as tag jobs, which are services performed for tenants in buildings in which our business performs building services for the property owner or management company. A decline in occupancy rates could result in a decline in fees paid by landlords, as well as tag work, which would lower revenues, and create pricing pressures and therefore lower margins. In addition, in those areas where the workers are unionized, decreases in revenues can be accompanied by relative increases in labor costs if we are obligated by collective bargaining agreements to retain workers with seniority and consequently higher compensation levels and cannot pass through these costs to customers.

**Recent turmoil in the credit markets and the financial services industry may impact our ability to collect receivables on a timely basis and may negatively impact our cash flow.** Recently, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. While the ultimate outcome of these events cannot be predicted, they may have a

10

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## Table of Contents

material adverse effect on the Company and its costs of borrowing; they could also adversely impact the availability of financing to our customers and therefore our ability to collect amounts due from such customers or cause them to terminate their contracts with us completely.

**The financial difficulties or bankruptcy of one or more of our major customers could adversely affect results.** Future revenues and our ability to collect accounts receivable depend, in part, on the financial strength of customers. We estimate an allowance for accounts we do not consider collectible and this allowance adversely impacts profitability. In the event customers experience financial difficulty, and particularly if bankruptcy results, profitability is further impacted by our failure to collect accounts receivable in excess of the estimated allowance. Additionally, our future revenues would be reduced by the loss of these customers.

**An impairment charge could have a material adverse effect on our financial condition and results of operations.** Under SFAS No. 142, Goodwill and Other Intangible Assets, we are required to test acquired goodwill for impairment on an annual basis based upon a fair value approach, rather than amortizing it over time. Goodwill represents the excess of the amount we paid to acquire our subsidiaries and other businesses over the fair value of their net assets at the dates of the acquisitions. We have chosen to perform our annual impairment reviews of goodwill at the beginning of the fourth quarter of each fiscal year. We also are required to test goodwill for impairment between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of any reporting unit below its carrying amount. In addition, we test certain intangible assets for impairment annually and if events occur or circumstances change that would indicate the remaining carrying amount of these intangible assets might not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of one of our business, and other factors. If the fair market value of one of our businesses is less than its carrying amount, we could be required to record an impairment charge. The valuation of the businesses requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial health of our businesses, including such factors as market performance, changes in our customer base and operating cash flows. The amount of any impairment could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken.

In November 2007, we acquired OneSource for an aggregate purchase price of \$390.5 million including payment of its \$21.5 million line of credit and direct acquisition costs of \$4.0 million. We paid a premium in excess of fair value of the net tangible and intangible assets of \$275.0 million, which is reflected as goodwill in our Janitorial reporting unit. We were willing to pay this premium as a result of our identification of significant synergies that we anticipated we would realize, are realizing and expect to continue to realize through the acquisition. However, if we determine that we are not able to realize these expected synergies and we determine that the fair value of our Janitorial reporting unit is less than its carrying amount of these assets, then we would have to recognize an impairment to goodwill as a current-period expense. Although we have concluded that no impairment exists at August 1, 2008, because of the significant amount of goodwill recognized in connection with the OneSource acquisition, an impairment of goodwill could result in a material non-cash expense.

**Labor disputes could lead to loss of revenues or expense variations.** At October 31, 2008, approximately 44% of our employees were subject to various local collective bargaining agreements, some of which will expire or become subject to renegotiation during the year. In addition, at any given time, we may face a number of union organizing drives. When one or more of our major collective bargaining agreements becomes subject to renegotiation or when we face union organizing drives, we and the union may disagree on important issues which, in turn, could lead to a strike, work slowdown or other job actions at one or more of our locations. In a market where we and a number of major competitors are unionized, but other competitors are not unionized, we could lose customers to competitors who are not unionized. A strike, work slowdown or other job action could in some cases disrupt us from providing services, resulting in reduced revenue. If declines in customer service occur or if our customers are targeted for sympathy

strikes by other unionized workers, contract cancellations could result. The result of negotiating a first time agreement or renegotiating an existing collective bargaining agreement could be a substantial increase in labor and benefits expenses that we may be unable to pass through to customers for some period of time, if at all. In addition, proposed legislation, known as The Employee Free Choice Act, could make it significantly easier for union organizing drives to be successful and could give third-party arbitrators the ability to impose terms of collective bargaining agreements upon

## **Table of Contents**

us and a labor union if we and such union are unable to agree to the terms of a collective bargaining agreement.

**We participate in multi-employer defined benefit plans which could result in our incurrence of substantial liabilities.** We contribute to multi-employer benefit plans that could result in our being responsible for unfunded liabilities under such plans which could be material.

**Our success depends on our ability to preserve our long-term relationships with customers.** Our contracts with our customers can generally be terminated upon relatively short notice. However, the business associated with long-term relationships is generally more profitable than that from short-term relationships because we incur start-up costs with many new contracts, particularly for training, operating equipment and uniforms. Once these costs are expensed or fully depreciated over the appropriate periods, the underlying contracts become more profitable. Therefore, our loss of long-term customers could have an adverse impact on our profitability even if we generate equivalent revenues from new customers.

**We are subject to intense competition that can constrain our ability to gain business, as well as our profitability.** We believe that each aspect of our business is highly competitive, and that such competition is based primarily on price and quality of service. We provide nearly all our services under contracts originally obtained through competitive bidding. The low cost of entry to the facility services business has led to strongly competitive markets consisting primarily of regional and local owner-operated companies, with particularly intense competition in the janitorial business in the Southeast and South Central regions of the United States. We also compete with a few large, diversified facility services and manufacturing companies on a national basis. Indirectly, we compete with building owners and tenants that can perform internally one or more of the services that we provide. These building owners and tenants have a competitive advantage in locations where our services are subject to sales tax and internal operations are not. Furthermore, competitors may have lower costs because privately owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. These strong competitive pressures could impede our success in bidding for profitable business and our ability to increase prices even as costs rise, thereby reducing margins. Further, if revenues decline, we may not be able to reduce expenses correspondingly.

**An increase in costs that we cannot pass on to customers could affect profitability.** We negotiate many contracts under which our customers agree to pay certain costs at rates that we set, particularly workers' compensation and other insurance coverage where we self-insure much of our risk. If actual costs exceed the rates we set, then our profitability may decline unless we can negotiate increases in these rates. In addition, if our costs, particularly workers' compensation, other insurance costs, labor costs, payroll taxes, and fuel costs, exceed those of our competitors, we may lose business unless we establish rates that do not fully cover our costs.

**Natural disasters or acts of terrorism could disrupt services.** Storms, earthquakes, drought, floods or other natural disasters or acts of terrorism may result in reduced revenues or property damage. Disasters may also cause economic dislocations throughout the country. In addition, natural disasters or acts of terrorism may increase the volatility of financial results, either due to increased costs caused by the disaster with partial or no corresponding compensation from customers, or, alternatively, increased revenues and profitability related to tag jobs, special projects and other higher margin work necessitated by the disaster.

**We incur significant accounting and other control costs that reduce profitability.** As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if accounting or other controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Most of our competitors are privately owned so our accounting and control costs can be a competitive disadvantage. Should revenues decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, the costs associated with regulatory compliance will rise as a percentage of revenues.

**ABM and certain subsidiaries are defendants in several class and representative action lawsuits alleging various wage and hour claims that could cause us to incur substantial liabilities.** ABM and certain subsidiaries are defendants in several class and representative action lawsuits brought by or on behalf of our current and former employees alleging violations of federal and state law with respect to certain wage and hour matters. It is not possible to predict the outcome of these lawsuits or in other litigation or arbitration to which we are subject. However, these lawsuits and other proceedings may consume substantial amounts of our

12

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## **Table of Contents**

financial and managerial resources, regardless of the ultimate outcome of the lawsuits and other proceedings. In addition, ABM and its subsidiaries may become subject to similar lawsuits in the same or other jurisdictions. An unfavorable outcome with respect to these lawsuits and any future lawsuits could, individually or in the aggregate, cause the Company to incur substantial liabilities that may have a material adverse effect upon our business, financial condition or results of operations.

### **Other issues and uncertainties may include:**

New accounting pronouncements or changes in accounting policies;

Changes in federal (U.S.) or state immigration law that raise our administrative costs;

Labor shortages that adversely affect our ability to employ entry level personnel;

Legislation or other governmental action that detrimentally impacts expenses or reduces revenues by adversely affecting our customers; and

The resignation, termination, death or disability of one or more key executives that adversely affects customer retention or day-to-day management.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

As of October 31, 2008, the Company had corporate, subsidiary, regional, branch or district offices in approximately 275 locations throughout the United States (including Puerto Rico) and in British Columbia and Ontario, Canada. At October 31, 2008, the 10 facilities owned by the Company had an aggregate net book value of \$2.4 million and were located in: Los Angeles, California; Tampa, Florida; Portland, Oregon; Lake Tansi, Tennessee; Houston and San Antonio, Texas; and Kennewick, Seattle, Spokane and Tacoma, Washington.

Rental payments under long and short-term lease agreements amounted to \$100.2 million for the fiscal year ended October 31, 2008. Of this amount, \$64.0 million in rental expense was attributable to public parking lots and garages leased and operated by Parking. The remaining expense was for the rental or lease of office space, computers, operating equipment and motor vehicles.

## **ITEM 3. 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 purported class action lawsuits related to alleged violations of federal or California wage-and-hour laws: (1) 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.); (2) 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; (3) the consolidated cases of Batiz/Heine v. ACSS filed on



June 7, 2006, in the U.S. District Court of California, Central District (Batiz); (4) the consolidated cases of Diaz/Morales/Reyes v. Ampco System Parking filed on December 5, 2006, in L.A. Superior Ct; (5) Villacres v. ABM Security filed on August 15, 2007, in the U.S. District Court of California, Central District (Villacres); (7) Chen v. Ampco System Parking and ABM Industries filed on March 6, 2008, in the U.S. District Court of California, Southern District; and (8) 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 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.

On December 9, 2008, a federal court judge denied class certification status, with prejudice, in the case Castellanos v. ABM Industries filed on April 5, 2007, in the U.S. District Court of California, Central District.

As described in Notes 2 and 20 of the Notes to the Consolidated Financial Statements contained in Item 8, Financial Statements and Supplemental Data , the Company self-insures certain insurable risks and, based on its periodic evaluations of estimated claim costs and liabilities, accrues self-insurance reserves to the

**Table of Contents**

Company's best estimate. One such evaluation, completed in November 2004, indicated adverse developments in the insurance reserves that were primarily related to workers' compensation claims in the state of California during the four-year period ended October 31, 2003 and resulted in the Company recording a charge of \$17.2 million in the fourth quarter of 2004. In 2005, the Company, believing a substantial portion of the \$17.2 million, as well as other costs incurred by the Company in its insurance claims, was related to poor claims management by a third party administrator that no longer performs these services for the Company, filed an arbitration claim against this third party administrator for damages related to claims mismanagement. In November 2008, the Company and its former third party administrator settled the claim for \$9.8 million. Such benefit is expected to be recorded in the first half of fiscal 2009 upon receipt of the settlement.

In August 2005, ABM filed an action for declaratory relief, breach of contract and breach of the implied covenant of good faith and fair dealing in U.S. District Court in The Northern District of California against its insurance carriers, Zurich American Insurance Company (Zurich American) and National Union Fire Insurance Company (National Union) relating to the carriers' failure to provide coverage for ABM and one of its Parking subsidiaries. In September 2006, the Company settled its claims against Zurich American for \$0.4 million. Zurich American had provided \$0.85 million in coverage. In early 2006, ABM paid \$6.3 million in settlement costs in the litigation with IAH-JFK Airport Parking Co., LLC and seeks to recover \$5.3 million of these settlement costs and legal fees from National Union. In September 2006, the Company lost a motion for summary adjudication filed by National Union on the issue of the duty to defend. The Company has appealed that ruling and filed its reply brief in March 2007; oral agreements were heard in July 2008. ABM's claim includes bad faith allegations for National Union's breach of its duty to defend the Company in the litigation with IAH-JFK Airport Parking Co., LLC.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**Table of Contents**

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information and Dividends**