

ABM INDUSTRIES INC /DE/  
Form 10-Q  
September 06, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended July 31, 2012

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**  
 (State or other jurisdiction of  
 incorporation or organization)  
551 Fifth Avenue, Suite 300,  
New York, New York  
 (Address of principal executive offices)

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

**10176**  
 (Zip Code)

212-297-0200

(Registrant's telephone number, including area code)

**Not Applicable**

(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

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 August 30, 2012 |
|--|--------------------------------|
| Common Stock, \$0.01 par value per share | 54,228,654 shares              |

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**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**

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

| (in thousands, except share and per share amounts)   | July 31,<br>2012<br>(Unaudited) | October 31,<br>2011 |
|--|---------------------------------|---------------------|
| <b>ASSETS</b>  |                                 |                     |
| Current assets   |                                 |                     |
| Cash and cash equivalents  | \$ 21,650                       | \$ 26,467           |
| Trade accounts receivable, net of allowances of \$11,197 and \$13,485 at July 31, 2012 and October 31, 2011, respectively                    | 577,898                         | 552,098             |
| Notes receivable and other   | 56,872                          | 52,756              |
| Prepaid expenses   | 50,726                          | 41,823              |
| Prepaid income taxes   | 4,232                           | 7,205               |
| Deferred income taxes, net   | 38,096                          | 40,565              |
| Insurance recoverables   | 10,173                          | 10,851              |
| Current assets of discontinued operations  | 467                             | 1,992               |
| <b>Total current assets</b>  | <b>760,114</b>                  | <b>733,757</b>      |
| Insurance deposits   | 31,720                          | 35,974              |
| Other investments and long-term receivables  | 5,013                           | 5,798               |
| Investments in unconsolidated affiliates, net  | 14,987                          | 14,423              |
| Investments in auction rate securities   | 16,704                          | 15,670              |
| Property, plant and equipment, net of accumulated depreciation of \$117,984 and \$97,819 at July 31, 2012 and October 31, 2011, respectively | 62,753                          | 60,009              |
| Other intangible assets, net of accumulated amortization of \$94,755 and \$78,669 at July 31, 2012 and October 31, 2011, respectively        | 114,662                         | 128,994             |
| Goodwill   | 750,944                         | 750,872             |
| Noncurrent deferred income taxes, net  | 33,254                          | 30,948              |
| Noncurrent insurance recoverables  | 55,176                          | 59,759              |
| Other assets   | 41,568                          | 43,394              |
| <b>Total assets</b>  | <b>\$ 1,886,895</b>             | <b>\$ 1,879,598</b> |

See accompanying notes to unaudited consolidated financial statements

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

(Continued)

| (in thousands, except share and per share amounts)   | July 31,<br>2012<br>(Unaudited) | October 31,<br>2011 |
|--|---------------------------------|---------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                                 |                     |
| Current liabilities  |                                 |                     |
| Trade accounts payable   | \$ 124,371                      | \$ 130,464          |
| Accrued liabilities  |                                 |                     |
| Compensation   | 111,201                         | 112,233             |
| Taxes other than income  | 20,288                          | 19,144              |
| Insurance claims   | 82,889                          | 78,828              |
| Other  | 116,205                         | 102,220             |
| Income taxes payable   | 5,029                           | 307                 |
| Total current liabilities  | 459,983                         | 443,196             |
| Noncurrent income taxes payable  | 43,996                          | 38,236              |
| Line of credit   | 252,000                         | 300,000             |
| Retirement plans and other   | 36,466                          | 39,707              |
| Noncurrent insurance claims  | 268,958                         | 262,573             |
| Total liabilities  | 1,061,403                       | 1,083,712           |
| Commitments and contingencies  |                                 |                     |
| <b>Stockholders equity</b>   |                                 |                     |
| Common stock, \$0.01 par value; 100,000,000 shares authorized; 54,200,540 and 53,333,071 shares issued at July 31, 2012 and October 31, 2011, respectively | 542                             | 533                 |
| Additional paid-in capital   | 229,134                         | 211,389             |
| Accumulated other comprehensive loss, net of taxes   | (1,906)                         | (2,661)             |
| Retained earnings  | 597,722                         | 586,625             |
| Total stockholders equity  | 825,492                         | 795,886             |
| Total liabilities and stockholders equity  | \$ 1,886,895                    | \$ 1,879,598        |

See accompanying notes to unaudited consolidated financial statements

**Table of Contents****ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

| (in thousands, except per share data)   | Three Months Ended<br>July 31, |              | Nine Months Ended<br>July 31, |              |
|---|--------------------------------|--------------|-------------------------------|--------------|
|   | 2012                           | 2011         | 2012                          | 2011         |
| <b>Revenues</b>   | \$ 1,079,235                   | \$ 1,076,247 | \$ 3,210,264                  | \$ 3,165,499 |
| <b>Expenses</b>   |                                |              |                               |              |
| Operating   | 971,628                        | 952,844      | 2,885,964                     | 2,821,672    |
| Selling, general and administrative   | 79,100                         | 76,356       | 248,284                       | 242,406      |
| Amortization of intangible assets   | 5,334                          | 6,314        | 16,184                        | 17,273       |
| Total expenses  | 1,056,062                      | 1,035,514    | 3,150,432                     | 3,081,351    |
| Operating profit  | 23,173                         | 40,733       | 59,832                        | 84,148       |
| Other-than-temporary impairment credit losses on auction rate security recognized in earnings |                                |              | (313)                         |              |
| Income from unconsolidated affiliates, net  | 747                            | 1,166        | 5,380                         | 2,785        |
| Interest expense  | (2,407)                        | (4,114)      | (7,682)                       | (12,477)     |
| Income from continuing operations before income taxes   | 21,513                         | 37,785       | 57,217                        | 74,456       |
| Provision for income taxes  | (8,887)                        | (9,874)      | (22,204)                      | (23,940)     |
| Income from continuing operations   | 12,626                         | 27,911       | 35,013                        | 50,516       |
| Loss from discontinued operations, net of taxes   | (49)                           | (36)         | (94)                          | (60)         |
| <b>Net income</b>   | \$ 12,577                      | \$ 27,875    | \$ 34,919                     | \$ 50,456    |
| <b>Net income per common share Basic</b>  |                                |              |                               |              |
| Income from continuing operations   | \$ 0.23                        | \$ 0.52      | \$ 0.65                       | \$ 0.95      |
| Loss from discontinued operations, net of taxes   |                                |              |                               |              |
| Net income  | \$ 0.23                        | \$ 0.52      | \$ 0.65                       | \$ 0.95      |
| <b>Net income per common share Diluted</b>  |                                |              |                               |              |
| Income from continuing operations   | \$ 0.23                        | \$ 0.51      | \$ 0.64                       | \$ 0.93      |
| Loss from discontinued operations, net of taxes   |                                |              |                               |              |
| Net income  | \$ 0.23                        | \$ 0.51      | \$ 0.64                       | \$ 0.93      |
| <b>Weighted-average common and common equivalent shares outstanding</b>                       |                                |              |                               |              |
| Basic   | 54,145                         | 53,207       | 53,863                        | 53,051       |
| Diluted   | 55,000                         | 54,201       | 54,819                        | 54,084       |
| <b>Dividends declared per common share</b>  | \$ 0.145                       | \$ 0.140     | \$ 0.435                      | \$ 0.420     |

See accompanying notes to unaudited consolidated financial statements

**Table of Contents****ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| (in thousands)   | <b>Nine Months Ended<br/>July 31,</b> |                  |
|--|---------------------------------------|------------------|
|  | <b>2012</b>                           | <b>2011</b>      |
| <b>Cash flows from operating activities:</b>   |                                       |                  |
| Net income   | \$ 34,919                             | \$ 50,456        |
| Loss from discontinued operations, net of taxes  | 94                                    | 60               |
| Income from continuing operations  | 35,013                                | 50,516           |
| <b>Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:</b> |                                       |                  |
| Depreciation and amortization  | 38,559                                | 39,010           |
| Deferred income taxes  | (421)                                 | 13,960           |
| Share-based compensation expense   | 7,303                                 | 6,689            |
| Provision for bad debt   | 1,661                                 | 2,842            |
| Discount accretion on insurance claims   | 536                                   | 655              |
| Auction rate security credit loss impairment   | 313                                   |                  |
| Gain on sale of assets   | (1,298)                               | (110)            |
| Income from unconsolidated affiliates, net   | (5,380)                               | (2,785)          |
| Distributions from unconsolidated affiliates   | 4,583                                 | 985              |
| <b>Changes in operating assets and liabilities, net of effects of acquisitions:</b>  |                                       |                  |
| Trade accounts receivable  | (27,042)                              | (30,809)         |
| Prepaid expenses and other current assets  | (12,761)                              | (15,265)         |
| Insurance recoverables   | 5,261                                 | 5,301            |
| Other assets and long-term receivables   | 7,790                                 | 9,172            |
| Income taxes payable   | 13,455                                | 1,398            |
| Retirement plans and other non-current liabilities   | (2,119)                               | (2,085)          |
| Insurance claims   | 9,910                                 | (12,032)         |
| Trade accounts payable and other accrued liabilities   | 6,794                                 | 15,110           |
| Total adjustments  | 47,144                                | 32,036           |
| Net cash provided by continuing operating activities   | 82,157                                | 82,552           |
| Net cash provided by discontinued operating activities   | 1,623                                 | 2,285            |
| <b>Net cash provided by operating activities</b>   | <b>83,780</b>                         | <b>84,837</b>    |
| <b>Cash flows from investing activities:</b>   |                                       |                  |
| Additions to property, plant and equipment   | (23,765)                              | (16,547)         |
| Proceeds from sale of assets and other   | 2,185                                 | 415              |
| Purchase of businesses, net of cash acquired   | (5,640)                               | (290,478)        |
| Investments in unconsolidated affiliates   |                                       | (955)            |
| Proceeds from redemption of auction rate securities  |                                       | 5,000            |
| <b>Net cash used in investing activities</b>   | <b>(27,220)</b>                       | <b>(302,565)</b> |
| <b>Cash flows from financing activities:</b>   |                                       |                  |
| Proceeds from exercises of stock options (including income tax benefit)  | 10,055                                | 9,519            |
| Dividends paid   | (23,425)                              | (22,278)         |

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|  |                  |                  |
|--|------------------|------------------|
| Deferred financing costs paid                              | (14)             | (4,991)          |
| Borrowings from line of credit                             | 604,000          | 740,500          |
| Repayment of borrowings from line of credit                | (652,000)        | (516,000)        |
| Changes in book cash overdrafts                            | 7                | 11,146           |
| <b>Net cash (used in) provided by financing activities</b> | <b>(61,377)</b>  | <b>217,896</b>   |
| Net (decrease) increase in cash and cash equivalents       | (4,817)          | 168              |
| Cash and cash equivalents at beginning of period           | 26,467           | 39,446           |
| <b>Cash and cash equivalents at end of period</b>          | <b>\$ 21,650</b> | <b>\$ 39,614</b> |

See accompanying notes to unaudited consolidated financial statements



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## ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Continued)

| (in thousands)                                      | Nine Months Ended |          |
|---|-------------------|----------|
|   | 2012              | 2011     |
| <b>Supplemental Data:</b>                           |                   |          |
| Cash paid for income taxes, net of refunds received | \$ 8,928          | \$ 7,838 |
| Tax effect from exercise of options                 |                   | 1,366    |
| Cash received from exercise of options              | 10,051            | 8,153    |
| Interest paid on line of credit                     | 4,139             | 7,821    |

See accompanying notes to unaudited consolidated financial statements

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**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Nature of Business**

ABM Industries Incorporated ( "ABM" ), through its subsidiaries (collectively, the "Company" ), is a leading provider of end-to-end integrated facilities management services to commercial, governmental, industrial, institutional, residential, and retail facilities primarily throughout the United States. The Company's comprehensive capabilities include expansive facility services, energy solutions, commercial cleaning, maintenance and repair, HVAC, electrical, landscaping, parking and security, provided through stand-alone or integrated solutions. The Company was reincorporated in Delaware on March 19, 1985, as the successor to a business founded in California in 1909.

**2. Unaudited Interim Financial Information**

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles ( "U.S. GAAP" ) and Article 10 of Regulation S-X under the Securities and Exchange Act of 1934, as amended, and should be read in conjunction with the Company's audited consolidated financial statements (and notes thereto) filed with the U.S. Securities and Exchange Commission ( "SEC" ) in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2011. Unless otherwise noted, all references to years are to the Company's fiscal year, which ends on October 31. In the opinion of the Company's management, all adjustments considered necessary for a fair presentation of the accompanying unaudited consolidated financial statements and all normal and recurring adjustments necessary to fairly state the information for each period contained therein have been included.

The accounting policies applied in the accompanying unaudited consolidated financial statements are the same as those applied in the Company's audited consolidated financial statements as at and for the year ended October 31, 2011, contained in the Company's 2011 Annual Report on Form 10-K, unless indicated otherwise.

Operating results for interim periods are not necessarily indicative of results that may be expected to occur for the entire fiscal year or any future periods.

In preparing the accompanying unaudited consolidated financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date of filing with the SEC, which is the date the accompanying unaudited consolidated financial statements were issued.

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 \$75.6 million and \$73.8 million for the three months ended July 31, 2012 and 2011, respectively, and \$229.7 million and \$225.3 million for the nine months ended July 31, 2012 and 2011, respectively.

***Principles of Consolidation***

The consolidated financial statements reflect the accounts of ABM and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the Company's consolidated financial statements and the accompanying notes, including those related to self-insurance reserves, allowances for doubtful accounts, sales allowances, deferred income tax assets and valuation allowances, estimates of useful lives of intangible assets, impairment tests of goodwill and other intangibles, fair value of auction rate securities, cash flow forecasts, share-based compensation expense, and contingencies and litigation liabilities. The Company bases its estimates on historical experience, known or expected trends, independent valuations, and various other assumptions that are believed to be reasonable under the circumstances based on information available as of the date of the issuance of these unaudited consolidated financial statements. As future events and their effects cannot be

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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 consolidated financial statements in future periods.

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### ***Recent Accounting Pronouncements***

In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2011-11 ( ASU 2011-11 ), *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This amendment requires disclosing and reconciling gross and net amounts for financial instruments that are offset in the balance sheet, and amounts for financial instruments that are subject to master netting arrangements and other similar clearing and repurchase arrangements. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company expects to adopt ASU 2011-11 on November 1, 2013. The adoption of ASU 2011-11 will not have a material impact on the Company's disclosures.

In December 2011, the FASB issued Accounting Standards Update 2011-12 ( ASU 2011-12 ), *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. This amendment defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. ASU 2011-12 is effective at the same time as Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ( ASU 2011-05 ), so that entities will not be required to comply with the presentation requirements in ASU 2011-05 that this ASU 2011-12 is deferring. ASUs 2011-12 and 2011-05 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company expects to adopt ASUs 2011-12 and 2011-05 on November 1, 2012. The Company does not expect the adoption of these new disclosure requirements to have a material impact on its disclosures or consolidated financial position, results of operations or cash flows.

In July 2012, the FASB issued Accounting Standards Update 2012-02 ( ASU 2012-02 ), *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it will not be required to perform the qualitative impairment test for that asset. The objective of ASU 2012-02 is to simplify how an entity tests indefinite-lived intangible assets for impairment and to make the impairment test similar to the recent changes for testing goodwill for impairment (ASU 2011-08, *Testing Goodwill for Impairment*). ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company expects to adopt ASU 2012-02 on November 1, 2012. The adoption of this ASU will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

**Table of Contents****3. 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<br>July 31, |                  | Nine Months Ended<br>July 31, |                  |
|---|--------------------------------|------------------|-------------------------------|------------------|
|   | 2012                           | 2011             | 2012                          | 2011             |
| Income from continuing operations   | \$ 12,626                      | \$ 27,911        | \$ 35,013                     | \$ 50,516        |
| Loss from discontinued operations, net of taxes                                 | (49)                           | (36)             | (94)                          | (60)             |
| <b>Net income</b>   | <b>\$ 12,577</b>               | <b>\$ 27,875</b> | <b>\$ 34,919</b>              | <b>\$ 50,456</b> |
| <b>Weighted-average common and common equivalent shares outstanding Basic</b>   | <b>54,145</b>                  | <b>53,207</b>    | <b>53,863</b>                 | <b>53,051</b>    |
| Effect of dilutive securities:  |                                |                  |                               |                  |
| Stock options   | 242                            | 466              | 320                           | 539              |
| Restricted stock units  | 363                            | 282              | 367                           | 284              |
| Performance shares  | 250                            | 246              | 269                           | 210              |
| <b>Weighted-average common and common equivalent shares outstanding Diluted</b> | <b>55,000</b>                  | <b>54,201</b>    | <b>54,819</b>                 | <b>54,084</b>    |
| <b>Net income per common share</b>  |                                |                  |                               |                  |
| <b>Basic</b>  | <b>\$ 0.23</b>                 | <b>\$ 0.52</b>   | <b>\$ 0.65</b>                | <b>\$ 0.95</b>   |
| <b>Diluted</b>  | <b>\$ 0.23</b>                 | <b>\$ 0.51</b>   | <b>\$ 0.64</b>                | <b>\$ 0.93</b>   |

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

| (in thousands)         | Three Months Ended<br>July 31, |      | Nine Months Ended<br>July 31, |      |
|------------------------|--------------------------------|------|-------------------------------|------|
|                        | 2012                           | 2011 | 2012                          | 2011 |
| Stock options          | 1,208                          | 739  | 1,131                         | 706  |
| Restricted stock units | 105                            | 27   | 77                            | 21   |
| Performance shares     |                                |      |                               | 23   |

**4. Acquisitions***TEGG and CurrentSAFE Acquisition*

On May 1, 2012, Linc Network, LLC ( Linc Network ), a wholly owned subsidiary of the Company, entered into an asset purchase agreement with TEGG Corporation ( TEGG ), CurrentSAFE Corporation ( CurrentSAFE ) (both privately held Delaware corporations), TEGG 's shareholder and certain other parties, pursuant to which Linc Network acquired substantially all of the assets and assumed certain liabilities of TEGG and CurrentSAFE, and also acquired certain software technology from TEGG 's shareholder, for an aggregate purchase price of \$6.2 million in cash, subject to certain hold back amounts aggregating to \$0.8 million, primarily related to working capital adjustments and indemnification provisions for representations and warranties (the TEGG Acquisition ). The indemnification hold back amount is included in Other assets and Retirement plans and other on the accompanying consolidated balance sheet at July 31, 2012.

The assets acquired represent the franchise operations of TEGG and CurrentSAFE, and through this acquisition, the Company has expanded its electrical services to include electrical preventive and predictive maintenance solutions. The acquired net assets and results from operations have been included in the Company 's Facility Solutions segment (previously referred to as the Engineering segment) since May 1, 2012, the date of

acquisition.

This acquisition was accounted for under the acquisition method of accounting. The Company has allocated the purchase price based on preliminary estimates of fair value for assets acquired and liabilities assumed using information currently available. Adjustments, if any, to the preliminary allocation are not expected to be material.

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The preliminary purchase price and related allocations are summarized as follows:

|   | <b>Amounts</b><br>(in thousands) |
|---|----------------------------------|
| <b>Consideration transferred:</b>                   |                                  |
| Cash paid at closing, net of cash acquired of \$160 | \$ 5,179                         |
| Indemnification hold back amount                    | 461                              |
| Other hold back amounts                             | 350                              |
| Working capital adjustment                          | (519)                            |
| <b>Total cash consideration</b>                     | <b>\$ 5,471</b>                  |
| <b>Allocated to:</b>                                |                                  |
| Other identifiable intangible assets                | \$ 2,300                         |
| Software technology                                 | 2,100                            |
| Goodwill  | 1,714                            |
| Other assets  | 775                              |
| Accrued liabilities and other                       | (1,418)                          |
| <b>Net assets acquired</b>                          | <b>\$ 5,471</b>                  |

The TEGG Acquisition related costs of \$0.2 million were expensed as incurred and were recorded in selling, general and administrative expenses. Other identifiable intangible assets primarily consist of customer contracts and relationships with a weighted average life of 14 years.

Goodwill represents the excess cost over the fair value of the net tangible and intangible assets acquired. Factors that contributed to a purchase price resulting in the recognition of goodwill include the Company's strategic initiative to expand the scope and product range of its facility solutions franchise offerings into the electrical services solutions business which will provide for further expansion of this business and enhance comprehensive service offerings. The goodwill and intangible assets balance expected to be deductible for tax purposes is \$4.0 million.

Revenues from the TEGG Acquisition were approximately \$2.0 million since the date of acquisition. Pro forma and other supplemental financial information is not presented as this acquisition is not a material business combination to the Company's consolidated financial statements.

*Linc Acquisition*

On December 1, 2010, the Company acquired all of the outstanding limited liability company interests of The Linc Group, LLC ( "Linc" ) for an aggregate purchase price of \$298.7 million in cash (the "Linc Acquisition" ). The operations of Linc are included in the Facility Solutions segment as of the acquisition date. Linc provides end-to-end integrated facilities management services, military base operation services, and translation and other services in support of U.S. military operations. Linc's clients include state and federal governments, commercial entities and residential customers, throughout the United States and in select international locations. The acquisition was accounted for under the acquisition method of accounting. Pro forma financial information for this acquisition has not been provided as such information is not material to the Company's consolidated financial statements.

**Table of Contents****5. Fair Value of Financial Instruments**

As prescribed by FASB Accounting Standards Codification 820 (ASC 820), *Fair Value Measurement*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value should maximize the use of relevant observable inputs, which consist of market data obtained from independent sources and minimize the use of unobservable inputs, which include 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 assets or liabilities in active markets;

**Level 2** Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities 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 for the asset or liability.

The following table presents the fair value hierarchy, carrying amounts, and fair values of the Company's financial instruments measured on a recurring basis and other select significant financial instruments as of July 31, 2012 and October 31, 2011:

| (in thousands)   | Fair Value<br>Hierarchy | July 31, 2012      |                   | October 31, 2011   |                   |
|--|-------------------------|--------------------|-------------------|--------------------|-------------------|
|  |                         | Carrying<br>Amount | Fair<br>Value     | Carrying<br>Amount | Fair<br>Value     |
| <b>Financial assets measured at fair value on a recurring basis</b>    |                         |                    |                   |                    |                   |
| Assets held in funded deferred compensation plan                       | 1                       | \$ 4,930           | \$ 4,930          | \$ 4,717           | \$ 4,717          |
| Investments in auction rate securities                                 | 3                       | 16,704             | 16,704            | 15,670             | 15,670            |
|  |                         | 21,634             | 21,634            | 20,387             | 20,387            |
| <b>Other select financial asset</b>                                    |                         |                    |                   |                    |                   |
| Cash and cash equivalents  | 1                       | 21,650             | 21,650            | 26,467             | 26,467            |
| <b>Total</b>   |                         | <b>\$ 43,284</b>   | <b>\$ 43,284</b>  | <b>\$ 46,854</b>   | <b>\$ 46,854</b>  |
| <b>Financial liability measured at fair value on a recurring basis</b> |                         |                    |                   |                    |                   |
| Interest rate swap   | 2                       | \$ 249             | \$ 249            | \$ 253             | \$ 253            |
| <b>Other select financial liability</b>                                |                         |                    |                   |                    |                   |
| Line of credit   | 2                       | 252,000            | 252,000           | 300,000            | 300,000           |
| <b>Total</b>   |                         | <b>\$ 252,249</b>  | <b>\$ 252,249</b> | <b>\$ 300,253</b>  | <b>\$ 300,253</b> |

The following methods and assumptions were used to estimate the fair value of the Company's classes of financial instruments measured on a recurring basis and other select financial instruments:

The fair value of the assets held in the funded deferred compensation plan is based on quoted market prices. The assets are included in Other assets on the accompanying consolidated balance sheets.

For investments in auction rate securities, fair value is based on discounted cash flow valuation models, primarily utilizing unobservable inputs. See Note 6, Auction Rate Securities, for the roll-forwards of assets measured at fair value using significant unobservable Level 3 inputs and the sensitivity analysis of significant inputs.

Cash and cash equivalents are stated at nominal value which equals fair value.





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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 London Interbank Offered Rate ( LIBOR ) forward rates at the end of the period. The fair value is then compared to a valuation received from an independent third-party. See Note 8, Line of Credit Facility.

Due to variable interest rates, the carrying value of outstanding borrowings under the Company's line of credit approximates its fair value. See Note 8, Line of Credit Facility.

The Company's non-financial assets and liabilities, which include goodwill and long lived assets held and used, are not required to be measured at fair value on a recurring basis. However, if certain trigger events occur, or if an annual impairment test is required, the Company would evaluate the non-financial assets and liabilities for impairment. If an impairment was to occur, the asset or liability would be recorded at the estimated fair value.

During the nine months ended July 31, 2012, the Company had no transfers of assets or liabilities between any of the above hierarchy levels.

**6. Auction Rate Securities**

As of July 31, 2012, the Company holds investments in auction rate securities from four different issuers having an original principal amount of \$5.0 million each (aggregating \$20.0 million). These auction rate securities are debt instruments with stated maturities ranging from 2033 to 2050, for which the interest rate is designed to be reset through Dutch auctions approximately every 30 days. Auctions for these securities have not occurred since August 2007. At July 31, 2012 and October 31, 2011, the estimated fair value of these securities, in total, was approximately \$16.7 million and \$15.7 million, respectively. As of July 31, 2012, three of the Company's auction rate securities, with an aggregate fair value of \$11.7 million, were in a continuous unrealized loss position for less than twelve months, and the remaining auction rate security, with a fair value of \$5.0 million, was not in an unrealized loss position. As of October 31, 2011, three of the Company's auction rate securities, with an aggregate fair value of \$10.7 million, were in a continuous unrealized loss position for more than twelve months, and the remaining auction rate security, with a fair value of \$5.0 million, was not in an unrealized loss position.

The Company estimates the fair values 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. 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 following table presents the significant assumptions used to determine the fair value of the Company's auction rate securities at July 31, 2012 and October 31, 2011:

| Assumptions            | July 31, 2012                 | October 31, 2011       |
|------------------------|-------------------------------|------------------------|
| Discount rates         | L + 2.34% - L + 10.52%        | L + 3.21% - L + 17.50% |
| Yields                 | 2.15%, L + 2.00 % - L + 3.50% | L + 2.00% - L + 3.50%  |
| Average expected lives | 4 - 10 years                  | 4 - 10 years           |

L - London Interbank Offered Rate

The fair value of the auction rate securities is affected most significantly by the changes in the average expected lives of the securities, but is also impacted by the discount rate used to adjust the outcomes to their present values. If the average expected lives of the securities increase or decrease, the fair value of the securities will decrease or increase accordingly, in amounts that will vary, based on the timing of the projected cash flows and the discount rate used to calculate the present value of the expected cash flows.

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The Company's determination of whether its auction rate securities are other-than-temporarily impaired 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 not to 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) available ratings for the 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.

The Company's determination of whether an other-than-temporary impairment ( OTTI ) 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 mono-line insurer, if any (which are based on published historical default rates of similar securities and consideration of current market trends); and (2) the expected life of the security (which represents the Company's view of when market efficiencies for securities may be restored). Adverse changes in any of these factors could result in additional declines in fair value and further other-than-temporary impairments in the future.

During the nine months ended July 31, 2012, the Company recorded an OTTI credit loss of \$0.3 million for one of its auction rate securities, driven primarily from a change in the expected values of cash flows to be received in the future. The Company had previously recognized an OTTI credit loss of \$1.7 million for this security as of the year ended October 31, 2011. The credit losses were 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 mono-line insurer, if any (which were based on published historical default rates of similar securities and consideration of current market trends); and (2) the expected life of the security (which represents the Company's view of when market efficiencies for securities may be restored). Adverse changes in any of these factors could result in additional declines in fair value and further other-than-temporary impairments 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 nine months ended July 31, 2012:

| (in thousands)   | Cost Basis       | Fair Value<br>(Level 3) |
|--|------------------|-------------------------|
| Balance at beginning of year                                       | \$ 18,307        | \$ 15,670               |
| Unrealized gains included in accumulated other comprehensive loss  |                  | 2,477                   |
| Unrealized losses included in accumulated other comprehensive loss |                  | (1,443)                 |
| Other-than-temporary credit losses recognized in earnings          | (313)            |                         |
| <b>Balance at July 31, 2012</b>                                    | <b>\$ 17,994</b> | <b>\$ 16,704</b>        |

At July 31, 2012 and October 31, 2011, unrealized losses of \$1.3 million (\$0.8 million net of taxes) and \$2.6 million (\$1.6 million net of taxes), respectively, were recorded in accumulated other comprehensive loss.

**7. Self-Insurance**

The Company self-insures certain insurable risks, such as workers' compensation, general liability, automobile and property damage. The Company periodically performs a thorough review, with the assistance of external professionals, of its estimate of the ultimate cost for self-insurance reserves. As part of this evaluation, the Company reviews the status of existing and new claims and coordinates this review with third-party claims administrators. The Company compares actual trends to expected trends and monitors claims developments. The third-party claims administrators that manage the claims for the Company project their estimates of the ultimate cost for each claim based upon known factors related to the management of the claims, legislative matters, and case law. After reviewing the findings with the Company, the specific case reserves estimated by the third-party claims administrators are provided to an actuary who assists the Company in projecting an actuarial estimate of the overall ultimate cost for self-insurance, which includes the case reserves plus an actuarial estimate of reserves required for additional developments, including incurred but not reported claim costs. The independent third-party's actuarial estimate of the reserves is reviewed by management and forms the basis for management's best estimate of the reserves, as recorded in the Company's financial statements.



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Although the Company engages third-party experts to assist in estimating appropriate self-insurance reserves, the determination of those reserves is dependent upon significant actuarial judgments that have a material impact on the Company's reserves. The interpretation of trends requires knowledge of many factors, which include, among others, changes in regulatory requirements, safety programs, and/or claims handling practices. If analyses of losses suggest that the frequency or severity of claims incurred has changed, the Company would be required to record increases or decreases in expenses for self-insurance liabilities.

Actuarial evaluations completed during the three months ended July 31, 2012, covering certain self-insurance programs of the Company, resulted in an increase in the self-insurance reserve of \$9.7 million, substantially all of which pertains to prior year claims. This adjustment was recorded in the Corporate segment. The increase was primarily related to higher than expected losses in general liability and workers compensation claims for years prior to fiscal 2012. During the fourth quarter of 2012, actuarial reports are expected to be completed for the Company's remaining programs using recent claims data and may result in additional adjustments to earnings during that period.

At July 31, 2012, the Company had \$96.9 million in standby letters of credit (primarily related to its workers' compensation, general liability, automobile, and property damage programs), \$31.7 million in restricted insurance deposits, and \$211.1 million in surety bonds (of which \$35.1 million supported insurance claim liabilities). At October 31, 2011, the Company had \$97.0 million in standby letters of credit, \$36.0 million in restricted insurance deposits, and \$231.5 million in surety bonds (of which \$30.9 million supported insurance claim liabilities).

### **8. Line of Credit Facility**

The Company holds a \$650.0 million five-year syndicated line of credit that is scheduled to expire on September 8, 2016 (the Facility). The Company has the option to increase the size of the Facility to \$850.0 million at any time prior to the expiration (subject to receipt of commitments for the increased amount from existing and new lenders). The Facility is available for working capital, the issuance of standby letters of credit, the financing of capital expenditures, and other general corporate purposes, including acquisitions. The Facility is inclusive of two sub-facilities: (1) up to \$50.0 million in swing line advances, and (2) up to \$300.0 million for letters of credit, for borrowing by the Company.

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 2011: (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 July 31, 2012.

As of July 31, 2012, the total outstanding amount under the Facility in the form of cash borrowings was \$252.0 million, which included \$2.0 million in swing line borrowings. Available credit under the line of credit was up to \$301.3 million at July 31, 2012. Available credit under the swing line credit facility was up to \$48.0 million and \$50.0 million at July 31, 2012 and October 31, 2011, respectively. The weighted average interest rate on the outstanding balance of the swing line credit facility was 1.66% at July 31, 2012. The Company's ability to draw down available amounts under its line of credit is subject to compliance with the covenants described above.

#### *Interest Rate Swap*

On October 19, 2010, the Company entered into a three-year forward starting interest rate swap agreement with an underlying notional amount of \$25.0 million, pursuant to which the Company receives variable interest payments based on LIBOR and pays fixed interest at a rate of 0.89%. The effective date of this hedge was February 24, 2011. This swap is intended to hedge the interest risk associated with the Company's forecasted floating-rate, LIBOR-based debt.

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. The Company includes its own credit risk for financial instruments deemed liabilities and counterparty credit risks for financial instruments deemed assets when measuring the fair value of derivative financial instruments. For derivative instruments designated as cash flow hedges, the effective portion of the derivative's mark-to-market gain or loss is initially reported as a component of accumulated other comprehensive income (loss) (AOCI) and subsequently reclassified into earnings when the hedged transactions occur and affect earnings. Interest payable and receivable under the swap agreement is accrued and recorded as an adjustment to interest expense.

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As of July 31, 2012 and October 31, 2011, the fair value of the interest rate swap was a liability of \$0.2 million and \$0.3 million, respectively, which were included in Retirement plans and other on the accompanying consolidated balance sheets. The amount included in accumulated other comprehensive loss was \$0.2 million (\$0.1 million, net of taxes) and \$0.3 million (\$0.2 million, net of taxes) at July 31, 2012 and October 31, 2011, respectively.

Unrealized net losses related to the interest rate swap contract which are expected to be reclassified from AOCI to earnings during the next 12 months were \$0.2 million at July 31, 2012.

The following tables set forth the effect of the Company's interest rate swap contract on the consolidated financial statements for the three and nine months ended July 31, 2012 and 2011:

| Derivatives designated as cash<br>flow hedging relationships | Amount of loss recognized in AOCI on derivative<br>(effective portion) (in thousands) |          |                           |          |
|--|---|----------|---------------------------|----------|
|  | Three months ended July 31  |          | Nine months ended July 31 |          |
|  | 2012  | 2011     | 2012                      | 2011     |
| Interest rate swap   | \$ (49)   | \$ (354) | \$ (117)                  | \$ (108) |

| Location of loss reclassified<br>from AOCI into income (effective portion) | Amount of loss reclassified from AOCI into income<br>(effective portion) (in thousands) |         |                           |          |
|--|---|---------|---------------------------|----------|
|  | Three months ended July 31  |         | Nine months ended July 31 |          |
|  | 2012  | 2011    | 2012                      | 2011     |
| Interest expense   | \$ (42)   | \$ (45) | \$ (121)                  | \$ (395) |

**9. Benefit Plans**

The components of net periodic benefit cost of the Company's defined benefit plans and post-retirement benefit plans attributable to participants associated with continuing operations for the three and nine months ended July 31, 2012 and 2011 were as follows:

| (in thousands)                       | Three Months Ended<br>July 31, |       | Nine Months Ended<br>July 31, |        |
|--------------------------------------|--------------------------------|-------|-------------------------------|--------|
|                                      | 2012                           | 2011  | 2012                          | 2011   |
| <b>Defined Benefit Plans</b>         |                                |       |                               |        |
| Service cost                         | \$ 12                          | \$ 12 | \$ 36                         | \$ 35  |
| Interest                             | 124                            | 142   | 372                           | 427    |
| Expected return on plan assets       | (122)                          | (93)  | (365)                         | (280)  |
| Amortization of actuarial losses     | 24                             | 29    | 73                            | 86     |
| Net expense                          | \$ 38                          | \$ 90 | \$ 116                        | \$ 268 |
| <b>Post-Retirement Benefit Plans</b> |                                |       |                               |        |
| Service cost                         | \$ 3                           | \$ 3  | \$ 9                          | \$ 10  |
| Interest                             | 62                             | 64    | 185                           | 192    |
| Net expense                          | \$ 65                          | \$ 67 | \$ 194                        | \$ 202 |

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**Table of Contents****10. Contingencies**

The Company is subject to legal proceedings, settlements, class actions, and purported class actions arising from the ordinary course of business, generally including employment-based claims and customer contract claims. Litigation outcomes are difficult to predict and are often 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. In accordance with FASB Accounting Standards Codification 450-20, *Loss Contingencies*, the Company accrues for loss contingencies when losses become probable and are 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. At July 31, 2012, the total amount accrued for all probable litigation losses where a reasonable estimate of the loss could be made was \$6.9 million.

The Company does not accrue for contingent losses that, in the judgment of the Company, are considered to be reasonably possible but not probable. Management currently estimates that the range of loss for all reasonably possible losses for which an estimate can be made is between \$0 and \$92.3 million, including \$89.7 million related to the Augustus case noted below. Factors underlying this estimate will change from time to time, and actual results may vary significantly from this estimate. Those matters for which the Company cannot reasonably estimate potential losses are not included within this estimated range and, therefore, this range does not represent the Company's maximum potential loss exposure. The ultimate resolution of such matters is always uncertain, and any such proceeding brought against the Company could have a material adverse impact on its financial condition and results of operations.

There have been no significant changes to the cases disclosed in Note 11 in the Company's Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended October 31, 2011, except as described below.

The Company is a defendant in the previously reported consolidated cases of Augustus, Hall and Davis v. American Commercial Security Services filed on July 12, 2005 in the Superior Court of California, Los Angeles County (the Augustus case). The Augustus case is a class action involving allegations that the Company violated certain state laws relating to meal and rest breaks. As previously disclosed, the plaintiffs filed a motion for summary judgment on the rest break claim seeking damages in the amount of \$103.0 million. On July 6, 2012, the Superior Court of California, Los Angeles County (the Superior Court) heard plaintiffs' motion for damages on the rest break claim and the Company's motion to decertify the class. The Superior Court denied the Company's motion and awarded plaintiffs damages. On July 31, 2012, the Superior Court entered judgment in favor of plaintiffs in the amount of approximately \$89.7 million, which is included in the range of loss for all reasonably possible losses noted above. This amount does not include plaintiffs' counsel's fees. The Company strongly disagrees with the decisions of the Superior Court, firmly believes that it has complied with applicable law, and intends to vigorously appeal these decisions.

The Company was a defendant in the previously reported consolidated cases of Diaz/Morales/Reyes v. Ampco System Parking filed on December 5, 2006 in Los Angeles Superior Court (the Superior Court). On June 22, 2011, the parties accepted a mediator's proposal which involves settling all the claims made in the first amended complaint for the period of October 1, 2002 to the date on which the Superior Court grants preliminary approval of the settlement. The Superior Court granted its preliminary approval of the settlement on December 13, 2011. On January 27, 2012, the notice to the class of the settlement was mailed. The Superior Court approved the final settlement on May 21, 2012. Settlement funds totaling approximately \$3.2 million, including payments to plaintiff's attorneys, were disbursed in late May 2012.

The Company is a defendant in the previously reported case of Khadera v. American Building Maintenance Co.- West and ABM Industries filed on March 24, 2008 in the U.S. District Court of Washington, Western District (the Khadera case). The Khadera case is a collective action and involves allegations relating to unpaid overtime and meal and rest claims. It is an opt-in class under the Fair Labor Standards Act and 343 plaintiffs are in the class. On March 14, 2012, the parties accepted a mediator's proposal and settled this matter for \$1.8 million, which includes payments to plaintiffs' attorneys. The settlement is subject to the District Court's approval of the settlement and the state court's approval of the settlement in the companion Simpson case discussed below. The Company has accrued \$1.8 million with respect to this matter, which is included in the total amount accrued for all litigation matters described above.

The Company is a defendant in the previously reported case of Simpson v. ABM Janitorial Services-Northwest and ABM Industries Incorporated filed on September 24, 2010 in the Superior Court for the State of Washington in and for King County (the Simpson case). The Simpson case involves allegations relating to unpaid overtime, off-the-clock work, and failure to provide meal and rest periods under Washington state law. On March 14, 2012, the parties accepted a mediator's proposal and settled this matter for \$1.2 million, which includes payments to plaintiffs' attorneys. The settlement is subject to the State Court's approval of the settlement and the District Court's approval of the settlement in the Khadera companion case. The Company has accrued \$1.2 million with respect to this matter, which is included in the total amount accrued for all litigation matters described above.





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The Company is a defendant in the case of *Las and Yanez v. ABM Industries Incorporated, et al.* filed on April 6, 2011 in Illinois state court and subsequently removed to the U.S. District Court for the Northern District of Illinois (the *Las/Yanez case*). The *Las/Yanez case* involves allegations relating to unpaid overtime and off-the-clock work under federal and state law. It was filed as a collective action, but has not been certified as a class action or collective action. On May 4, 2012, the parties accepted a mediator's proposal, which involves settling all the claims made in the operative complaint for the period of April 6, 2008 through May 7, 2012, subject to court approval. Under the terms of the proposed settlement, the gross settlement value ( GSV ) is the total agreed-upon value of the claims of all settlement class members in the *Las/Yanez case* assuming that 100% of the settlement class members were to submit a claim. The parties have agreed that the GSV is equal to \$5.5 million, less certain costs and payments to the named plaintiffs in this action. Under the terms of the proposed settlement, in the event that more than 30% of the settlement class, measured by the aggregate value of their claims in relation to the GSV, submits claims, the Company has the option to terminate the settlement agreement. The Company currently anticipates that payments to members of the settlement class who properly submit claims, together with payments to plaintiffs' attorneys, will total approximately \$2.1 million and that the Company's maximum exposure would be approximately \$2.9 million. The Company has accrued \$2.1 million with respect to this matter, which is included in the total amount accrued for all litigation matters described above.

The Company is a defendant in the case of *Bojorquez v. ABM Industries Incorporated and ABM Janitorial Services Northern California, Inc.* filed on January 13, 2010, in the San Francisco Superior Court (the *Superior Court*). Plaintiff brought suit for sexual harassment, retaliation, and failure to prevent harassment and discrimination. On May 17, 2012, a jury awarded the plaintiff approximately \$0.8 million in damages. The Company anticipates that the plaintiff also will file an application for attorneys' fees and costs with the Superior Court. The Company intends to appeal this decision.

### *Other*

During October 2011, the Company began an internal investigation into matters relating to compliance with the U.S. Foreign Corrupt Practices Act and the Company's internal policies in connection with services provided by a foreign entity affiliated with a former Linc joint venture partner. Such services commenced prior to the Linc Acquisition. As a result of the investigation, the Company has caused Linc to terminate its association with the arrangement. In December 2011, the Company contacted the U.S. Department of Justice and the Securities and Exchange Commission to voluntarily disclose the results of its internal investigation to date. The Company cannot reasonably estimate the potential liability, if any, related to these matters. However, based on the facts currently known, the Company does not believe that these matters will have a material adverse effect on its business, financial condition, results of operations or cash flows. There have been no significant changes to the status of this internal investigation during the quarter ended July 31, 2012.

In June 2012, the Company settled certain matters arising under a contract related to a prior divestiture and, in connection therewith, made a payment of \$1.8 million to the other party to the contract primarily in exchange for a release from certain restrictive covenants.

**Table of Contents****11. Comprehensive Income**

The following table presents the components of comprehensive income for the three and nine months ended July 31, 2012 and 2011:

| (in thousands)   | Three Months Ended<br>July 31, |           | Nine Months Ended<br>July 31, |           |
|--|--------------------------------|-----------|-------------------------------|-----------|
|  | 2012                           | 2011      | 2012                          | 2011      |
| <b>Net income</b>  | \$ 12,577                      | \$ 27,875 | \$ 34,919                     | \$ 50,456 |
| Other comprehensive income:  |                                |           |                               |           |
| Unrealized (losses) gains on auction rate securities                   | (1,290)                        | (355)     | 1,034                         | (23)      |
| Reclass adjustment for credit losses recognized in earnings            |                                |           | 313                           |           |
| Unrealized (losses) gains on interest rate swap agreement              | (7)                            | (309)     | 4                             | 287       |
| Foreign currency translation   | (155)                          | (41)      | (86)                          | 545       |
| Actuarial gains adjustments to pension and other post-retirement plans | 24                             | 16        | 73                            | 49        |
| Income tax benefit (expense) related to other comprehensive income     | 522                            | 265       | (583)                         | (127)     |
| <b>Comprehensive income</b>  | \$ 11,671                      | \$ 27,451 | \$ 35,674                     | \$ 51,187 |

**12. Income Taxes**

The effective tax rates on income from continuing operations for the three months ended July 31, 2012 and 2011 were 41.3% and 26.1%, respectively. The effective tax rates on income from continuing operations for the nine months ended July 31, 2012 and 2011 were 38.8% and 32.2%, respectively. The tax provision for the three and nine months ended July 31, 2011 included a tax benefit of \$4.7 million related to a re-measurement of certain unrecognized tax benefits. Additionally, the effective tax rate for the three and nine months ended July 31, 2012 increased due to the expiration of employment based tax credits as of December 31, 2011. At July 31, 2012, the Company had unrecognized tax benefits of \$96.7 million, all of which, if recognized in the future, would impact its effective tax rate. Approximately \$0.8 million of the Company's unrecognized tax benefits has been recognized as a current liability. The Company includes interest and penalties related to unrecognized tax benefits in income tax expense. As of July 31, 2012, the Company had accrued interest related to uncertain tax positions of \$1.4 million. The Company estimates that a decrease in unrecognized tax benefits up to approximately \$8.7 million is reasonably possible over the next twelve months.

The Company's major tax jurisdiction is the United States. U.S. federal income tax returns for ABM, OneSource Services, Inc., and the Linc entities that are taxable as corporations, remain open for examination for the periods ending October 31, 2006 through October 31, 2011, March 31, 2000 through November 14, 2007, and December 31, 2008 through December 31, 2010, respectively. ABM is currently being examined by the Internal Revenue Service ( IRS ) for the tax years 2006 through 2008. The Company does business in all 50 states, significantly in California, Texas, and New York, as well as in various foreign jurisdictions. In major state jurisdictions, the tax years 2007 through 2011 remain open and subject to examination by appropriate tax authorities. The Company is currently being examined by the state taxing authorities in Illinois, Michigan, Utah, New Jersey, Massachusetts and Texas, and by the Commonwealth of Puerto Rico.

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

During the three months ended January 31, 2012, the Company changed the name of its Engineering segment to Facility Solutions to better reflect the variety of end-to-end integrated facility services, building operation and maintenance, and bundled energy solution services provided to its clients. The Company is organized into four reportable operating segments, Janitorial, Facility Solutions, Parking and Security, which are summarized as follows:

| (in thousands)  | Three Months Ended<br>July 31, |              | Nine Months Ended<br>July 31, |              |
|---|--------------------------------|--------------|-------------------------------|--------------|
|   | 2012                           | 2011         | 2012                          | 2011         |
| <b>Revenues</b>   |                                |              |                               |              |
| Janitorial  | \$ 602,459                     | \$ 598,697   | \$ 1,790,246                  | \$ 1,783,557 |
| Facility Solutions  | 229,903                        | 236,213      | 686,226                       | 658,058      |
| Parking   | 154,980                        | 153,323      | 461,110                       | 462,316      |
| Security  | 91,602                         | 87,736       | 272,474                       | 260,630      |
| Corporate and other   | 291                            | 278          | 208                           | 938          |
|   | \$ 1,079,235                   | \$ 1,076,247 | \$ 3,210,264                  | \$ 3,165,499 |
| <b>Operating profit</b>   |                                |              |                               |              |
| Janitorial  | \$ 34,850                      | \$ 40,144    | \$ 98,852                     | \$ 104,942   |
| Facility Solutions  | 8,785                          | 9,878        | 21,531                        | 24,170       |
| Parking   | 7,768                          | 7,171        | 18,610                        | 16,799       |
| Security  | 2,962                          | 2,813        | 4,819                         | 5,011        |
| Corporate and other   | (31,192)                       | (19,273)     | (83,980)                      | (66,774)     |
| <b>Operating profit</b>   | 23,173                         | 40,733       | 59,832                        | 84,148       |
| Other-than-temporary impairment credit losses on auction rate security recognized in earnings |                                |              | (313)                         |              |
| Income from unconsolidated affiliates, net  | 747                            | 1,166        | 5,380                         | 2,785        |
| Interest expense  | (2,407)                        | (4,114)      | (7,682)                       | (12,477)     |
| <b>Income from continuing operations before income taxes</b>                                  | \$ 21,513                      | \$ 37,785    | \$ 57,217                     | \$ 74,456    |

Most Corporate expenses are not allocated. Such expenses generally include current actuarial developments of self-insurance reserves relating to claims incurred in prior years, certain legal costs and settlements, certain information technology costs, share-based compensation costs, branding initiative costs, direct acquisition costs, severance costs associated with acquisitions, and certain chief executive officer and other finance and human resource department costs.

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

The following discussion of the financial condition and results of operations of ABM Industries Incorporated ( "ABM" ) and its subsidiaries (collectively the "Company" ) should be read in conjunction with the unaudited consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and 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, 2011 (the "Annual Report" ), which has been filed with the Securities and Exchange Commission, or ( "SEC" ).

**Business Overview**

The Company is a leading provider of end-to-end integrated facilities management services to commercial, governmental, industrial, institutional, residential, and retail facilities primarily throughout the United States. The Company's comprehensive capabilities include expansive facility services, energy solutions, commercial cleaning, maintenance and repair, HVAC, electrical, landscaping, parking and security, provided through stand-alone or integrated solutions. The Company's business is impacted by, among other things, commercial and government office building occupancy and rental rates, government spending for outsourced services, industrial activity, air travel levels, tourism, and transportation needs at colleges, universities, and health care service facilities.

**Strategy and Outlook**

The Company expects to continue to grow organically and through further domestic and international acquisitions in response to the perceived growing client demand for a global integrated facility service provider. The Company believes that achieving the desired long-term growth 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, make successful acquisitions (while maintaining a target leverage ratio), and keep overall costs low. Additionally, the Company continues to assess the impact that the annual federal budget and U.S. Government policy and strategy changes will have on its government clients. The Company plans to remain competitive by, among other things, expanding its presence in key vertical markets where it has built technical expertise, know-how, and client relationships, as well as differentiating services by leveraging investments made in technology and infrastructure.

**Summary of Key Financial Performance Indicators**

During the second half of 2011 and continuing throughout 2012, the U.S. economy was weaker than originally anticipated resulting in price compressions and certain contract losses from the Company's clients. Further, a significant portion of the Company's revenues are generated from contracts with the U.S. Government. The Company is continually assessing the potential impact that the size, composition, and timing of congressional approval of the annual federal budget will have on its government clients. In addition, the Company monitors and assesses the potential impact of U.S. Government policy and strategy changes on its government clients. While the volume of bid activity and request for proposals for future awards remains active, the Company's government business has experienced and may continue to experience delays in new contract awards and in the start dates of currently awarded contracts or early termination of existing contracts. These factors, along with higher unemployment insurance expense, the accrual of certain legal settlement costs, and increased self-insurance expense, have negatively impacted the Company's operating results in 2012.

The Company self-insures certain insurable risks, such as workers' compensation, general liability, automobile, and property damage. The Company periodically performs a thorough review, with the assistance of external professionals, of its estimate of the ultimate cost for self-insurance reserves. As part of this evaluation, the Company reviews the status of existing and new claims and coordinates this review with third-party claims administrators. The Company compares actual trends to expected trends and monitors claims developments. The third-party claims administrators that manage the claims for the Company project their estimates of the ultimate cost for each claim based upon known factors related to the management of the claims, legislative matters, and case law. After reviewing the findings with the Company, the specific case reserves estimated by the third-party claims administrators are provided to an actuary who assists the Company in projecting an actuarial estimate of the overall ultimate cost for self-insurance, which includes the case reserves plus an actuarial estimate of reserves required for additional developments, including incurred but not reported claim costs. The independent third-party's actuarial estimate of the reserves is reviewed by management and forms the basis for management's best estimate of the reserves, as recorded in the Company's financial statements.

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Although the Company engages third-party experts to assist in estimating appropriate self-insurance reserves, the determination of those reserves is dependent upon significant actuarial judgments that have a material impact on the Company's reserves. The interpretation of trends requires knowledge of many factors, which include, among others, changes in regulatory requirements, safety programs, and/or claims handling practices. If analyses of losses suggest that the frequency or severity of claims incurred has changed, the Company would be required to record increases or decreases in expenses for self-insurance liabilities.

During 2012, the Company noticed the effects of unfavorable developments in general liability and worker's compensation claims for years prior to fiscal 2012. General liability claims related to earlier policy years experienced losses significantly higher than were previously estimated as a result of a large increase in known claims for older accident periods. Workers' compensation expense was unfavorable in California and other states where the Company has a significant presence. Specifically, in California, workers' compensation claims were favorable for older years, but adverse for more current years, primarily due to California's general economic and workers' compensation environment. After analyzing the historical loss development patterns, comparing the loss development against benchmarks, and applying actuarial projection methods, the Company increased its expected losses for prior year claims, which resulted in an increase in the related self-insurance reserves of \$9.5 million during the three months ended July 31, 2012, that was recorded in the Corporate segment. During the fourth quarter of 2012, actuarial reports are expected to be completed for the Company's remaining programs using recent claims data and may result in additional adjustments to earnings during that period.

The Company's total revenue increased by \$3.0 million, or 0.3%, to \$1,079.2 million in the three months ended July 31, 2012, as compared to \$1,076.2 million in the three months ended July 31, 2011. The increase in revenues was driven by higher sales in the Security, Janitorial and Parking segments, partially offset by the continuing impact of price compressions, and revenue declines in the Facility Solutions segment. The decrease in the Facility Solutions segment was primarily related to lower government revenues due to the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year, partially offset by higher ABM Building and Energy Solutions ( ABES ) revenues as a result of new contracts.

The Company's total revenue increased by \$44.8 million, or 1.4%, to \$3,210.3 million in the nine months ended July 31, 2012, as compared to \$3,165.5 million in the nine months ended July 31, 2011. The increase in revenues was primarily related to revenues associated with the acquisition of The Linc Group, LLC, which was acquired on December 1, 2010 (the Linc Acquisition ).

Operating profit decreased by \$17.5 million, or 43.1%, from \$40.7 million in the three months ended July 31, 2011 to \$23.2 million in the three months ended July 31, 2012, and decreased by \$24.3 million, or 28.9%, from \$84.1 million in the nine months ended July 31, 2011 to \$59.8 million in the nine months ended July 31, 2012. The decrease was primarily related to an increase in self-insurance expense related to prior year claims as a result of actuarial valuations completed in the three months ended July 31, 2012 and higher payroll and payroll related expenses. The decrease in operating profit was also related to higher legal settlement costs, and the continuing impact of price compressions and contract losses, including the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year.

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 quality and timing of collections of accounts receivable and payments to suppliers and other vendors; the timing and amount of income tax payments; and the timing and amount of payments on self-insured claims. Operating cash flows are also impacted by receivables relating to government contracts, as these receivables generally have longer collection periods. The Company's net cash provided by continuing operating activities was \$82.2 million and \$82.6 million, for the nine months ended July 31, 2012 and 2011, respectively.

**Table of Contents****Results of Operations****Three Months Ended July 31, 2012 vs. Three Months Ended July 31, 2011**

| (\$ in thousands)                                     | Three Months Ended<br>July 31, |              | Increase /<br>(Decrease) |         |
|---|--------------------------------|--------------|--------------------------|---------|
|   | 2012                           | 2011         | \$                       | %       |
| <b>Revenues</b>                                       | \$ 1,079,235                   | \$ 1,076,247 | \$ 2,988                 | 0.3%    |
| <b>Expenses</b>                                       |                                |              |                          |         |
| Operating   | 971,628                        | 952,844      | 18,784                   | 2.0%    |
| <i>Gross margin as a % of revenues</i>                | <i>10.0%</i>                   | <i>11.5%</i> | <i>(1.5)%</i>            |         |
| Selling, general and administrative                   | 79,100                         | 76,356       | 2,744                    | 3.6%    |
| <i>As a % of revenues</i>                             | <i>7.3%</i>                    | <i>7.1%</i>  | <i>0.2%</i>              |         |
| Amortization of intangible assets                     | 5,334                          | 6,314        | (980)                    | (15.5)% |
| Total expenses  | 1,056,062                      | 1,035,514    | 20,548                   | 2.0%    |
| Operating profit                                      | 23,173                         | 40,733       | (17,560)                 | (43.1)% |
| Income from unconsolidated affiliates, net            | 747                            | 1,166        | (419)                    | (35.9)% |
| Interest expense                                      | (2,407)                        | (4,114)      | (1,707)                  | (41.5)% |
| Income from continuing operations before income taxes | 21,513                         | 37,785       | (16,272)                 | (43.1)% |
| Provision for income taxes                            | (8,887)                        | (9,874)      | (987)                    | (10.0)% |
| Income from continuing operations                     | 12,626                         | 27,911       | (15,285)                 | (54.8)% |
| Loss from discontinued operations, net of taxes       | (49)                           | (36)         | 13                       | (36.1)% |
| <b>Net income</b>                                     | \$ 12,577                      | \$ 27,875    | \$ (15,298)              | (54.9)% |

**Revenues**

The Company's total revenue increased by \$3.0 million, or 0.3%, to \$1,079.2 million in the three months ended July 31, 2012, as compared to \$1,076.2 million in the three months ended July 31, 2011. The increase in revenues was driven by higher sales in the Security, Janitorial and Parking segments, partially offset by the continuing impact of price compressions, and a decline in the Facility Solutions segment revenues. The decrease in revenues in the Facility Solutions segment was primarily related to lower government revenues due to the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year, partially offset by higher ABES revenues as a result of new contracts.

**Operating Expenses**

Operating expenses increased by \$18.8 million, or 2.0%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. As a percentage of revenues, gross margin decreased by 1.5%, from 11.5% in the three months ended July 31, 2011 to 10.0% in the three months ended July 31, 2012. The decrease in gross margin was primarily related to an increase in self-insurance expenses, primarily related to prior year claims as a result of actuarial valuations completed in the three months ended July 31, 2012, and an increase in payroll and payroll related expenses, including the impact of one additional working day in the current quarter. The decrease was also related to the continuing impact of price compressions and contract losses, including the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$2.7 million, or 3.6%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. As a percentage of revenues, selling, general and administrative expenses slightly increased by 0.2%, from 7.1% in the three months ended July 31, 2011 to 7.3% in the three months ended July 31, 2012. The increase in selling, general and administrative expenses was primarily related to the absence of a \$2.7 million settlement received in the prior year quarter, related to a dispute

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that arose in connection with the L&R acquisition, and a \$1.8 million settlement paid in the current quarter in exchange for a release from certain restrictive covenants in connection with a contract related to a prior divestiture. The increase in selling, general and administrative expenses was partially offset by the impact of companywide cost control measures.

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***Amortization of Intangible Assets***

Amortization of intangible assets decreased by \$1.0 million, or 15.5%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. The decrease was primarily related to certain intangible assets being amortized using the sum-of-the-years -digits method, which results in declining amortization expense over the assets' useful life.

***Interest Expense***

Interest expense decreased by \$1.7 million, or 41.5%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. The decrease was primarily related to a decrease in average borrowings and average interest rates under the Facility. The average outstanding balances under the Company's line of credit facility (the Facility) were \$283.0 million and \$373.5 million in the three months ended July 31, 2012 and 2011, respectively.

***Provision for Income Taxes***

The effective tax rates on income from continuing operations for the three months ended July 31, 2012 and 2011 were 41.3% and 26.1%, respectively. The tax provision for the prior year quarter included a tax benefit of \$4.7 million related to a re-measurement of certain unrecognized tax benefits. Additionally, the effective tax rate for the three months ended July 31, 2012 increased due to the expiration of employment based tax credits as of December 31, 2011.



**Table of Contents****Segment Information**

During the three months ended January 31, 2012, the Company changed the name of its Engineering segment to Facility Solutions to better reflect the variety of end-to-end integrated facility services, building operation and maintenance, and bundled energy solution services provided to its clients. Segment revenues and operating profits for the three months ended July 31, 2012 and 2011 were as follows:

| (\$ in thousands)                          | Three Months Ended<br>July 31, |              | Increase /<br>(Decrease) |         |
|--|--------------------------------|--------------|--------------------------|---------|
|  | 2012                           | 2011         | \$                       | %       |
| <b>Revenues</b>                            |                                |              |                          |         |
| Janitorial                                 | \$ 602,459                     | \$ 598,697   | \$ 3,762                 | 0.6%    |
| Facility Solutions                         | 229,903                        | 236,213      | (6,310)                  | (2.7)%  |
| Parking                                    | 154,980                        | 153,323      | 1,657                    | 1.1%    |
| Security                                   | 91,602                         | 87,736       | 3,866                    | 4.4%    |
| Corporate and other                        | 291                            | 278          | 13                       | 4.7%    |
|  | \$ 1,079,235                   | \$ 1,076,247 | \$ 2,988                 | 0.3%    |
| <b>Operating profit</b>                    |                                |              |                          |         |
| Janitorial                                 | \$ 34,850                      | \$ 40,144    | \$ (5,294)               | (13.2)% |
| <i>Operating profit as a % of revenues</i> | 5.8%                           | 6.7%         | (0.9)%                   |         |
| Facility Solutions                         | 8,785                          | 9,878        | (1,093)                  | (11.1)% |
| <i>Operating profit as a % of revenues</i> | 3.8%                           | 4.2%         | (0.4)%                   |         |
| Parking                                    | 7,768                          | 7,171        | 597                      | 8.3%    |
| <i>Operating profit as a % of revenues</i> | 5.0%                           | 4.7%         | 0.3%                     |         |
| Security                                   | 2,962                          | 2,813        | 149                      | 5.3%    |
| <i>Operating profit as a % of revenues</i> | 3.2%                           | 3.2%         | 0.0%                     |         |
| Corporate and other                        | (31,192)                       | (19,273)     | (11,919)                 | (61.8)% |
| <b>Operating profit</b>                    | \$ 23,173                      | \$ 40,733    | \$ (17,560)              | (43.1)% |

**Janitorial**

| (\$ in thousands)                          | Three Months Ended<br>July 31, |            | Increase /<br>(Decrease) |         |
|--|--------------------------------|------------|--------------------------|---------|
|  | 2012                           | 2011       | \$                       | %       |
| Revenues                                   | \$ 602,459                     | \$ 598,697 | \$ 3,762                 | 0.6%    |
| Operating Profit                           | 34,850                         | 40,144     | (5,294)                  | (13.2)% |
| <i>Operating profit as a % of revenues</i> | 5.8%                           | 6.7%       | (0.9)%                   |         |

Janitorial revenues increased by \$3.8 million, or 0.6%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. The increase was primarily related to new business, partially offset by a reduction in tag work and the continuing impact of lost business and contract price compressions experienced in fiscal years 2011 and 2012.

Operating profit decreased by \$5.3 million, or 13.2%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. Operating profit margin decreased by 0.9%, from 6.7% in the three months ended July 31, 2011 to 5.8% in the three months ended July 31, 2012. The decrease in operating profit was primarily related to an increase in payroll and payroll related expenses, including the impact of one additional working day in the three months ended July 31, 2012. Also contributing to the decrease were higher self-insurance expenses, and the continuing impact of lost business and contract price compressions experienced in fiscal years 2011 and 2012. The decrease in operating profit was partially offset by a reduction in selling, general and administrative expenses due to cost control measures.

**Table of Contents****Facility Solutions**

| (\$ in thousands)                          | Three Months Ended<br>July 31, |             | Increase /<br>(Decrease) |         |
|--|--------------------------------|-------------|--------------------------|---------|
|  | 2012                           | 2011        | \$                       | %       |
| Revenues                                   | \$ 229,903                     | \$ 236,213  | \$ (6,310)               | (2.7)%  |
| Operating Profit                           | 8,785                          | 9,878       | (1,093)                  | (11.1)% |
| <i>Operating profit as a % of revenues</i> | <i>3.8%</i>                    | <i>4.2%</i> | <i>(0.4)%</i>            |         |

Facility Solutions revenues decreased by \$6.3 million, or 2.7%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. The decrease was primarily related to decreases in government revenues, due to the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year. The decrease in government revenues was partially offset by an increase in commercial facility services and ABES revenues as a result of new contracts, and \$2.0 million of additional revenue from the acquisition of TEGG Corporation on May 1, 2012, (the TEGG Acquisition).

Operating profit decreased by \$1.1 million, or 11.1%, during the three months ended July 31, 2012 compared to the three months ended July 31, 2011. Operating profit margins decreased by 0.4%, from 4.2% in the three months ended July 31, 2011 to 3.8% in the three months ended July 31, 2012. The decrease in operating profit margins was primarily related to the unfavorable margin impact as a result of the termination of certain U.S. Government contracts in Iraq and lower margins on certain new business contracts within the commercial facility services business. The decrease was partially offset by higher margins on increased ABES revenues and lower selling, general and administrative expenses due to cost control measures.

**Parking**

| (\$ in thousands)                          | Three Months Ended<br>July 31, |             | Increase /<br>(Decrease) |      |
|--|--------------------------------|-------------|--------------------------|------|
|  | 2012                           | 2011        | \$                       | %    |
| Revenues                                   | \$ 154,980                     | \$ 153,323  | \$ 1,657                 | 1.1% |
| Operating Profit                           | 7,768                          | 7,171       | 597                      | 8.3% |
| <i>Operating profit as a % of revenues</i> | <i>5.0%</i>                    | <i>4.7%</i> | <i>0.3%</i>              |      |

Parking revenues increased by \$1.7 million, or 1.1%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. The increase was primarily related to increased revenues from existing management reimbursement contracts and new business, partially offset by contract losses, including the termination of certain unprofitable contracts.

Operating profit increased by \$0.6 million, or 8.3%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. Operating profit margins improved by 0.3%, from 4.7% in the three months ended July 31, 2011 to 5.0% in the three months ended July 31, 2012. The increase was primarily related to improved operating margins on certain existing contracts, the termination of certain unprofitable contracts, and the impact of a favorable legal settlement in the current quarter.

**Security**

| (\$ in thousands)                          | Three Months Ended<br>July 31, |             | Increase /<br>(Decrease) |      |
|--|--------------------------------|-------------|--------------------------|------|
|  | 2012                           | 2011        | \$                       | %    |
| Revenues                                   | \$ 91,602                      | \$ 87,736   | \$ 3,866                 | 4.4% |
| Operating Profit                           | 2,962                          | 2,813       | 149                      | 5.3% |
| <i>Operating profit as a % of revenues</i> | <i>3.2%</i>                    | <i>3.2%</i> | <i>0.0%</i>              |      |

Security revenues increased by \$3.9 million, or 4.4%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011, primarily due to additional revenues from new business.



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Operating profit slightly increased by \$0.1 million, or 5.3%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011, primarily as a result of the increase in revenues. Operating profit margins remained flat at 3.2% in the three months ended July 31, 2012 and 2011.

***Corporate and other***

| (\$ in thousands)  | Three Months Ended<br>July 31, |             | Increase /<br>(Decrease) |         |
|--------------------|--------------------------------|-------------|--------------------------|---------|
|                    | 2012                           | 2011        | \$                       | %       |
| Corporate expenses | \$ (31,192)                    | \$ (19,273) | \$ (11,919)              | (61.8)% |

Corporate expenses increased by \$11.9 million, or 61.8%, in the three months ended July 31, 2012, as compared to the three months ended July 31, 2011. The increase in corporate expenses was primarily related to an increase in self-insurance expenses of \$8.4 million related to prior year claims as a result of actuarial valuations completed in the three months ended July 31, 2012. Also contributing to the increase in corporate expenses was the absence of a \$2.7 million settlement received in the prior year quarter, related to a dispute that arose in connection with the L&R acquisition, and a \$1.8 million settlement paid in the current quarter in exchange for a release from certain restrictive covenants in connection with a contract related to a prior divestiture.

**Table of Contents****Results of Operations*****Nine Months Ended July 31, 2012 vs. Nine Months Ended July 31, 2011***

| (\$ in thousands)   | Nine Months Ended<br>July 31, |              | Increase /<br>(Decrease) |         |
|---|-------------------------------|--------------|--------------------------|---------|
|   | 2012                          | 2011         | \$                       | %       |
| <b>Revenues</b>   | \$ 3,210,264                  | \$ 3,165,499 | \$ 44,765                | 1.4%    |
| <b>Expenses</b>   |                               |              |                          |         |
| Operating   | 2,885,964                     | 2,821,672    | 64,292                   | 2.3%    |
| <i>Gross margin as a % of revenues</i>  | <i>10.1%</i>                  | <i>10.9%</i> | <i>(0.8)%</i>            |         |
| Selling, general and administrative   | 248,284                       | 242,406      | 5,878                    | 2.4%    |
| <i>As a % of revenues</i>   | <i>7.7%</i>                   | <i>7.7%</i>  | <i>0.0%</i>              |         |
| Amortization of intangible assets   | 16,184                        | 17,273       | (1,089)                  | (6.3)%  |
| Total expense   | 3,150,432                     | 3,081,351    | 69,081                   | 2.2%    |
| Operating profit  | 59,832                        | 84,148       | (24,316)                 | (28.9)% |
| Other-than-temporary impairment credit losses on auction rate security recognized in earnings | (313)                         |              | (313)                    | NM*     |
| Income from unconsolidated affiliates, net  | 5,380                         | 2,785        | 2,595                    | 93.2%   |
| Interest expense  | (7,682)                       | (12,477)     | (4,795)                  | (38.4)% |
| Income from continuing operations before income taxes   | 57,217                        | 74,456       | (17,239)                 | (23.2)% |
| Provision for income taxes  | (22,204)                      | (23,940)     | (1,736)                  | (7.3)%  |
| Income from continuing operations   | 35,013                        | 50,516       | (15,503)                 | (30.6)% |
| Loss from discontinued operations, net of taxes   | (94)                          | (60)         | (34)                     | 56.7%   |
| Net income  | \$ 34,919                     | \$ 50,456    | \$ (15,537)              | (30.8)% |

\* Not Meaningful

***Revenues***

Revenues increased by \$44.8 million, or 1.4%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. The Company's increase in revenues was primarily related to revenues associated with the timing of the Linc Acquisition, which occurred on December 1, 2010, new business within the Janitorial and Security segments, and additional revenues from new ABES contracts. The increase in revenues was partially offset by the continuing impact of price compressions and the impact of contract losses, including the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year.

***Operating Expenses***

Operating expenses increased by \$64.3 million, or 2.3%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. As a percentage of revenues, gross margin decreased by 0.8%, from 10.9% in the nine months ended July 31, 2011 to 10.1% in the nine months ended July 31, 2012. The decrease in gross margin was primarily related to an increase in payroll and payroll related expenses, including higher federal and state unemployment insurance rates, and the impact of one additional working day in the nine months ended July 31, 2012. Also contributing to the decrease were higher self-insurance expenses, primarily related to prior year claims as a result of actuarial valuations completed in the three months ended July 31, 2012, and the continuing impact of price compressions and contract losses, including the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year.



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### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased by \$5.9 million, or 2.4%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. As a percentage of revenues, selling, general and administrative expenses remained flat at 7.7% in the nine months ended July 31, 2012 and 2011.

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

\$4.5 million higher expense associated with the settlement of certain legal cases;

\$3.3 million of legal fees and other costs associated with an internal investigation into a foreign entity previously affiliated with a joint venture;

the absence of a \$2.7 million settlement received in fiscal 2011, related to a dispute that arose in connection with the L&R acquisition;

\$2.1 million of costs associated with the Company's branding initiative; and

\$1.8 million settlement paid in exchange for a release from certain restrictive covenants in connection with a contract related to a prior divestiture;

partially offset by:

\$5.0 million reduction in acquisition transaction costs primarily related to the Linc Acquisition; and

\$2.3 million reductions in selling, general and administrative expenses primarily related to companywide cost control measures.

### ***Amortization of Intangible Assets***

Amortization of intangible assets decreased by \$1.1 million, or 6.3%, in the nine months ended July 31, 2012 as compared to the nine months ended July 31, 2011. The decrease was primarily related to certain intangible assets being amortized using the sum-of-the-years'-digits method, which results in declining amortization expense over the assets' useful life.

### ***Income from Unconsolidated Affiliates, Net***

Income from unconsolidated affiliates, net, increased by \$2.6 million, or 93.2%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. The increase was primarily related to the Company's share of a gain associated with property sales completed by one of its investments in a low income housing partnership.

### ***Interest Expense***

Interest expense decreased by \$4.8 million, or 38.4%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. The decrease was primarily related to a decrease in average borrowings and average interest rates under the Facility. The average outstanding balances under the Company's Facility were \$298.4 million and \$377.4 million in the nine months ended July 31, 2012 and 2011, respectively.

*Provision for Income Taxes*

The effective tax rates on income from continuing operations for the nine months ended July 31, 2012 and 2011 were 38.8% and 32.2%, respectively. The tax provision for the prior year included a tax benefit of \$4.7 million related to a re-measurement of certain unrecognized tax benefits. Additionally, the effective tax rate for the nine months ended July 31, 2012 increased due to the expiration of employment based tax credits as of December 31, 2011.



**Table of Contents****Segment Information**

During the three months ended January 31, 2012, the Company changed the name of its Engineering segment to Facility Solutions to better reflect the variety of end-to-end integrated facility services, building operation and maintenance, and bundled energy solution services provided to its clients. Segment revenues and operating profits for the nine months ended July 31, 2012 and 2011 were as follows:

| (\$ in thousands)                          | Nine Months Ended<br>July 31, |              | Increase /<br>(Decrease) |         |
|--|-------------------------------|--------------|--------------------------|---------|
|  | 2012                          | 2011         | \$                       | %       |
| <b>Revenues</b>                            |                               |              |                          |         |
| Janitorial                                 | \$ 1,790,246                  | \$ 1,783,557 | \$ 6,689                 | 0.4%    |
| Facility Solutions                         | 686,226                       | 658,058      | 28,168                   | 4.3%    |
| Parking                                    | 461,110                       | 462,316      | (1,206)                  | (0.3)%  |
| Security                                   | 272,474                       | 260,630      | 11,844                   | 4.5%    |
| Corporate and other                        | 208                           | 938          | (730)                    | (77.8)% |
|  | \$ 3,210,264                  | \$ 3,165,499 | \$ 44,765                | 1.4%    |
| <b>Operating profit</b>                    |                               |              |                          |         |
| Janitorial                                 | \$ 98,852                     | \$ 104,942   | \$ (6,090)               | (5.8)%  |
| <i>Operating profit as a % of revenues</i> | 5.5%                          | 5.9%         | (0.4)%                   |         |
| Facility Solutions                         | 21,531                        | 24,170       | (2,639)                  | (10.9)% |
| <i>Operating profit as a % of revenues</i> | 3.1%                          | 3.7%         | (0.6)%                   |         |
| Parking                                    | 18,610                        | 16,799       | 1,811                    | 10.8%   |
| <i>Operating profit as a % of revenues</i> | 4.0%                          | 3.6%         | 0.4%                     |         |
| Security                                   | 4,819                         | 5,011        | (192)                    | (3.8)%  |
| <i>Operating profit as a % of revenues</i> | 1.8%                          | 1.9%         | (0.1)%                   |         |
| Corporate and other                        | (83,980)                      | (66,774)     | (17,206)                 | (25.8)% |
| <b>Operating profit</b>                    | \$ 59,832                     | \$ 84,148    | \$ (24,316)              | (28.9)% |

**Janitorial**

| (\$ in thousands)                          | Nine Months Ended<br>July 31, |              | Increase /<br>(Decrease) |        |
|--|-------------------------------|--------------|--------------------------|--------|
|  | 2012                          | 2011         | \$                       | %      |
| Revenues                                   | \$ 1,790,246                  | \$ 1,783,557 | \$ 6,689                 | 0.4%   |
| Operating Profit                           | 98,852                        | 104,942      | (6,090)                  | (5.8)% |
| <i>Operating profit as a % of revenues</i> | 5.5%                          | 5.9%         | (0.4)%                   |        |

Janitorial revenues increased by \$6.7 million, or 0.4%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. The increase was primarily related to new business, including increases in tag work in the first half of fiscal 2012, and a reduction in the sales allowance reserve, primarily driven by sustained improvements in historical and expected credits on client receivables, partially offset by the continuing impact of lost business and contract price compressions experienced in fiscal years 2011 and 2012.

Operating profit decreased by \$6.1 million, or 5.8%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. Operating profit margins decreased by 0.4%, from 5.9% in the nine months ended July 31, 2011 to 5.5% in the nine months ended July 31, 2012. The decrease in operating profit was primarily related to higher payroll and payroll related expenses, including the impact of higher federal and state unemployment insurance rates, and the impact of one additional working day in the nine months ended July 31, 2012. Also contributing to the decrease in operating profit were higher legal expenses and the continuing impact of lost business and contract price compressions experienced in fiscal years 2011 and 2012. The decrease in operating profit was partially offset by lower selling, general and administrative expenses due to cost control measures.



**Table of Contents****Facility Solutions**

| (\$ in thousands)                          | Nine Months Ended<br>July 31, |             | Increase /<br>(Decrease) |         |
|--|-------------------------------|-------------|--------------------------|---------|
|  | 2012                          | 2011        | \$                       | %       |
| Revenues                                   | \$ 686,226                    | \$ 658,058  | \$ 28,168                | 4.3%    |
| Operating Profit                           | 21,531                        | 24,170      | (2,639)                  | (10.9)% |
| <i>Operating profit as a % of revenues</i> | <i>3.1%</i>                   | <i>3.7%</i> | <i>(0.6)%</i>            |         |

Facility Solutions revenues increased by \$28.2 million, or 4.3%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. The increase was primarily related to revenues associated with the timing of the Linc Acquisition which was acquired on December 1, 2010 and an increase in ABES revenues as a result of new contracts, partially offset by decreases in government revenues including the termination of certain U.S. Government contracts in Iraq earlier in the fiscal year.

Operating profit decreased by \$2.6 million, or 10.9%, in the nine months ended July 31, 2012, as compared to the nine months ended July 31, 2011. Operating profit margins decreased by 0.6%, from 3.7% in the nine months ended July 31, 2011 to 3.1% in the nine months ended July 31, 2012. The decrease in operating profit margin was primarily related to the unfavorable margin impact as a result of lower government revenues and lower margins on new business contracts within the commercial facility services. The decrease in operating profit was partially offset by higher margins on increased ABES revenues and lower selling, general and administrative expenses due to cost control measures.

**Parking**

| (\$ in thousands)                          | Nine Months Ended<br>July 31, |             | Increase /<br>(Decrease) |        |
|--|-------------------------------|-------------|--------------------------|--------|
|  | 2012                          | 2011        | \$                       | %      |
| Revenues                                   | \$ 461,110                    | \$ 462,316  | \$ (1,206)               | (0.3)% |
| Operating Profit                           | 18,610                        | 16,799      | 1,811                    | 10.8%  |
| <i>Operating profit as a % of revenues</i> | <i>4.0%</i>                   | <i>3.6%</i> | <i>0.4%</i>              |        |

Parking revenues decreased by \$1.2 million, or 0.3%, during the nine months ended July 31, 2012 compared to the nine months ended July 31, 2011. The decrease was primarily related to lost business, including the termination of certain unprofitable contracts, in excess of new business, partially offset by increased revenues from existing clients.

Operating profit increased \$1.8 million, or 10.8%, during the nine months ended July 31, 2012 compared to the nine months ended July 31, 2011. Operating profit margins increased by 0.4%, from 3.6% in the nine months ended July 31, 2011 to 4.0% in the nine months ended July 31, 2012. The increase in operating profit was primarily related to improved operating margins on certain existing contracts, the termination of certain unprofitable contracts, a reduction in payroll and payroll related expenses, and the impact of a favorable legal settlement in the current year.

**Security**

| (\$ in thousands)                          | Nine Months Ended<br>July 31, |             | Increase /<br>(Decrease) |        |
|--|-------------------------------|-------------|--------------------------|--------|
|  | 2012                          | 2011        | \$                       | %      |
| Revenues                                   | \$ 272,474                    | \$ 260,630  | \$ 11,844                | 4.5%   |
| Operating Profit                           | 4,819                         | 5,011       | (192)                    | (3.8)% |
| <i>Operating profit as a % of revenues</i> | <i>1.8%</i>                   | <i>1.9%</i> | <i>(0.1)%</i>            |        |

Security revenue increased \$11.8 million, or 4.5%, during the nine months ended July 31, 2012 compared to the nine months ended July 31, 2011. The increase was primarily related to additional revenues from new business that exceeded contract losses and increased revenues from existing customers.

Operating profit decreased by \$0.2 million, or 3.8%, during the nine months ended July 31, 2012 compared to the nine months ended July 31, 2011. Operating profit margins slightly decreased by 0.1%, from 1.9% in the nine months ended July 31, 2011 to 1.8% in the nine months ended

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July 31, 2012. The slight decrease was primarily related to increases in payroll and payroll related expenses, including higher federal and state unemployment insurance rates, partially offset by a reduction in selling, general and administrative expenses due to cost control measures.

**Table of Contents***Corporate and other*

| (\$ in thousands)  | Nine Months Ended<br>July 31, |             | Increase /<br>(Decrease) |         |
|--------------------|-------------------------------|-------------|--------------------------|---------|
|                    | 2012                          | 2011        | \$                       | %       |
| Corporate expenses | \$ (83,980)                   | \$ (66,774) | \$ (17,206)              | (25.8)% |

Corporate expenses increased by \$17.2 million, or 25.8%, during the nine months ended July 31, 2012 compared to the nine months ended July 31, 2011, primarily due to:

\$8.4 million increase in self-insurance expense related to prior year claims as a result of actuarial valuations completed in the three months ended July 31, 2012;

\$4.5 million higher expense associated with the settlement of certain legal cases;

\$3.3 million of legal fees and other costs associated with an internal investigation into a foreign entity previously affiliated with a joint venture;

the absence of a \$2.7 million settlement received in fiscal 2011, related to a dispute that arose in connection with the L&R acquisition;

\$2.1 million of costs associated with the Company's branding initiative; and

\$1.8 million settlement paid in exchange for a release from certain restrictive covenants in connection with a contract related to a prior divestiture;  
partially offset by:

\$5.0 million reduction in acquisition transaction costs primarily related to the Linc Acquisition.

**Table of Contents****Liquidity and Capital Resources**

| (in thousands)                                    | July 31,<br>2012 | October 31,<br>2011 | Change     |
|---|------------------|---------------------|------------|
| <b>Cash and cash equivalents</b>                  | \$ 21,650        | \$ 26,467           | \$ (4,817) |
| <b>Working capital</b>                            | 300,131          | 290,561             | 9,570      |
| <b>Working capital from continuing operations</b> | 299,664          | 288,569             | 11,095     |

| (in thousands)   | Nine Months Ended July 31, |           | Change     |
|--|----------------------------|-----------|------------|
|  | 2012                       | 2011      |            |
| <b>Net cash provided by operating activities</b>           | \$ 83,780                  | \$ 84,837 | \$ (1,057) |
| <b>Net cash used in investing activities</b>               | (27,220)                   | (302,565) | 275,345    |
| <b>Net cash (used in) provided by financing activities</b> | (61,377)                   | 217,896   | (279,273)  |

The Company believes that the cash generated from operations and amounts available under the Facility will be sufficient to fund the Company's operations and cash requirements in the foreseeable future. As of July 31, 2012, the total outstanding amounts under the Company's Facility in the form of cash borrowings and standby letters of credit were \$252.0 million and \$96.7 million, respectively. As of July 31, 2012, the total available credit under the Facility was \$301.3 million. The Company's ability to draw down available amounts under the Facility is subject to compliance with certain financial covenants, including covenants relating to a fixed charge coverage ratio, a leverage ratio, and consolidated net worth. In addition, other covenants under the Facility include limitations on liens, dispositions, fundamental changes, investments, and certain transactions and payments. As of July 31, 2012, the Company was in compliance with all financial covenants and expects to be in compliance in the foreseeable future.

**Working Capital**

Working capital increased by \$9.5 million, from \$290.6 million at October 31, 2011 to \$300.1 million at July 31, 2012. Excluding the effects of discontinued operations, working capital increased by \$11.1 million to \$299.7 million at July 31, 2012 from \$288.6 million at October 31, 2011. The increase in working capital was primarily driven by the timing of collections received from clients and payments made for prepaid expenses, partially offset by use of cash to pay down a portion of the outstanding borrowings under the Facility, and the timing of payments made for insurance claims, income taxes, and other accrued liabilities.

**Cash Flows from Operating Activities**

Net cash provided by operating activities decreased by \$1.0 million, from \$84.8 million at July 31, 2011 to \$83.8 million at July 31, 2012. The decrease was primarily related to the decrease in pre-tax income from continuing operations, partially offset by the timing of payments made for insurance claims, and collections received from clients. The timing of payments made for vendor invoices and other accrued liabilities also contributed to the decrease in net cash provided by operating activities.

**Cash Flows from Investing Activities**

Net cash used in investing activities decreased by \$275.4 million, from \$302.6 million at July 31, 2011 to \$27.2 million at July 31, 2012. The decrease in net cash used in investing activities is primarily related to \$290.3 million cash paid, net of cash acquired, for the Linc Acquisition in December 2010, partially offset by the redemption of an auction rate security of \$5.0 million in February 2011, and a period-over-period increase in property, plant and equipment in the amount of \$7.2 million.

**Cash Flows from Financing Activities**

Net cash used in financing activities was \$61.4 million at July 31, 2012 compared to net cash provided of \$217.9 million at July 31, 2011. The \$279.3 million decrease in cash flows for financing activities was primarily related to \$306.8 million of cash borrowed to finance the Linc Acquisition in fiscal 2011 and higher net payments made on the Company's Facility during the nine months ended July 31, 2012.

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### **Contingencies**

The Company is subject to legal proceedings, settlements, class actions, and purported class actions arising from the ordinary course of business, generally including employment-based claims and customer contract claims. Litigation outcomes are difficult to predict and are often 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. If the reasonable estimate of a potential 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. At July 31, 2012, the total amount accrued for all probable litigation losses where a reasonable estimate of the loss could be made was \$6.9 million.

The Company does not accrue for contingent losses that, in the judgment of the Company, are considered to be reasonably possible but not probable. Management currently estimates that the range of loss for all reasonably possible losses for which an estimate can be made is between \$0 and \$92.3 million, including \$89.7 million related to the Augustus case. Factors underlying this estimate will change from time to time, and actual results may vary significantly from this estimate. Those matters for which the Company cannot reasonably estimate potential losses are not included within this estimated range and, therefore, this range does not represent the Company's maximum potential loss exposure. The ultimate resolution of such matters is always uncertain, and any such proceeding brought against the Company could have a material adverse impact on its financial condition and results of operations.

For additional information about the Company's contingencies, see Notes to Unaudited Consolidated Financial Statements *Note 10. Contingencies*.

### **Critical Accounting Policies and Estimates**

The Company's accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Company to make estimates in the application of its accounting policies based on the best assumptions, judgments, and opinions of management. There have been no significant changes to the Company's critical accounting policies and estimates, including factors which might result in an impairment of goodwill associated with the Security segment in the future. 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 Annual Report on Form 10-K for the year ended October 31, 2011.

Additionally, effective January 1, 2012 the Company is self-insured for certain employee medical and dental programs. Although the Company engages third-party experts to assist in estimating appropriate self-insurance accounting reserves, the determination of those reserves is dependent upon significant actuarial judgments that have a material impact on the Company's reserves. Changes in the Company's insurance reserves, as a result of periodic evaluations of the related liabilities, may cause volatility in the Company's operating results in future periods.

### **Recent Accounting Pronouncements**

For information about recent accounting pronouncements, see Notes to Unaudited Consolidated Financial Statements *Note 2. Unaudited Interim Financial Information: Recent Accounting Pronouncements*.

### **Forward-looking Statements**

Certain statements contained 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 are forward-looking statements that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as believes, expects, may, will, should, or anticipates or the negative thereof or other variations thereon or comparable terminology in discussions of strategy that involve risks and uncertainties. These forward-looking statements involve predictions. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. The Company urges readers to consider those risks and uncertainties in evaluating its forward-looking statements. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Unless otherwise noted, all information in the discussion and references to years are based on the Company's fiscal year, which ends on October 31.





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There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements, including those factors set forth in Item 1A. Risk Factors in the Annual Report. These factors include but are not limited to the following:

we may not be able to achieve anticipated global growth due to various factors, including, but not limited to, an inability to make strategic acquisitions or compete internationally; our acquisition strategy may adversely impact our results of operations as we may not be able to achieve anticipated results from any given acquisition; and activities relating to integrating an acquired business may divert management's focus on operational matters;

we are subject to intense competition that can constrain our ability to gain business, as well as our profitability;

any increases in costs that we cannot pass on to clients could affect our profitability;

we have high deductibles for certain insurable risks, and, therefore are subject to volatility associated with those risks;

we primarily provide our services pursuant to agreements which are cancelable by either party upon 30 to 90 days' notice;

our success depends on our ability to preserve our long-term relationships with clients;

our international business exposes us to additional risks, including risks related to compliance with both U.S. and foreign laws;

we conduct some of our operations through joint ventures and our ability to do business may be affected by the failure of our joint venture partners to perform their obligations or the improper conduct of employees, joint venture partners or agents;

significant delays or reductions in appropriations for our government contracts as well as changes in government and clients priorities and requirements (including cost-cutting, the potential deferral of awards, reductions or termination of expenditures in response to the priorities of Congress and the Executive Office, or budgetary cuts) may negatively affect our business, and could have a material adverse effect on our financial position, results of operations or cash flows;

we incur significant accounting and other control costs that reduce profitability;

a decline in commercial office building occupancy and rental rates could negatively affect our revenues and profitability;

deterioration in economic conditions in general could further reduce the demand for facility services and, as a result, could reduce our earnings and adversely affect our financial condition;

financial difficulties or bankruptcy of one or more of our major clients could adversely affect our results;

our ability to operate and pay our debt obligations depends upon our access to cash;

future declines in the fair value of our investments in auction rate securities could negatively impact our earnings;

uncertainty in the credit markets may negatively impact our costs of borrowing, 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 negatively 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 a number of class and representative actions or other lawsuits alleging various claims that could cause us to incur substantial liabilities;

federal health care reform legislation may adversely affect our business and results of operations;

changes in immigration laws or enforcement actions or investigations under such laws could significantly adversely affect our labor force, operations and financial results;

labor disputes could lead to loss of revenues or expense variations;

we participate in multiemployer defined benefit plans which could result in substantial liabilities being incurred; and

natural disasters or acts of terrorism could disrupt services.

Additional information regarding these and other risks and uncertainties the Company faces is contained in the Annual Report and in other reports it files from time to time with the Securities and Exchange Commission.

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**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 variable rate based borrowings under the \$650.0 million five-year syndicated line of credit that expires in September 2016. At July 31, 2012, outstanding LIBOR- and IBOR-based borrowings of \$252.0 million represented 100% of the Company's total debt obligations. While these borrowings mature over the next 90 days, the line of credit extends through September 2016, 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 during 2012 would have added additional interest expense of \$2.1 million on the average outstanding borrowings under the Company's line of credit, net of the interest rate swap agreements, in the nine months ended July 31, 2012.

For additional information about the Company's line of credit, see Notes to Unaudited Consolidated Financial Statements *Note 8. Line of Credit Facility*.

*Interest Rate Swap*

On October 19, 2010, the Company entered into a three-year forward starting interest rate swap agreement with an underlying notional amount of \$25.0 million, pursuant to which the Company receives variable interest payments based on LIBOR and pays fixed interest at a rate of 0.89%. The effective date of this hedge was February 24, 2011. This swap is intended to hedge the interest risk associated with the Company's forecasted floating-rate, LIBOR-based debt.

As of July 31, 2012, the fair value of the interest rate swap was a \$0.2 million liability, which was included in Retirement plans and other on the accompanying unaudited consolidated balance sheet. The effective portion of this cash flow hedge is recorded within accumulated other comprehensive loss and reclassified into interest expense in the same period during which the hedged transactions affect earnings. The amount included in accumulated other comprehensive loss was \$0.2 million (\$0.1 million, net of taxes) at July 31, 2012.

For additional information about the Company's interest rate swap, see Notes to Unaudited Consolidated Financial Statements *Note 8. Line of Credit Facility: Interest Rate Swap*.

*Investment in Auction Rate Securities*

At July 31, 2012, the Company held investments in auction rate securities from four different issuers having an aggregate original principal amount of \$20.0 million. The investments are not subject to material interest rate risk. These auction rate securities are debt instruments with stated maturities ranging from 2033 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 during 2012 would have added approximately \$0.2 million of additional interest income in the nine months ended July 31, 2012.

During the nine months ended July 31, 2012, the Company recorded an additional other-than-temporary impairment ( OTTI ) credit loss of \$0.3 million for one of its auction rate securities, driven primarily by a change in the expected values of cash flows to be received in the future. The Company had previously recognized an OTTI credit loss of \$1.7 million for this security as of the year ended October 31, 2011.

For additional information about the Company's auction rate securities, see Notes to Unaudited Consolidated Financial Statements *Note 6. Auction Rate Securities*.

*Foreign Currency*

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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.

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**Item 4. Controls and Procedures**

***a. Disclosure Controls and Procedures***

As required by paragraph (b) of Rule 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 within the Company, if any, 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 July 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, other than the continued remediation of certain controls associated with the Linc Acquisition on December 1, 2010 and integration activities.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

A discussion of material developments in the Company's litigation occurring in the period covered by this report can be found in Note 10, Contingencies, to the unaudited consolidated financial statements in this Quarterly Report on Form 10-Q.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors identified in our Annual Report on Form 10-K for the year ended October 31, 2011, 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. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

|         |   |
|---------|---|
| 10.1*   | Executive Stock Option Plan, as amended and restated June 4, 2012.  |
| 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. |
| 101.INS | XBRL Report Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document   |

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101.DEF XBRL Taxonomy Definition Linkbase Document  
101.LAB XBRL Taxonomy Label Linkbase Document  
101.PRE XBRL Taxonomy Presentation Linkbase Document

\* Indicates management contract or compensatory plan, contract or arrangement  
Indicates filed herewith  
Indicates furnished herewith

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**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

September 6, 2012

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

September 6, 2012

/s/ Dean A. Chin  
Dean A. Chin  
Senior Vice President, Controller and Chief Accounting Officer  
(Principal Accounting Officer)