

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended October 31, 2004

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)

94-1369354

(IRS Employer Identification Number)

**160 Pacific Avenue, Suite 222,
San Francisco, California**

(Address of principal executive offices)

94111

(Zip Code)

Registrant's telephone number, including area code:

(415) 733-4000

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value
Preferred Stock Purchase Rights

New York Stock Exchange
New York Stock Exchange

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

None

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

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

As of April 30, 2004 (the last business day of registrant's most recently completed second fiscal quarter), non-affiliates of the registrant beneficially owned shares of the registrant's common stock with an aggregate market value of \$715,370,172, computed by reference to the price at which the common stock was last sold.

As of December 31, 2004, there were 49,279,156 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

ABM Industries Incorporated
Form 10-K
For the Fiscal Year Ended October 31, 2004

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PART I

ITEM 1. BUSINESS

ABM Industries Incorporated (“ABM”) is one of the largest facility services contractors listed on the New York Stock Exchange. With annual revenues in excess of \$2.4 billion and approximately 70,000 employees, ABM and its subsidiaries (the “Company”) provide janitorial, parking, security, engineering, lighting and mechanical services for thousands of commercial, industrial, institutional and retail facilities in hundreds of cities throughout the United States and in British Columbia, Canada.

ABM was reincorporated in Delaware on March 19, 1985, as the successor to a business founded in California in 1909. The corporate headquarters of the Company is located at 160 Pacific Avenue, Suite 222, San Francisco, California 94111, and the Company’s telephone number at that location is (415) 733-4000.

The Company’s Website is www.abm.com. Through a link on the Investor Relations section of the Company’s Website, the following filings and amendments to those filings are made available as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: (1) Annual Reports on Form 10-K, (2) Quarterly Reports on Form 10-Q, (3) Current Reports on Form 8-K and (4) filings by ABM’s directors and executive officers under Section 16(a) of the Securities Exchange Act of 1934 (the “Exchange Act.”) All such filings are available free of charge. The Company also makes available on its Website and in print to those who request them its Corporate Governance Guidelines, Code of Business Conduct & Ethics and the charters of its audit, compensation and governance committees.

Industry Information

The Company conducts business through a number of subsidiaries, which are grouped into seven segments based on the nature of the business operations. The operating subsidiaries within each segment generally report to the same senior management. Referred to collectively as the “ABM Family of Services,” at October 31, 2004 the seven segments were:

- Janitorial
- Parking
- Security
- Engineering
- Lighting
- Mechanical
- Facility Services

The Company also provided elevator services until August 15, 2003, on which date substantially all of the operating assets of Amtech Elevator Services, Inc., a wholly-owned subsidiary of ABM (“Amtech Elevator”), were sold to Otis Elevator Company, a wholly-owned subsidiary of United Technologies Corporation (“Otis Elevator”). See “Discontinued Operation” contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The business activities of the Company by industry segment, as they existed at October 31, 2004, are more fully described below.

• **Janitorial.** The Company performs janitorial services through a number of the Company’s subsidiaries, primarily operating under the names “ABM Janitorial Services,” “American Building Maintenance” and “ABM Lakeside Building Maintenance.” The Company provides a wide range of basic janitorial services for a variety of facilities, including commercial office buildings, industrial plants, financial institutions, retail stores, shopping centers, warehouses, airport terminals, health and educational facilities, stadiums and arenas, and government buildings. Services provided include floor cleaning and finishing, window washing, furniture polishing, carpet cleaning and dusting, as well as other building cleaning services. The Company’s Janitorial

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subsidiaries maintain 111 offices in 42 states, the District of Columbia and one Canadian province, and operate under thousands of individually negotiated building maintenance contracts, nearly all of which are obtained by competitive bidding. The Company's Janitorial contracts are either fixed-price agreements or "cost-plus" (*i.e.*, the customer agrees to reimburse the agreed upon amount of wages and benefits, payroll taxes, insurance charges and other expenses plus a profit percentage). Generally, profit margins on maintenance contracts tend to be inversely proportional to the size of the contract. In addition to services defined within the scope of the contract, the Company also generates sales from extra services, such as when the customer requires additional cleaning, with extra services frequently providing higher margins. The majority of Janitorial contracts are for one-year periods, but are subject to termination by either party after 30 to 90 days' written notice and contain automatic renewal clauses.

• **Parking.** The Company provides parking services through a number of subsidiaries, primarily operating under the names "Ampco System Parking," "Ampco System Airport Parking" and "Ampco Express Airport Parking." The Company's Parking subsidiaries maintain 29 offices and operate in 29 states. The Company operates approximately 1,700 parking lots and garages, including, but not limited to, the following airports: Austin, Texas; Buffalo, New York; Denver, Colorado; Honolulu, Hawaii; Minneapolis/ St. Paul, Minnesota; Omaha, Nebraska; Orlando, Florida; San Francisco and San Jose, California. The Company also operates off-airport parking facilities in Philadelphia, Pennsylvania; Houston, Texas; Los Angeles and San Diego, California, and operates 18 parking shuttle bus services. Approximately 40% of the lots and garages are leased and 60% are operated through management contracts for third parties. The lease terms generally range from three to 20 years and provide for payment of a fixed amount of rent, plus a percentage of revenue. The leases usually contain provisions for renewal options and may be terminated by the customer for various reasons including development of the real estate. Leases which expire may continue on a month-to-month basis. Management contract terms are generally from one to three years and often can be cancelled without cause by the customer upon 30 days' notice and may also contain renewal clauses. Management contracts generally provide that all expenses incurred are to be reimbursed including the amount of wages, payroll taxes, insurance charges and all other expenses and including a management fee for parking services provided. More than half of the Company's parking revenues come from reimbursements of expenses for which the Company does not derive any profit. Therefore, the level of parking revenues is not directly indicative of profitability.

• **Security.** The Company provides security services through a number of subsidiaries, primarily operating under the names "American Commercial Security Services," "ACSS," "ABM Security Services," "SSA Security, Inc." (dba, "Security Services of America"), "Silverhawk Security Specialists" and "Elite Protection Services." The Company provides security officers; investigative services; electronic monitoring of fire, life safety systems and access control devices; and security consulting services to a wide range of businesses. The Company's Security subsidiaries maintain 54 offices and operate in 33 states and the District of Columbia. The sales under the majority of Security contracts are based on actual hours of service at contractually specified rates. Additionally, the majority of Security contracts are for one-year periods, but are subject to termination by either party after 30 to 90 days' written notice and contain automatic renewal clauses.

• **Engineering.** The Company provides engineering services through a number of subsidiaries, primarily operating under the name "ABM Engineering Services." The Company provides facilities with on-site engineers to operate and maintain mechanical, electrical and plumbing systems utilizing in part computerized maintenance management systems. These services are designed to maintain equipment at optimal efficiency for customers such as high-rise office buildings, schools, computer centers, shopping malls, manufacturing facilities, museums and universities. The Company's Engineering subsidiaries maintain 14 branches and operate in 28 states. The majority of Engineering contracts contain clauses under which the customer agrees to reimburse the full amount of wages, payroll taxes, insurance charges and other expenses plus a profit percentage. Additionally, the majority of Engineering contracts are for one-year periods, but are subject to termination by either party after 30 to 90 days' written notice. ABM Engineering Services Company, a wholly-owned subsidiary, has maintained ISO 9000 Certification for the past six years, the only national engineering services provider of on-site operating engineers to earn this prestigious designation. ISO is a quality standard

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comprised of a rigorous set of guidelines and good business practices against which companies are evaluated through a comprehensive independent audit process.

• **Lighting.** The Company provides lighting services through a number of subsidiaries, primarily operating under the name “Amtech Lighting Services.” The Company provides relamping, fixture cleaning, energy retrofits and lighting maintenance service to a variety of commercial, industrial and retail facilities. The Company’s Lighting subsidiaries also repair and maintain electrical outdoor signage, and provide electrical service and repairs. The Company’s Lighting subsidiaries maintain 27 offices and operate in 50 states. Lighting contracts are either fixed-price agreements or time and materials based where the customer is billed according to actual hours of service and materials used at specified prices. Contracts range from one to six years, but the majority are subject to termination by either party after 30 to 90 days’ written notice. Most maintenance agreements involving initial services, such as relamping and fixture cleaning, include cancellation clauses.

• **Mechanical.** The Company provides mechanical services through a number of subsidiaries, primarily operating under the names “CommAir Mechanical Services” and “CommAir Preferred Mechanical Services.” The Company installs, maintains and repairs heating, ventilation, and air conditioning and refrigeration equipment, performs chemical water treatment and provides energy conservation services for commercial, industrial and institutional facilities. The Company’s Mechanical subsidiaries maintain seven offices in California and Arizona. Mechanical contracts are either fixed-price agreements or time and materials based where the customer is billed according to actual hours of service and materials used at contractually specified prices. The majority of such contracts are for one-year periods, but are subject to termination by either party after 30 to 90 days’ written notice. Contracts for projects, however, typically cannot be cancelled.

• **Facility Services.** The Company provides facility services through a number of subsidiaries, primarily operating under the name “ABM Facility Services.” The Company provides customers with streamlined, centralized control and coordination of multiple facility service needs. This process is consistent with the greater competitive demands on corporate organizations to become more efficient in the business market today. By leveraging the core competencies of the Company’s other service offerings, the Company attempts to reduce overhead (such as redundant personnel) for its customers by providing multiple services under a single contract, with one contact and one invoice. Its National Service Call Center provides centralized dispatching, emergency services, accounting and related reports to financial institutions, high-tech companies and other customers regardless of industry or size. Facility Services is headquartered in Oakland, California, where it also maintains its National Service Call Center, but operates nationally utilizing the ABM Engineering platform in many states.

Additional information relating to the Company’s industry segments appears in Note 18 of Notes to Consolidated Financial Statements contained in Item 8, “Financial Statements and Supplementary Data.”

Trademarks

The Company believes that it owns or is licensed to use all corporate names, tradenames, trademarks, service marks, copyrights, patents and trade secrets which are material to the Company’s operations.

Competition

The Company believes that each aspect of its business is highly competitive, and that such competition is based primarily on price and quality of service. The Company provides nearly all its services under contracts originally obtained through competitive bidding. The low cost of entry to the facility services business has led to strongly competitive markets made up of large numbers of mostly regional and local owner-operated companies, located in major cities throughout the United States and in British Columbia, Canada (with particularly intense competition in the janitorial business in the Southeast and South Central regions of the United States). The Company also competes with the operating divisions of a few large, diversified facility services and manufacturing companies on a national basis. Indirectly, the Company competes with building owners and tenants that can perform internally one or more of the services provided by the Company. These building owners and tenants might have a competitive advantage when the Company’s services are subject to sales tax and internal operations are not. Furthermore, competitors may have lower costs because

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privately-owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. These strong competitive pressures could inhibit the Company's success in bidding for profitable business and its ability to increase prices even as costs rise, thereby reducing margins.

Sales and Marketing

The Company's sales and marketing efforts are conducted by its corporate, subsidiary, region, branch and district offices. Sales, marketing, management and operations personnel in each of these offices participate directly in selling and servicing customers. The broad geographic scope of these offices enables the Company to provide a full range of facility services through intercompany sales referrals, multi-service "bundled" sales and national account sales. The Company also has designated a nationwide group of "ABM Family of Services" executives to market all of the Company's facility services capabilities.

The Company has a broad customer base, including, but not limited to, commercial office buildings, industrial plants, financial institutions, retail stores, shopping centers, warehouses, airports, health and educational facilities, stadiums and arenas, government buildings, apartment complexes, and theme parks. No customer accounted for more than 5% of its revenues during the fiscal year ended October 31, 2004.

Employees

The Company employs approximately 70,000 persons, of whom the vast majority are service employees who perform janitorial, parking, engineering, security, lighting and mechanical services. Approximately 29,000 of these employees are covered under collective bargaining agreements at the local level. There are about 3,900 employees with executive, managerial, supervisory, administrative, professional, sales, marketing or clerical responsibilities, or other office assignments.

Environmental Matters

The Company's operations are subject to various federal, state and/or local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment, such as discharge into soil, water and air, and the generation, handling, storage, transportation and disposal of waste and hazardous substances. These laws generally have the effect of increasing costs and potential liabilities associated with the conduct of the Company's operations, although historically they have not had a material adverse effect on the Company's financial position, results of operations or cash flows.

[Table of Contents](#)**Executive Officers of the Registrant**

The executive officers of ABM are as follows:

Name	Age	Principal Occupations and Business Experience During Past Five Years
Henrik C. Slipsager	50	President & Chief Executive Officer and a Director of ABM since November 2000; Executive Vice President of ABM and President of ABM Janitorial Services from November 1999 through October 2000.
Jess E. Benton III	64	Executive Vice President of ABM since November 1999; Chief Operating Officer of ABM from November 2000 through March 2004.
James P. McClure	47	Executive Vice President of ABM since September 2002; President of ABM Janitorial Services since November 2000; Senior Vice President of ABM Janitorial Services from July 1997 through October 2000.
William T. Petty	55	Executive Vice President & Chief Operating Officer of ABM since April 2004; Executive Vice President of North American Lodging Operations of Marriott International from January 1999 through March 2004.
George B. Sundby	53	Executive Vice President since March 2004; Chief Financial Officer of ABM since June 2001; Senior Vice President of ABM from June 2001 through March 2004; Senior Vice President & Chief Financial Officer of Transamerica Finance Corporation from September 1999 through March 2001; Vice President of Financial Planning and Analysis of Transamerica Corporation from January 1995 through March 2001.
Linda S. Auwers	57	Senior Vice President, General Counsel & Secretary of ABM since May 2003; Vice President, Deputy General Counsel & Secretary of Compaq Computer Corporation from May 2001 through May 2002; Vice President, Secretary & Associate General Counsel of Compaq Computer Corporation from September 1999 to April 2001.
Gary R. Wallace	55	Senior Vice President of ABM, Director of Business Development & Chief Marketing Officer since November 2000; Senior Vice President of ABM Janitorial Services from September 1995 through October 2000.
Steven M. Zaccagnini	43	Senior Vice President of ABM and President of CommAir Mechanical Services since September 2002; President of ABM Facility Services since April 2002; Senior Vice President of Jones Lang LaSalle from April 1995 through February 2002.
Maria De Martini	45	Vice President, Controller & Chief Accounting Officer of ABM since July 2001; Controller of Vectiv Corporation from March 2001 through June 2001; Assistant Controller of Transamerica Finance Corporation from December 1999 through March 2001.
David L. Farwell	43	Vice President & Treasurer of ABM since August 2002; Treasurer of JDS Uniphase Corporation from December 1999 through April 2002.

ITEM 2. PROPERTIES

The Company has corporate, subsidiary, regional, branch or district offices in over 250 locations throughout the United States and in British Columbia, Canada. Fourteen of these facilities are owned by the Company. At October 31, 2004, the real estate owned by the Company had an aggregate net book value of \$3.3 million and was located in: Phoenix, Arizona; Fresno, California; Jacksonville and Tampa, Florida; Portland, Oregon; Arlington, Houston and San Antonio, Texas; and Kennewick, Seattle, Spokane and Tacoma, Washington.

Rental payments under long and short-term lease agreements amounted to \$96.9 million for the fiscal year ended October 31, 2004. Of this amount, \$63.7 million in rental expense was attributable to public parking lots and garages leased and operated by Parking. The remaining expense was for the rental or lease of office space, computers, operating equipment and motor vehicles.

ITEM 3. LEGAL PROCEEDINGS

In September 1999, a former employee filed a gender discrimination lawsuit against ABM in the state of Washington. On May 19, 2003, a Washington state court jury for the Spokane County Superior Court, in the case named *Forbes v. ABM*, awarded \$4.0 million in damages. The court later awarded costs of \$0.7 million to the plaintiff, pre-judgment interest in the amount of \$0.3 million and an additional \$0.8 million to mitigate the federal tax impact of the plaintiff's award. The U.S. Supreme Court is currently deciding whether courts are permitted to award any amounts for mitigation for federal tax consequences in wrongful termination cases. ABM is appealing the jury's verdict and the award of costs to the State Court of Appeals on the grounds that it was denied a fair trial and that Forbes failed to prove that ABM engaged in discrimination or retaliation. ABM has stayed enforcement of the judgment by procuring a \$7.0 million letter of credit. ABM believes that the award against ABM was excessive and that the verdict was inconsistent with the law and the evidence. Because ABM believes that the judgment will be reversed upon appeal and that it will prevail in a new trial, ABM has not recorded any liability in its financial statements associated with the judgment. However, there can be no assurance that ABM will prevail in this matter. Oral arguments are scheduled for February 17, 2005.

ABM and some of its subsidiaries have been named defendants in certain other litigation arising in the ordinary course of business. In the opinion of management, based on advice of legal counsel, such matters should have no material effect on the Company's financial position, results of operations or cash flows.

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

Not applicable.

PART II

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

Market Information and Dividends

ABM’s common stock is listed on the New York Stock Exchange. The following table sets forth the high and low intra-day prices of ABM’s common stock on the New York Stock Exchange and quarterly cash dividends declared on common shares for the periods indicated:

	Fiscal Quarter				Year
	First	Second	Third	Fourth	
Fiscal Year 2004					
Price range of common stock:					
High	\$ 18.83	\$ 18.85	\$ 19.63	\$ 21.01	\$ 21.01
Low	\$ 15.10	\$ 16.85	\$ 17.53	\$ 16.77	\$ 15.10
Dividends declared per share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.40
Fiscal Year 2003					
Price range of common stock:					
High	\$ 16.36	\$ 16.34	\$ 16.73	\$ 16.57	\$ 16.73
Low	\$ 13.50	\$ 12.50	\$ 13.25	\$ 13.94	\$ 12.50
Dividends declared per share	\$ 0.095	\$ 0.095	\$ 0.095	\$ 0.095	\$ 0.38

To the Company’s knowledge, there are no current factors that are likely to materially limit the Company’s ability to pay comparable dividends for the foreseeable future.

Stockholders

At December 31, 2004, there were 4,008 registered holders of ABM’s common stock, in addition to stockholders in street name.

Issuer Purchase of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs(1)
8/1/2004-8/31/2004	—	—	—	1,500,000 shares
9/1/2004-9/30/2004	180 shares(2)	\$ 20.41	—	1,500,000 shares
10/1/2004-10/31/2004	16,503 shares(2)	\$ 20.79	—	1,500,000 shares
Total	16,683 shares	\$ 20.79	—	1,500,000 shares

(1) On December 9, 2003, ABM’s Board of Directors authorized the purchase of up to 2.0 million shares of ABM’s outstanding common stock at any time through December 31, 2004. The Company did not purchase any shares of ABM’s common stock in the fourth quarter of fiscal 2004 and 1.5 million shares remained available for purchase at October 31, 2004 under this authorization.

(2) Participants in the Company’s “Time-Vested” Incentive Stock Option Plan (the “Plan”) may exercise stock options by surrendering shares of ABM’s common stock that the participants already own as payment of the exercise price. Shares so surrendered by participants in the Plan are repurchased by the Company pursuant to the terms of the Plan and applicable award agreement and not pursuant to publicly announced share repurchase programs.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the Company's consolidated financial statements for each of the years in the five-year period ended October 31, 2004. It should be read in conjunction with the consolidated financial statements and the notes thereto, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), which are included elsewhere in this report.

	Years Ended October 31,				
	2004	2003	2002	2001	2000
		As Restated	As Restated	As Restated	As Restated
(In thousands, except per share data and ratios)					
OPERATIONS(1)(2)					
Revenues					
Sales and other income	\$ 2,416,223	\$ 2,262,476	\$ 2,068,058	\$ 2,027,800	\$ 1,879,450
Gain on insurance claim	—	—	10,025	—	—
	<u>2,416,223</u>	<u>2,262,476</u>	<u>2,078,083</u>	<u>2,027,800</u>	<u>1,879,450</u>
Expenses					
Operating expenses and cost of goods sold	2,187,659	2,035,982	1,858,356	1,823,764	1,667,513
Selling, general and administrative	176,667	170,125	156,257	144,566	132,952
Interest	1,016	758	1,052	2,600	3,319
Goodwill amortization(3)	—	—	—	12,065	11,006
Intangible amortization	4,519	2,044	1,085	361	61
	<u>2,369,861</u>	<u>2,208,909</u>	<u>2,016,750</u>	<u>1,983,356</u>	<u>1,814,851</u>
Income from continuing operations before income taxes	46,362	53,567	61,333	44,444	64,599
Income taxes	15,889	17,943	19,649	16,757	25,325
Income from continuing operations	30,473	35,624	41,684	27,687	39,274
Income from discontinued operation, net of income taxes	—	2,560	2,670	2,958	4,228
Gain on sale of discontinued operation, net of income taxes	—	52,736	—	—	—
Net income	<u>\$ 30,473</u>	<u>\$ 90,920</u>	<u>\$ 44,354</u>	<u>\$ 30,645</u>	<u>\$ 43,502</u>
Net income per common share — Basic					
Income from continuing operations	\$ 0.63	\$ 0.73	\$ 0.85	\$ 0.57	\$ 0.86
Income from discontinued operation	—	0.05	0.05	0.06	0.09
Gain on sale of discontinued operation	—	1.07	—	—	—
	<u>\$ 0.63</u>	<u>\$ 1.85</u>	<u>\$ 0.90</u>	<u>\$ 0.63</u>	<u>\$ 0.95</u>
Net income per common share — Diluted					
Income from continuing operations	\$ 0.61	\$ 0.71	\$ 0.82	\$ 0.54	\$ 0.82
Income from discontinued operation	—	0.05	0.05	0.06	0.09
Gain on sale of discontinued operation	—	1.06	—	—	—
	<u>\$ 0.61</u>	<u>\$ 1.82</u>	<u>\$ 0.87</u>	<u>\$ 0.60</u>	<u>\$ 0.91</u>
Average common and common equivalent shares					
Basic	48,641	49,065	49,116	47,598	45,102
Diluted	50,064	50,004	51,015	50,020	47,418

Years Ended October 31,

	2004	2003	2002	2001	2000
		As Restated	As Restated	As Restated	As Restated
		(In thousands, except per share data and ratios)			
FINANCIAL STATISTICS					
Dividends paid per common share	\$ 0.40	\$ 0.38	\$ 0.36	\$ 0.33	\$ 0.31
Stockholders' equity(2)	\$ 442,161	\$ 430,022	\$ 372,194	\$ 349,075	\$ 306,388
Common shares outstanding	48,707	48,367	48,997	48,778	45,998
Stockholders' equity per common share(2)(4)	\$ 9.08	\$ 8.89	\$ 7.60	\$ 7.16	\$ 6.66
Working capital(2)	\$ 231,660	\$ 242,439	\$ 212,570	\$ 229,542	\$ 224,199
Net operating cash flows from continuing operations	\$ 64,197	\$ 53,720	\$ 100,020	\$ 66,069	\$ 19,242
Current ratio(2)	1.91	1.94	1.94	1.97	2.05
Long-term debt (less current portion)	\$ —	\$ —	\$ —	\$ 942	\$ 36,811
Redeemable cumulative preferred stock	\$ —	\$ —	\$ —	\$ —	\$ 6,400
Total assets(2)	\$ 842,524	\$ 804,306	\$ 712,550	\$ 690,708	\$ 648,091
Assets held for sale	\$ —	\$ —	\$ 32,136	\$ 41,362	\$ 37,283
Trade accounts receivable — net(2)	\$ 321,449	\$ 286,606	\$ 295,334	\$ 336,512	\$ 325,799
Goodwill(2)(3)	\$ 227,447	\$ 188,809	\$ 164,009	\$ 109,292	\$ 105,308
Other intangibles — net(2)	\$ 22,290	\$ 15,849	\$ 4,059	\$ 4,527	\$ 690
Property, plant and equipment — net(2)	\$ 31,354	\$ 31,988	\$ 35,846	\$ 42,425	\$ 40,149
Capital expenditures	\$ 11,497	\$ 11,621	\$ 7,345	\$ 16,667	\$ 18,327
Depreciation(2)	\$ 13,148	\$ 13,819	\$ 13,870	\$ 13,462	\$ 11,949

(1) The World Trade Center (“WTC”) represented the Company’s largest worksite; its destruction has directly and indirectly impacted subsequent Company results. See MD&A.

(2) The prior period selected financial data presented in the table above have been restated for various correcting adjustments. These adjustments are discussed in more detail below.

Correction of insurance reserve methodology. In the fourth quarter of 2004, the Company corrected its methodology for insurance reserves to comply with generally accepted accounting principles and restated its financial statements for each of the fiscal years in the four-year period ended October 31, 2003. The correction brought the Company’s self-insurance reserves to the actuarial point estimate of claim costs and liabilities resulting in a cumulative increase in the Company’s self-insurance reserves of \$22.3 million at October 31, 2003, of which \$7.6 million is the impact on the four-year period ended October 31, 2003.

Late adoption of an accounting pronouncement. The restated financial statements also reflect the correction of the fair value calculation for other intangibles, primarily customer relationship intangibles, under Emerging Issues Task Force (“EITF”) Issue No. 02-17, “Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination.” EITF Issue No. 02-17 was effective for business combinations consummated after October 25, 2002, but the Company did not originally report the effect it had on the three business combinations completed in 2003 until the second quarter of 2004. The correction increased intangibles other than goodwill by \$13.1 million for acquisitions completed in 2003 with an equal offsetting reduction to goodwill.

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Other adjustments. As a result of its decision to restate, the Company further determined to make three additional corrections to its financial statements, which affect the years ended October 31, 2003 and 2002. The first was to record in the proper period vacation and sick leave accruals in the Northeast region of Janitorial resulting in an increase in operating expenses and cost of goods sold of \$1.2 million in 2002, with an equal and offsetting decrease in 2003. The second was a \$1.3 million increase in bad debt expense resulting from the write-off of the unpaid balance of a major WTC account settled in 2002 that is not specifically covered by the outstanding insurance claim. The Company continues to pursue insurance claims for accounts receivable not collected due to the loss of Company documentation and additional property lost in the terrorist attacks of September 11, 2001. The third was a \$2.0 million (\$1.2 million after-tax) increase in the gain on sale of the Elevator segment resulting from the reversal of the write-off of an allocated portion of the capitalized costs associated with the prior implementation of the Company's enterprise-wide financial system because the Company has continued to use the entire system. See Note 13 of Notes to Consolidated Financial statements contained in Item 8, "Financial Statements and Supplementary Data." The cost is being amortized over the remainder of the original life of the system with the adjustment impacting income from continuing operations for the fourth quarter of 2003 and thereafter.

The effects of the restatement for the correction of these errors are shown below.

Net Income Restatement Adjustments						
	Total Restatement Adjustment	Year Ended October 31, 2003	Year Ended October 31, 2002	Year Ended October 31, 2001	Year Ended October 31, 2000	Cumulative Adjustment as of November 1, 1999
(In thousands)						
Insurance	\$ (22,337)	\$ (1,451)	\$ (1,176)	\$ (3,683)	\$ (1,263)	\$ (14,764)
Intangible amortization	(899)	(899)	—	—	—	—
Vacation and sick leave	—	1,200	(1,200)	—	—	—
Bad debt expense	(1,300)	—	(1,300)	—	—	—
Depreciation	(135)	(135)	—	—	—	—
Net decrease in income from continuing operations before income taxes	(24,671)	(1,285)	(3,676)	(3,683)	(1,263)	(14,764)
Income taxes	(9,421)	(511)	(1,302)	(1,502)	(422)	(5,684)
Net decrease in income from continuing operations	(15,250)	(774)	(2,374)	(2,181)	(841)	(9,080)
Net increase in gain on sale of Elevator, net of income taxes	1,236	1,236	—	—	—	—
Net (decrease) increase in net income	\$ (14,014)	\$ 462	\$ (2,374)	\$ (2,181)	\$ (841)	\$ (9,080)

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The effects of the restatement adjustments on the balance sheets at October 31, 2003, 2002, 2001 and 2000 are shown below.

	Balance Sheet Restatement Adjustments			
	October 31, 2003	October 31, 2002	October 31, 2001	October 31, 2000
	(In thousands)			
ASSETS				
Trade accounts receivable — net	\$ (1,300)	\$ (1,300)	\$ —	\$ —
Goodwill	(13,057)	—	—	—
Other intangibles	12,158	—	—	—
Property, plant and equipment — net	1,865	—	—	—
Deferred income taxes	8,657	8,910	7,608	6,106
Total assets adjustment	\$ 8,323	\$ 7,610	\$ 7,608	\$ 6,106
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and other accrued liabilities	\$ —	\$ 1,200	\$ —	\$ —
Insurance claims	22,337	20,886	19,710	16,027
Retained earnings	(14,014)	(14,476)	(12,102)	(9,921)
Total liabilities and stockholders' equity adjustment	\$ 8,323	\$ 7,610	\$ 7,608	\$ 6,106

(See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data" and "Restatement Due to Correction of Errors" in MD&A for a more detailed explanation of the adjustments.)

- (3) In 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," under which goodwill is no longer amortized, but is subject to at least an annual assessment for impairment.
- (4) Stockholders' equity per common share is calculated by dividing stockholders' equity at the end of the fiscal year by the number of shares of common stock outstanding at that date. This calculation may not be comparable to similarly titled measures reported by other companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of the Company and the notes thereto contained in Item 8, "Financial Statements and Supplementary Data." All information in the discussion and references to the years are based on the Company's fiscal year that ends on October 31. Prior periods have been restated for correction of errors. (See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," and the section below entitled "Restatement Due to Correction of Errors.")

Overview

The Company provides janitorial, parking, security, engineering, lighting and mechanical services for thousands of commercial, industrial, institutional and retail facilities in hundreds of cities throughout the United States and in British Columbia, Canada. The Company also provided elevator services until August 15, 2003, when it sold substantially all of the operating assets of its Elevator segment (see "Discontinued Operation"). The largest segment of the Company's business is Janitorial which generated over 59% of the Company's sales and other income from continuing operations (hereinafter called "sales") and over 63% of its operating profit before corporate expenses for 2004.

The Company's sales are substantially based on the performance of labor-intensive services at contractually specified prices. Janitorial and other maintenance service contracts are either fixed-price or "cost-plus" (*i.e.*, the customer agrees to reimburse the agreed upon amount of wages and benefits, payroll taxes, insurance charges and other expenses plus a profit percentage). In addition to services defined within the scope of the contract, the Company also generates sales from extra services, such as when the customer requires additional cleaning or emergency repair services, with extra services frequently providing higher margins. The quarterly profitability of fixed-price contracts is impacted by the variability of the number of work days in the quarter.

The majority of the Company's contracts are for one-year periods, but are subject to termination by either party after 30 to 90 days' written notice. Upon renewal of the contract, the Company may renegotiate the price although competitive pressures and customers' price-sensitivity could inhibit the Company's ability to pass on cost increases. Such cost increases include, but are not limited to, wage, benefit, payroll tax (including unemployment insurance tax), workers' compensation and general liability insurance increases. However, for some renewals the Company is able to restructure the scope and terms of the contract such that the costs are reduced thereby keeping the price competitive.

Sales have historically been the major source of cash for the Company, while payroll expenses, which are substantially related to sales, have been the largest use of cash. Hence operating cash flows significantly depend on the sales level and timing of collections, as well as the quality of the customer accounts receivable. The timing and level of the payments to suppliers and other vendors, as well as the magnitude of self-insured claims, also affect operating cash flows. The Company's management views operating cash flows as a good indicator of financial strength. Strong operating cash flows provide opportunities for growth both internally and through acquisitions.

The Company's most recent acquisitions significantly contributed to the growth in sales and operating profit in 2004 from 2003. The Company also experienced internal growth in sales in 2004, but it was partially offset by the reduction in project sales at Lighting and terminations of some unprofitable contracts, as well as the loss of profitable contracts to competition. Internal growth in sales represents not only sales from new customers, but also expanded services or increases in the scope of work for existing customers. Sales in the Company's Lighting and Mechanical businesses are primarily related to the level of capital investments by customers. To mitigate the adverse effect on operating profit of low levels of capital investment by customers, in 2004 the Company successfully lowered its overhead expenses in Lighting and Mechanical. In the long run, achieving the desired levels of sales and profitability will depend on the Company's ability to gain and retain, at acceptable profit margins, more customers than it loses, pass on cost increases to customers, and keep overall costs down to remain competitive, particularly against privately-owned companies that typically have the lower cost advantage.

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In the short-term, management is focused on actively managing its business, converting bids into sales and integrating its most recent acquisitions. In the long-term, management is focused on implementing its strategic plan to grow the business through a combination of internal growth and selective acquisitions in the Company's core disciplines.

Liquidity and Capital Resources

	October 31,			Change		
	2004	2003		2003	2002	Change
	(In thousands)					
Cash and cash equivalents	\$ 63,369	\$ 110,947		\$ (47,578)		
	As Restated					
Working capital	\$ 231,660	\$ 242,439		\$ (10,779)		

	Years Ended October 31,			Years Ended October 31,		
	2004	2003	Change	2003	2002	Change
	(In thousands)					
Cash provided by operating activities from continuing operations	\$ 64,197	\$ 53,720	\$ 10,477	\$ 53,720	\$ 100,020	\$ (46,300)
Cash (used in) provided by investing activities	\$ (60,753)	\$ 66,054	\$ (126,807)	\$ 66,054	\$ (59,318)	\$ 125,372
Cash used in financing activities	\$ (20,515)	\$ (34,665)	\$ 14,150	\$ (34,665)	\$ (35,226)	\$ 561

Funds provided from operations and bank borrowings have historically been the sources for meeting working capital requirements, financing capital expenditures and acquisitions, and paying cash dividends. As of October 31, 2004 and 2003, the Company's cash and cash equivalents totaled \$63.4 million and \$110.9 million, respectively. The relatively high cash balance at October 31, 2003 was primarily due to the \$112.4 million of cash proceeds received from the Elevator divestiture during 2003. The decline in 2004 reflects the payment of \$30.5 million estimated income taxes associated with this divestiture (see "Discontinued Operation"), \$44.2 million initial cash payments made for the purchases of the operations of Security Services of America ("SSA"), acquired on March 15, 2004, and Initial Contract Services, Inc. ("Initial"), acquired on April 2, 2004 and the \$11.1 million cash payments for the purchases of 0.6 million of ABM's common stock, offset in part by cash from operations.

Working Capital. Working capital decreased by \$10.8 million to \$231.7 million at October 31, 2004 from \$242.4 million at October 31, 2003 primarily due to the initial cash payments made for the purchase of SSA and Initial, offset in part by cash from operations. The largest component of working capital consists of trade accounts receivable, which totaled \$321.4 million at October 31, 2004, compared to \$286.6 million at October 31, 2003. These amounts were net of allowances for doubtful accounts of \$8.4 million and \$6.1 million at October 31, 2004 and 2003, respectively. The increase in trade accounts receivable balance as of the end of 2004 compared to the end of 2003 was due to higher sales and slower payments by some large customers in 2004. As of October 31, 2004, accounts receivable that were over 90 days past due had decreased \$7.4 million to \$19.2 million (5.8% of the total outstanding) from \$26.6 million (9.1% of the total outstanding) at October 31, 2003.

Cash Flows from Operating Activities. During 2004, 2003 and 2002, operating activities from continuing operations generated net cash of \$64.2 million, \$53.7 million, and \$100.0 million, respectively. Operating cash from continuing operations increased in 2004 from 2003 primarily due to the delay in 2004 year-end payments to vendors and suppliers as the year-end fell on a weekend, partially offset by slower payments by some large customers. In 2002, cash from continuing operations was higher than in 2003 primarily due to greater collection of outstanding accounts receivable during 2002. In addition, in 2002 two partial settlements totaling \$13.3 million related to the WTC insurance claim were received.

Cash Flows from Investing Activities. Net cash used in investing activities in 2004 was \$60.8 million, compared to net cash provided by investing activities in 2003 of \$66.1 million and net cash used in investing

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activities in 2002 of \$59.3 million. Investing activities in 2003 generated net cash of \$66.1 million primarily due to the \$112.4 million of cash proceeds received from the Elevator divestiture during 2003 (see "Discontinued Operation"). Additionally, in comparison with the \$54.2 million in 2004, cash used for the purchase of businesses was lower in 2003 at \$40.6 million. Of the \$54.2 million used for the purchase of businesses in 2004, \$44.2 million was used for the purchase of the operations of SSA and Initial, while of the \$40.6 million used in 2003, \$29.2 million was used for the purchase of operations of Horizon National Commercial Services, LLC ("Horizon"), Valet Parking Services ("Valet") and HGO Janitorial Services ("HGO"). Cash used for the purchase of businesses in 2002 was \$52.4 million, of which \$36.9 million was used for the initial payment for the purchase of the operations of Lakeside Building Maintenance, Inc. and an affiliated company (collectively, "Lakeside") in July 2002.

Cash Flows from Financing Activities. Net cash used in financing activities was \$20.5 million in 2004, \$34.7 million in 2003 and \$35.2 million in 2002. The Company purchased 0.6 million shares of ABM's common stock at a cost of \$11.1 million in 2004, compared to 2.0 million shares at \$30.4 million in 2003 and 1.4 million shares at \$23.6 million in 2002. The lower common stock purchases in 2004 compared to 2003 was partially offset by the lower cash generated from the issuance of ABM's common stock in 2004 compared to 2003 as the employee stock purchase plan terminated upon issue of all the available shares in November 2003. A new employee stock purchase plan was approved by the stockholders in March 2004 and the first offering period began on August 1, 2004. (See Note 9 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data.") The decrease in net cash used in financing activities in 2003 from 2002 was primarily due to no debt repayments in 2003 compared to \$11.8 million in 2002, offset by greater common stock purchases and lower common stock issuance in 2003.

Line of Credit. In April 2003, the Company increased the amount of its syndicated line of credit to \$250.0 million. This line of credit will expire July 1, 2005. No compensating balances are required under the facility and the interest rate is determined at the time of borrowing based on the London Interbank Offered Rate ("LIBOR") plus a spread of 0.875% to 1.50% or, for overnight borrowings, at the prime rate plus a spread of 0.00% to 0.25% or, for overnight to one week, at the Interbank Offered Rate ("IBOR") plus a spread of 0.875% to 1.50%. The spreads for LIBOR, prime and IBOR borrowings are based on the Company's leverage ratio. The facility calls for a commitment fee payable quarterly, in arrears, of 0.175%, based on the average daily unused portion. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with the Company's self-insurance program plus cash borrowings are considered to be outstanding amounts. As of October 31, 2004 and 2003, the total outstanding amounts under this facility were \$96.5 million and \$69.0 million, respectively, in the form of standby letters of credit. The provisions of the credit facility require the Company to maintain certain financial ratios and limit outside borrowings. The Company was in compliance with all covenants as of October 31, 2004.

Cash Requirements

The Company is contractually obligated to make future payments under non-cancelable operating lease agreements for various facilities, vehicles and other equipment. As of October 31, 2004, future contractual payments were as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	\$ 209,226	\$ 48,363	(In thousands) \$ 67,735	\$ 43,678	\$ 49,450

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Additionally, the Company has the following commercial commitments and other long-term liabilities:

Commercial Commitments	Amounts of Commitment Expiration per Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Standby letters of credit	\$ 96,503	\$ 96,503	—	—	—
Financial responsibility bonds	4,211	4,211	—	—	—
Total	\$ 100,714	\$ 100,714	—	—	—

Other Long-Term Liabilities	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Retirement plans	\$ 43,089	\$ 2,114	\$ 5,432	\$ 5,278	\$ 30,265

Not included in the retirement plans in the table above are union-sponsored collectively bargained multi-employer defined benefit plans under which certain union employees of the Company are covered. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts. Contributions for these plans were \$34.9 million, \$29.2 million and \$26.7 million in 2004, 2003 and 2002, respectively.

The Company self-insures certain insurable risks such as general liability, automobile property damage, and workers' compensation. Commercial policies are obtained to provide for \$150.0 million of coverage for certain risk exposures above the self-insured retention limits (*i.e.*, deductibles). For claims incurred after November 1, 2002, substantially all of the self-insured retentions increased from \$0.5 million (inclusive of legal fees) to \$1.0 million (exclusive of legal fees). Effective April 14, 2003, the deductible for California workers' compensation insurance increased to \$2.0 million per occurrence due to general insurance market conditions. While the higher self-insured retention increases the Company's risk associated with workers' compensation liabilities, during the history of the Company's self-insurance program, few claims have exceeded \$1.0 million. The Company annually retains an outside actuary to provide an actuarial estimate of its insurance claims. The 2004 actuarial review completed in November 2004 indicated that there were adverse developments in the Company's insurance reserves primarily related to workers' compensation claims in the State of California during the four-year period ended October 31, 2003, for which the Company recorded a charge of \$17.2 million in the fourth quarter of 2004. The Company believes a substantial portion of the \$17.2 million is related to poor claims management by a third party administrator and is taking action to mitigate the impact. The Company is in the process of transferring the administration of its workers' compensation claims from that third party administrator to another administrator which has been more successfully handling the Company's claims reported since November 1, 2003.

Additionally, in the fourth quarter of 2004, the Company corrected its methodology for estimating self-insurance reserves to comply with generally accepted accounting principles and restated the prior period financial statements presented in this Annual Report on Form 10-K. The correction brought the Company's self-insurance reserves to the actuarial point estimate of claim costs and liabilities resulting in a cumulative increase in the Company's self-insurance reserves of \$22.3 million at October 31, 2003, of which \$1.5 million and \$1.2 million decreased consolidated pre-tax income in 2003 and 2002, respectively. (See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," and the section below entitled "Restatement Due to Correction of Errors.")

The combined impact on the self-insurance reserves of correcting the Company's reserving methodology and the adverse development recognized in 2004 totaled \$41.6 million and consisted of the \$22.3 million cumulative increase in reserves at October 31, 2003 and \$19.3 million of insurance charges in 2004 included in Corporate, of which \$17.2 million is attributable to the adverse development in insurance reserves.

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The self-insurance claims paid in 2004, 2003 and 2002 were \$60.7 million, \$58.9 million and \$52.7 million, respectively. Claim payments vary based on the frequency and/or severity of claims incurred and timing of the settlements and therefore may have an uneven impact on the Company's cash balances. The actuarial projection of payments on self-insurance claims to be made in fiscal 2005 is \$66.3 million.

The Company has no significant commitments for capital expenditures and believes that the current cash and cash equivalents, cash generated from operations and the expected renewal of its line of credit prior to July 2005 will be sufficient to meet the Company's cash requirements for the long term.

Insurance Claims Related to the Destruction of the World Trade Center in New York City on September 11, 2001

The Company had commercial insurance policies covering business interruption, property damage and other losses related to the WTC complex in New York, which was the Company's largest single job-site with annual sales of approximately \$75.0 million (3% of the Company's consolidated sales for 2001). As of October 31, 2002, Zurich Insurance ("Zurich") had paid two partial settlements totaling \$13.3 million, of which \$10.0 million was for business interruption and \$3.3 million for property damage, which substantially settled the property portion of the claim. The Company realized a pre-tax gain of \$10.0 million in 2002 on the proceeds received.

In December 2001, Zurich filed a Declaratory Judgment Action in the Southern District of New York claiming the loss of the business profit falls under the policy's contingent business interruption sub-limit of \$10.0 million. On June 2, 2003, the court ruled on certain summary judgment motions in favor of Zurich. Subsequent to the June 2003 ruling, additional rulings by the court have limited the Company's recourse under the policy to the amounts paid plus additional amounts related to physical property of the Company located on the WTC premises and certain accounts receivable from customers that could not be collected. Based on a review of the policy and consultation with legal counsel and other specialists, the Company continues to believe that its business interruption claim does not fall under the \$10.0 million sub-limit on contingent business interruption and that the Company's losses under its WTC contracts are eligible for additional business interruption coverage up to the policy maximum of \$124.0 million. Therefore, the Company is appealing the court's rulings. Oral arguments occurred in September 2004 and the Company is awaiting the outcome.

Under EITF Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001," the Company has not recognized future amounts it expects to recover from its business interruption insurance as income. Any gain from insurance proceeds is considered a contingent gain and, under SFAS No. 5, "Accounting for Contingencies," can only be recognized as income in the period when any and all contingencies for that portion of the insurance claim have been resolved.

Environmental Matters

The Company's operations are subject to various federal, state and/or local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment, such as discharge into soil, water and air, and the generation, handling, storage, transportation and disposal of waste and hazardous substances. These laws generally have the effect of increasing costs and potential liabilities associated with the conduct of the Company's operations, although historically they have not had a material adverse effect on the Company's financial position, results of operations, or cash flows.

The Company is currently involved in three environmental matters: one involving alleged potential soil contamination at a former Company facility in Arizona, one involving alleged potential soil and groundwater contamination at a Company facility in Florida, and one involving an alleged de minimis contribution to a landfill in Southern California. While it is difficult to predict the ultimate outcome of these matters, based on information currently available, management believes that none of these matters, individually or in the aggregate, are reasonably likely to have a material adverse effect on the Company's financial position, results of operations, or cash flows. As any liability related to these matters is neither probable nor estimable, no accruals have been made related to these matters.

Off-Balance Sheet Arrangements

The Company is party to a variety of contractual agreements under which it may be obligated to indemnify the other party for certain matters. Primarily, these agreements are standard indemnification arrangements in its ordinary course of business. Pursuant to these arrangements, the Company may agree to indemnify, hold harmless and reimburse the indemnified parties for losses suffered or incurred by the indemnified party, generally its customers, in connection with any claims arising out of the services that the Company provides. The Company also incurs costs to defend lawsuits or settle claims related to these indemnification arrangements and in most cases these costs are paid from its insurance program. The term of these indemnification arrangements is generally perpetual. Although the Company attempts to place limits on this indemnification reasonably related to the size of the contract, the maximum obligation is not always explicitly stated and, as a result, the maximum potential amount of future payments the Company could be required to make under these arrangements is not determinable.

ABM's certificate of incorporation and bylaws may require it to indemnify Company directors and officers against liabilities that may arise by reason of their status as such and to advance their expenses incurred as a result of any legal proceeding against them as to which they could be indemnified. ABM has also entered into indemnification agreements with its directors to this effect. The overall amount of these obligations cannot be reasonably estimated, however, the Company believes that any loss under these obligations would not have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company currently has directors' and officers' insurance.

Effect of Inflation

The low rates of inflation experienced in recent years have had no material impact on the financial statements of the Company. The Company attempts to recover increased costs by increasing sales prices to the extent permitted by contracts and competition.

Acquisitions and Divestitures

The operating results of businesses acquired have been included in the accompanying consolidated financial statements from their respective dates of acquisition. Acquisitions made during the three years ended October 31, 2004 are discussed in Note 12 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data" and contributed approximately \$393.6 million (16.3%) to 2004 sales.

On August 15, 2003, the Company sold substantially all of the operating assets of Amtech Elevator, which represented the Company's Elevator segment, to Otis Elevator. The consideration in connection with the sale included \$112.4 million in cash and Otis Elevator's assumption of trade payables and accrued liabilities. The Company realized a gain on the sale of \$52.7 million, net of \$32.7 million of income taxes. See "Discontinued Operation."

Restatement Due to Correction of Errors

The prior period financial statements presented in this Annual Report on Form 10-K have been restated for various correcting adjustments. These adjustments are discussed in more detail below. (See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data.")

Correction of insurance reserve methodology. On December 14, 2004, the Company concluded that the methodology it was using to estimate its self-insurance reserve in its financial statements for prior years was not in accordance with generally accepted accounting principles. For the first three quarters of 2004 and the prior fiscal years presented in this Annual Report on Form 10-K, the Company consistently accrued self-insurance reserves at the low end of a range between 85 percent and 115 percent of the actuarial point estimate of claim costs and liabilities. Pursuant to SFAS No. 5, "Accounting for Contingencies" and Financial Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss," the minimum amount in a range

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may be used to accrue self-insurance reserves only if no amount within the range is a better estimate than any other amount. Because the actuarially calculated point estimate is considered a better estimate, the Company has now determined that it is, and was during these prior fiscal years, the correct liability to record.

Accordingly, effective as of October 31, 2004, the Company brought its self-insurance reserves to the actuarial point estimate of claim costs and liabilities resulting in a cumulative increase in the Company's self-insurance reserves of \$22.3 million at October 31, 2003, of which \$1.5 million and \$1.2 million decreased consolidated pre-tax income in 2003 and 2002, respectively.

Late adoption of an accounting pronouncement. The restated financial statements also reflect the correction of the fair value calculation for other intangibles, primarily customer relationship intangibles, under EITF Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination." EITF Issue No. 02-17 provides guidance regarding the use of certain assumptions, such as expectations of future contract renewals, in estimating the fair value of customer relationship intangible assets acquired in a business combination. EITF Issue No. 02-17 was effective for business combinations consummated after October 25, 2002, but the Company did not originally report the effect it had on the three business combinations completed in 2003 until the second quarter of 2004.

Prior to adopting EITF Issue No. 02-17, the Company assigned little or no value to acquired customer contracts and related customer relationships because the contracts generally had one year terms with 30-day cancellation provisions. With the effectiveness of EITF Issue No. 02-17, assumptions regarding expectations of future contract renewals must now be incorporated in estimating the fair value of customer relationship intangible assets. As a result of the adoption of EITF 02-17, purchase accounting for acquisitions completed in 2003 was adjusted to reflect a \$13.1 million increase in acquired intangibles other than goodwill and an offsetting reduction in goodwill of \$13.1 million. The reclassified intangible assets have finite lives and must therefore be amortized.

Based on the quantitative and qualitative analyses performed by the Company in the second quarter of 2004, the resulting catch-up amortization totaling \$1.5 million for 2003 and the first quarter of 2004 did not warrant the restatement of those periods and, therefore, the adjustment was recorded in the second quarter of 2004. However, since the correction of the self-insurance reserves necessitated the restatement of prior periods, the Company decided also to restate its financial statements to reflect the impact of EITF 02-17.

Other adjustments. As a result of its decision to restate, the Company further determined to make three additional corrections to its financial statements, which affect the years ended October 31, 2003 and 2002. The first was to record in the proper period vacation and sick leave accruals in the Northeast region of Janitorial resulting in an increase in operating expenses and cost of goods sold of \$1.2 million in 2002, with an equal and offsetting decrease in 2003. The second was a \$1.3 million increase in bad debt expense resulting from the write-off of the unpaid balance of a major WTC account settled in 2002 that is not specifically covered by the outstanding insurance claim. The Company continues to pursue insurance claims for accounts receivable not collected due to the loss of Company documentation and additional property lost in the terrorist attacks of September 11, 2001. The third was a \$2.0 million (\$1.2 million after-tax) increase in the gain on sale of the Elevator segment resulting from the reversal of the write-off of an allocated portion of the capitalized costs associated with the prior implementation of the Company's enterprise-wide financial system because the Company has continued to use the entire system. See Note 13 of Notes to Consolidated Financial statements contained in Item 8, "Financial Statements and Supplementary Data." The cost is being amortized over the remainder of the original life of the system with the adjustment impacting income from continuing operations for the fourth quarter of 2003 and thereafter.

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The effects of the restatement for the correction of these errors are shown below.

	Cumulative Adjustment as of November 1, 2001	Year Ended October 31, 2002	Year Ended October 31, 2003	Cumulative Adjustment as of November 1, 2003
	(In thousands)			
Insurance	\$ (19,710)	\$ (1,176)	\$ (1,451)	\$ (22,337)
Intangible amortization	—	—	(899)	(899)
Vacation and sick leave	—	(1,200)	1,200	—
Bad debt expense	—	(1,300)	—	(1,300)
Depreciation	—	—	(135)	(135)
Net decrease in income from continuing operations before income taxes	(19,710)	(3,676)	(1,285)	(24,671)
Income taxes	(7,608)	(1,302)	(511)	(9,421)
Net decrease in income from continuing operations	\$ (12,102)	\$ (2,374)	\$ (774)	\$ (15,250)
Net increase in gain on sale of Elevator, net of income taxes	—	—	1,236	1,236
Net (decrease) increase in net income	\$ (12,102)	\$ (2,374)	\$ 462	\$ (14,014)

	Fiscal 2003 Quarters				Year Ended October 31, 2003	Fiscal 2004 Quarters			Nine Months Ended July 31, 2004
	First	Second	Third	Fourth		First	Second	Third	
	(In thousands)								
Insurance	\$ (312)	\$ (255)	\$ (629)	\$ (255)	\$ (1,451)	\$ (624)	\$ (434)	\$ (608)	\$ (1,666)
Intangible amortization	—	(191)	(246)	(462)	(899)	(569)	1,468	—	899
Vacation and sick leave	1,200	—	—	—	1,200	—	—	—	—
Depreciation	—	—	—	(135)	(135)	(135)	(135)	(135)	(405)
Net increase (decrease) in income from continuing operations before income taxes	888	(446)	(875)	(852)	(1,285)	(1,328)	899	(743)	(1,172)
Income taxes	319	(170)	(334)	(326)	(511)	(507)	343	(497)	(661)
Net increase (decrease) in income from continuing operations	569	(276)	(541)	(526)	(774)	(821)	556	(246)	(511)
Net increase in gain on sale of Elevator, net of income taxes	—	—	—	1,236	1,236	—	—	—	—
Net increase (decrease) in net income	\$ 569	\$ (276)	\$ (541)	\$ 710	\$ 462	\$ (821)	\$ 556	\$ (246)	\$ (511)

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The effect of restatement adjustments on segment information is shown below. While virtually all insurance claims arise from the operating segments, the insurance restatement adjustments were included in unallocated corporate expenses. Had the Company allocated the insurance adjustment among the operating segments, the reported pre-tax operating profits of the operating segments, as a whole, would have been lower with an equal and offsetting change to unallocated Corporate expenses and therefore no change to consolidated pre-tax earnings for the periods presented.

	As Reported 2003	As Reported 2002	Restatement Adjustments		As Restated 2003	As Restated 2002
			2003	2002		
(In thousands)						
Operating profit:						
Janitorial	\$ 53,487	\$ 54,337	\$ 412	\$ (2,500)	\$ 53,899	\$ 51,837
Parking	6,349	6,948	(111)	—	6,238	6,948
Security	6,485	5,639	—	—	6,485	5,639
Engineering	9,925	10,033	—	—	9,925	10,033
Lighting	5,646	8,261	—	—	5,646	8,261
Other	1,337	(1,190)	—	—	1,337	(1,190)
Corporate expense	(27,619)	(27,992)	(1,586)	(1,176)	(29,205)	(29,168)
Operating profit	55,610	56,036	(1,285)	(3,676)	54,325	52,360
Gain on insurance claim		10,025	—	—	—	10,025
Interest expense	(758)	(1,052)	—	—	(758)	(1,052)
Income from continuing operations before income taxes	\$ 54,852	\$ 65,009	\$ (1,285)	\$ (3,676)	\$ 53,567	\$ 61,333

Results of Continuing Operations

COMPARISON OF 2004 TO 2003 — CONTINUING OPERATIONS

	2004	% of Sales	2003	% of Sales	Increase (Decrease)
As Restated (\$ In thousands)					
Revenues					
Sales and other income	\$ 2,416,223	100.0%	\$ 2,262,476	100.0%	6.8%
Expenses					
Operating expenses and cost of goods sold	2,187,659	90.5%	2,035,982	90.0%	7.4%
Selling, general and administrative	176,667	7.3%	170,125	7.5%	3.8%
Interest	1,016	0.0%	758	0.0%	34.0%
Intangible amortization	4,519	0.2%	2,044	0.1%	121.1%
	2,369,861	98.1%	2,208,909	97.6%	7.3%
Income from continuing operations before income taxes	46,362	1.9%	53,567	2.4%	(13.5)%
Income taxes	15,889	0.7%	17,943	0.8%	(11.4)%
Income from continuing operations	\$ 30,473	1.3%	\$ 35,624	1.6%	(14.5)%

See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," and the section above entitled "Restatement Due to Correction of Errors."

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Income From Continuing Operations. Income from continuing operations in 2004 decreased 14.5% to \$30.5 million (\$0.61 per diluted share) from \$35.6 million (\$0.71 per diluted share) in 2003. The decline was primarily due to the \$17.2 million (\$10.4 million after tax, \$0.21 per diluted share) insurance charge resulting from adverse developments in the Company's California workers' compensation claims believed to be related to poor claims management by a third party administrator. However, all operating segments showed improvement in income from continuing operations except for Lighting. The acquisitions completed in 2003 and 2004, new business and one fewer work day in 2004 partially offset the impact of the insurance charge.

Sales and Other Income. Sales and other income in 2004 of \$2,416.2 million increased by \$153.7 million, or 6.8%, from \$2,262.5 million in 2003. Acquisitions completed in 2003 and 2004 contributed \$131.9 million to the sales increase. Additionally, new business in Engineering, Janitorial and Security contributed to the higher sales in 2004. However, these increases were partially offset by decreased project sales in Lighting and termination of unprofitable contracts in Janitorial, Parking and Lighting.

Operating Expenses and Cost of Goods Sold. As a percentage of sales, gross profit was 9.5% in 2004 compared to 10.0% in 2003. The \$17.2 million insurance charge more than offset the higher margin contributions from acquisitions in 2003 and 2004 and from the new businesses in Engineering and Security, as well as the impact of one fewer workday in 2004, termination of unprofitable contracts in Janitorial, Parking and Lighting and renegotiated contracts at Parking. The loss of profitable contracts in the Janitorial Northeast and Southeast regions and higher state unemployment insurance expenses, especially in California, also contributed to reduced gross profits.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$176.7 million in 2004 compared to \$170.1 million in 2003. The increase was primarily due to an increase of \$7.7 million in selling, general and administrative expenses attributable to 2003 and 2004 acquisitions, higher professional fees related to compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), higher cost associated with the transitioning in of the new Chief Operating Officer, as well as a charge in 2004 for a lump sum payment to a director. These increases were partially offset by staff reductions in Lighting and Mechanical and lower bad debt expense mostly in Janitorial.

Intangible Amortization. Intangible amortization was \$4.5 million in 2004 compared to \$2.0 million in 2003. The increase was due to the full year impact on 2004 of 2003 acquisitions and the amortization of intangibles related to the 2004 acquisitions of SSA and Initial.

Interest Expense. Interest expense was \$1.0 million in 2004 compared to \$0.8 million in 2003. The increase was primarily due to higher loan commitment fees in the first quarter of 2004.

Income Taxes. The effective tax rate for income from continuing operations was 34.3% for 2004, compared to 33.5% for 2003. The 34.3% effective tax rate reflects a higher estimated state income tax rate due to the combined income tax return filing requirements in certain states where separate income tax returns were previously filed. The income tax provision for continuing operations for 2004 included a tax benefit of \$1.3 million principally attributable to adjusting the tax liability accounts after filing the 2003 income tax returns and from filing amended tax returns primarily to claim higher work opportunity tax credits. The income tax provision for continuing operations for 2003 included a tax benefit of \$0.9 million principally from adjusting the tax liability accounts after filing the 2002 income tax returns and from refunds from prior years' amended tax returns.

Segment Information

Under SFAS No. 131 criteria, Janitorial, Parking, Security, Engineering, and Lighting are reportable segments. The operating results of the former Elevator segment are reported separately under discontinued operation and are excluded from the table below, see "Discontinued Operation." All other services are included in the "Other" segment. Corporate expenses are not allocated. Additionally, while virtually all insurance claims arise from the operating segments, the insurance restatement adjustments were included in unallocated corporate expenses. Had the Company allocated these insurance charges among the operating segments, the reported pre-tax operating profits of the operating segments, as a whole, would have been lower

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with an equal and offsetting change to unallocated Corporate expenses and therefore no change to consolidated pre-tax earnings for the periods presented.

	2004	2003	Better (Worse)
		As Restated (\$ In thousands)	
Sales and other income:			
Janitorial	\$ 1,442,901	\$ 1,368,282	5.5%
Parking	384,547	380,576	1.0%
Security	224,715	159,670	40.7%
Engineering	200,771	180,230	11.4%
Lighting	112,074	127,539	(12.1)%
Other	49,459	45,394	9.0%
Corporate	1,756	785	123.7%
	<u>\$ 2,416,223</u>	<u>\$ 2,262,476</u>	<u>6.8%</u>
Operating profit:			
Janitorial	\$ 60,574	\$ 53,899	12.4%
Parking	9,514	6,238	52.5%
Security	9,002	6,485	38.8%
Engineering	11,976	9,925	20.7%
Lighting	2,822	5,646	(50.0)%
Other	1,486	1,337	11.1%
Corporate expense	(47,996)	(29,205)	(64.3)%
	<u>47,378</u>	<u>54,325</u>	<u>(12.8)%</u>
Interest expense	(1,016)	(758)	(34.0)%
	<u>\$ 46,362</u>	<u>\$ 53,567</u>	<u>(13.5)%</u>

See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," and the section above entitled "Restatement Due to Correction of Errors."

Janitorial. Sales for Janitorial increased by \$74.6 million, or 5.5%, from 2003 to 2004. The higher sales were primarily due to a \$65.0 million increase in sales from the Horizon, HGO and Initial acquisitions completed in 2003 and 2004. Additionally, sales increased due to new business in the Southwest and Northern California regions, expansion of service to existing customers in the Midwest region, and price adjustments to pass through a portion of union wage, workers' compensation insurance and state unemployment insurance increases in the Southwest and Midwest regions. These increases were substantially offset by decreased sales in the Northeast, Southeast and South Central regions primarily due to loss of profitable contracts to competition, as well as the termination of unprofitable contracts.

Operating profit improved by \$6.7 million, or 12.4%, in 2004 compared to 2003. The increases in operating profits of Horizon, HGO and Initial were \$3.4 million. Additionally, Janitorial 2004 operating profit included a \$2.5 million benefit from lower bad debt expense and \$2.3 million from one fewer work day in 2004, partially offset by increase in union wage, workers' compensation insurance and state unemployment insurance not fully absorbed through increased pricing.

Other operating profit contributions from the Northeast, Northwest, Midwest and Northern California were more than offset by the impact of lost businesses in Southeast and South Central regions, and increased staffing and legal expenses in the Southwest region. The factors contributing to the operating profit improvement in the Northeast were the absence of costs associated with management changes which affected 2003, as well as termination of unprofitable contracts. The Northwest region operating profits improved primarily due to lower legal expenses. The 2004 operating profits in the Midwest and Northern California regions benefited from increased sales.

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Parking. Parking sales increased by \$4.0 million, or 1.0%, while operating profits increased by \$3.3 million, or 52.5%, during 2004 compared to 2003. The 2003 Valet acquisition contributed \$7.7 million to the sales increase. Despite the impact of severe weather conditions in various parts of the country on travel and airport parking during the first six months of 2004, airport sales at each location generally improved with increases in airline travel. However, these improvements were more than offset by the termination of two airport contracts in 2003. The increase in operating profits resulted from the termination of unprofitable airport contracts in 2003, increased activity at remaining airport locations, improved margins on renegotiated contracts, as well as new airport and commercial contracts. Additionally, operating profit for 2004 included incentive fee income and property tax benefits from two airport operations. The operating profit for 2003 included the receipt of a \$1.1 million settlement for prior period services performed related to a managed parking lot contract in Houston, Texas, largely offset by a provision of \$1.0 million for parking sales taxes for prior years based on a sales tax audit.

Security. Security sales increased \$65.0 million, or 40.7%, primarily due to the SSA acquisition, which contributed \$59.2 million to the sales increase, and the net effect of new business, including major contracts awarded in the third quarter of 2004. Operating profits increased \$2.5 million, or 38.8%, primarily due to the \$2.1 million profit contribution from SSA, operating profit from new business and slightly improved margins on existing business resulting from a rate increase program that absorbed wage increases and part of the state unemployment insurance increase, especially in California.

Engineering. Sales for Engineering increased \$20.5 million, or 11.4%, during 2004 compared to 2003 due to successful sales initiatives resulting in the expansion of services to existing customers and new business in eight of nine regions in the country, most significantly in Northern California. Operating profits increased \$2.1 million or 20.7% during 2004 compared to 2003 due to higher sales, partially offset by the increased management staff and the higher state unemployment insurance expense in California.

Lighting. Lighting sales decreased \$15.5 million, or 12.1%, during 2004 compared to 2003 primarily due to significantly fewer retrofit projects, lower prices on renewed national contracts as a result of competitive pressures and the termination of certain underperforming national contracts throughout 2003. Operating profits decreased \$2.8 million or 50.0% primarily due to decrease in sales, partially offset by savings from staff reductions.

Other. Sales for the Other Segment increased by \$4.1 million, or 9.0%, for 2004 compared to 2003, while operating profit increased \$0.1 million, or 11.1%. Higher sales were solely attributable to the new major contract awarded to Facility Services as sales at Mechanical were flat. The increase in operating profit was primarily due to higher sales in Facility Services from new contracts along with staff reductions at both Mechanical and Facility Services, partially offset by lower margins at Mechanical primarily due to higher union benefits.

Corporate. Corporate expenses for 2004 increased by \$18.8 million, or 64.3%, compared to 2003, primarily due to the \$17.2 million insurance charge in 2004 which resulted from adverse developments in the Company's California workers' compensation claims believed to be related to poor claims management by a third party administrator. (See Note 3 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data.") While virtually all insurance claims arise from the operating segments, this adjustment is included in unallocated corporate expenses. Had the Company allocated the insurance restatement adjustment and 2004 adverse development among the operating segments, the reported pre-tax operating profits of the operating segments, as a whole, would have been reduced by \$19.3 million and \$1.5 million in 2004 and 2003, respectively, with an equal and offsetting change to unallocated Corporate expenses and therefore no change to consolidated pre-tax earnings for 2004 and 2003.

Corporate expenses in 2004 also included increases in professional fees primarily related to Sarbanes-Oxley Act compliance and preparation of amended tax returns, higher cost associated with the transitioning in of the new Chief Operating Officer, and a charge in the fourth quarter of 2004 for the lump sum payment of \$0.3 million to the non-employee Chairman of the Executive Committee of the Board of Directors of ABM. These increases were partially offset by the absence of fees related to the due diligence performed in 2003 for a

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proposed acquisition that was not completed and fees related to the use of outside counsel in 2003 while in the process of hiring a General Counsel. The new General Counsel was hired in May 2003.

COMPARISON OF 2003 TO 2002 — CONTINUING OPERATIONS

	2003	% of Sales	2002	% of Sales	Increase (Decrease)
	As Restated		As Restated (\$ In thousands)		
Revenues					
Sales and other income	\$ 2,262,476	100.0%	\$ 2,068,058	100.0%	9.4%
Gain on insurance claim	—		10,025		—
	2,262,476		2,078,083		8.9%
Expenses					
Operating expenses and cost of goods sold	2,035,982	90.0%	1,858,356	89.9%	9.6%
Selling, general and administrative	170,125	7.5%	156,257	7.6%	8.9%
Interest	758	0.0%	1,052	0.1%	(27.9)%
Intangible amortization	2,044	0.1%	1,085	0.1%	88.4%
	2,208,909	97.6%	2,016,750	97.5%	9.5%
Income from continuing operations before income taxes	53,567	2.4%	61,333	3.0%	(12.7)%
Income taxes	17,943	0.8%	19,649	1.0%	(8.7)%
Income from continuing operations	\$ 35,624	1.6%	\$ 41,684	2.0%	(14.5)%

See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, “Financial Statements and Supplementary Data,” and the section above entitled “Restatement Due to Correction of Errors.”

Income From Continuing Operations. Income from continuing operations in 2003 was \$35.6 million (\$0.71 per diluted share), a decrease of \$6.1 million or 14.5% from \$41.7 million (\$0.82 per diluted share) in 2002. A number of items affected the comparability of the fiscal years. Fiscal 2002 results benefited from a \$10.0 million pre-tax gain (\$6.3 million after-tax, \$0.12 per diluted share) from the receipt of two partial settlements totaling \$13.3 million from the WTC insurance claim, and \$2.0 million of income tax benefit (\$0.04 per diluted share) from the adjustment of prior-year estimated tax liabilities, partially offset by \$3.2 million of costs (\$2.0 million after-tax, \$0.04 per diluted share) associated with senior management changes. Fiscal 2003 results included \$9.6 million (\$6.0 million after-tax, \$0.12 per diluted share) of higher operating profits contributed by acquisitions that did not significantly impact results until after July 31, 2002. However, the positive impact of the acquisitions on fiscal 2003 results was more than offset by declines in operating profits in 2003 from Janitorial, primarily in the Northeast and Northwest regions, as well as Lighting and Parking. (See “Segment Information.”)

Sales. Sales in 2003 of \$2,262.5 million increased by \$194.4 million or 9.4% from \$2,068.1 million in 2002. Acquisitions that did not significantly impact results until after July 31, 2002 contributed \$182.0 million to the sales increase, primarily Lakeside, Horizon, Valet and HGO. The remainder of the increase was attributable to new business, partially offset by the impact of contract terminations and declines in sales due to increased vacancies and decreased project work and extra services as customers tightened their budgets.

Operating Expenses and Cost of Goods Sold. As a percentage of sales, operating expenses and cost of goods sold were 90.0% for 2003, compared to 89.9% for 2002. Consequently, as a percentage of sales, the Company’s gross profit of 10.0% in 2003 was slightly lower than the gross profit of 10.1% in 2002. The decline was due primarily to lower margins on new business, delays in planned terminations of unprofitable contracts in the Northeast region of Janitorial, a decline in sales from higher margin business due to increased vacancies

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in commercial office buildings, and higher reimbursements for out-of-pocket expenses from managed parking lot clients for which Parking had no margin benefit. Additionally, operating expenses for 2003 included higher insurance costs that could not be fully offset by price increases.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for 2003 were \$170.1 million compared to \$156.3 million for 2002. The \$13.8 million increase included \$12.6 million additional expenses contributed by acquisitions that did not impact results until after July 31, 2002, higher insurance costs, and annual salary increases. Additionally, corporate expenses in 2003 included higher directors and officers' insurance costs and professional fees. However, 2002 also reflected a total of \$7.0 million of charges including \$3.2 million of costs associated with the elimination of the Chief Administrative Officer position, the early retirement of the former Corporate General Counsel, the replacement of the President of Facility Services, as well as \$5.1 million higher bad debt provision in 2002 than in 2003. As a percentage of sales, selling, general and administrative expenses were 7.5% in 2003 and 2002.

Intangible Amortization. Intangible amortization was \$2.0 million for the year ended October 31, 2003 compared to \$1.1 million for the year ended October 31, 2002. As a result of the adoption of EITF 02-17 in 2003, a larger portion of the cost of business acquired was allocated to amortizable intangibles with a corresponding reduction in the amount allocated to goodwill.

Interest Expense. Interest expense, which includes loan amortization and commitment fees for the revolving credit facility, was \$0.8 million in 2003 compared to \$1.1 million in 2002. The decrease was primarily due to lower borrowings and interest rates during 2003, compared to 2002.

Income Taxes. The effective federal and state income tax rate for income from continuing operations was 33.5% for 2003, compared to 32.0% for 2002. The income tax provision for continuing operations for 2002 included a tax benefit of \$2.0 million principally from tax liability adjustments made after the filing of the 2001 income tax returns, while 2003 included \$0.7 million of tax benefit from the filing of the 2002 state and federal tax returns and \$0.2 million of income tax refund from filing prior years' amended returns.

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Segment Information

Under SFAS No. 131 criteria, Janitorial, Parking, Engineering, Security, and Lighting are reportable segments. The operating results of the former Elevator segment are reported separately under discontinued operation and are excluded from the table below, see “Discontinued Operation.” All other services are included in the “Other” segment. Corporate expenses are not allocated. Additionally, while virtually all insurance claims arise from the operating segments, the insurance restatement adjustments were included in unallocated corporate expenses. Had the Company allocated these insurance charges among the operating segments, the reported pre-tax operating profits of the operating segments, as a whole, would have been lower with an equal and offsetting change to unallocated Corporate expenses and therefore no change to consolidated pre-tax earnings for the periods presented.

	2003	2002	Better (Worse)
	As Restated	As Restated (\$ In thousands)	
Sales and other income:			
Janitorial	\$ 1,368,282	\$ 1,197,035	14.3%
Parking	380,576	363,511	4.7%
Security	159,670	140,569	13.6%
Engineering	180,230	173,561	3.8%
Lighting	127,539	130,858	(2.5)%
Other	45,394	61,963	(26.7)%
Corporate	785	561	39.9%
	<u>\$ 2,262,476</u>	<u>\$ 2,068,058</u>	<u>9.4%</u>
Operating profit:			
Janitorial	\$ 53,899	\$ 51,837	4.0%
Parking	6,238	6,948	(10.2)%
Security	6,485	5,639	15.0%
Engineering	9,925	10,033	(1.1)%
Lighting	5,646	8,261	(31.7)%
Other	1,337	(1,190)	—
Corporate expense	(29,205)	(29,168)	(0.1)%
	<u>54,325</u>	<u>52,360</u>	<u>3.8%</u>
Gain on insurance claim	—	10,025	—
Interest expense	(758)	(1,052)	27.9%
	<u>53,567</u>	<u>61,333</u>	<u>(12.7)%</u>

See Note 2 of Notes to Consolidated Financial Statements contained in Item 8, “Financial Statements and Supplementary Data,” and the section above entitled “Restatement Due to Correction of Errors.”

Janitorial. Sales for Janitorial were \$171.2 million or 14.3% higher in 2003 than in 2002, primarily due to the \$172.8 million contribution from Lakeside, Horizon and HGO. These increases in sales were substantially offset by the termination of unprofitable jobs in the Northeast and Southeast regions, the termination of a major contract due to collection issues in the Northwest region, and declines in sales from existing contracts due to increased vacancies and decreased extra services as customers tightened their budgets. In addition, sales for 2002 included \$1.0 million of interest on receivables from the resolution of past-due balances with two customers.

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Operating profits in 2003 were \$2.1 million or 4.0% higher than in 2002 primarily due to the \$8.8 million of operating profit improvement from Lakeside, Horizon and HGO, which was substantially offset by declines in operating profits in the Northeast and Northwest regions of \$4.0 million and \$2.5 million, respectively.

The decline in operating profits in the Northeast region of Janitorial, especially in New York City, was primarily due to new business priced at lower margins as a result of competitive pressures and a decline in sales from higher margin business due to increased vacancies. The benefit of terminating some unprofitable contracts has been offset by customer cancellations of some profitable service contracts. Further, first quarter 2002 results for New York City operations benefited from the extra clean-up work performed following the September 11, 2001 terrorist attacks. The region's operating profits in 2003 were impacted by legal fees associated with a lawsuit related to the collection of a past-due accounts receivable from a large former customer and costs associated with implementing management changes in this region.

The decline in operating profits in the Northwest region of Janitorial was due to the loss of a major contract, reduced revenues from existing contracts and higher legal fees primarily due to a gender discrimination lawsuit filed against ABM by a former employee in September 1999 in the State of Washington. ABM has not recorded any liability in its financial statements associated with the damages and costs awarded to the former employee. However, as of October 31, 2003, ABM has incurred and recorded legal fees of \$0.3 million associated with the appeal. See Item 3, "Legal Proceedings."

Parking. Parking sales increased by \$17.1 million or 4.7%, while operating profits decreased by \$0.7 million or 10.2% during 2003 compared to 2002. The sales increase included \$11.5 million of higher reimbursements for out-of-pocket expenses from managed parking lot clients for which Parking had no margin benefit, sales from the Valet acquisition, and the receipt of a \$1.1 million settlement for prior period services performed related to a managed parking lot contract in Houston, Texas. These sales increases were partially offset by declines in sales from the hi-tech sectors of San Francisco and Seattle where the economic downturn resulted in high office building vacancies, the loss of a major contract in Seattle, and the declines in sales at airport and hotel facilities. The decrease in operating profits was primarily due to increased insurance costs, including self-insured reserve amounts, which could not be fully offset by price increases, and the adverse effect of the military conflict in Iraq and the outbreak of Severe Acute Respiratory Syndrome ("SARS") on parking at airport and hotel facilities, as well as a provision of \$1.0 million for parking sales taxes for prior years based on a pending sales tax audit. Additionally, operating profit for 2002 included a \$0.5 million gain on the early termination of a parking lease.

Security. Security sales increased \$19.1 million or 13.6% for 2003 compared to 2002 primarily due to an increase of \$9.5 million in the sales contributed by the operations acquired from Triumph Security Corporation in New York City on January 26, 2002 and Foulke Associates, Inc. located throughout Georgia, Florida, Maryland, Pennsylvania and Virginia, on February 28, 2002. In addition, the award of a national contract from a Real Estate Investment Trust ("REIT") added \$8.4 million in sales for 2003. Operating profits increased by \$0.8 million or 15.0% due to increased sales and tight control over operating expenses, partially offset by start-up costs incurred in 2003 related to the new contract with the REIT.

Engineering. Engineering sales increased \$6.7 million or 3.8% during 2003 compared to 2002 primarily due to new business, offset in part by a \$7.0 million decline in sales from existing large customers that have reduced their spending. Operating profits decreased by \$0.1 million or 1.1% from 2002 to 2003 primarily due to settlements of disputed amounts with two customers totaling \$0.5 million, a settlement with a competing firm on a bid-related issue requiring payment while the customer contract is in force, and consulting costs associated with a study to assist Engineering to expand into new markets and broaden the scope of its services.

Lighting. Lighting sales decreased \$3.3 million or 2.5% and operating profits decreased \$2.6 million or 31.7% during 2003 compared to 2002. The decrease in sales, particularly in the Northeast and North Central regions, was primarily due to significantly less retrofit projects in 2003 compared to 2002 and the termination of several national service contracts during 2003. Lighting's customers, especially retailers, significantly reduced their capital budgets and spent less on energy saving initiatives in 2003. The decline in operating profits was primarily due to lower sales and higher selling, general and administrative expenses, partially offset by a \$0.3 million gain recognized in the first quarter of 2003 related to the early termination of a contract. The

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Northeast and North Central regions hired additional managers in several branches and incurred higher labor-related costs due to training and management duplication during the transition.

Other. Sales for the Other segment were down \$16.6 million or 26.7% in 2003 compared to 2002. The lower sales in 2003 were primarily due to decreased capital project work as customers tightened their budgets and Facility Services' loss of the Consolidated Freightways account due to bankruptcy in September 2002. The Other segment produced a profit of \$1.3 million in 2003 compared to a loss of \$1.2 million in 2002. Operating loss in 2002 included a \$1.2 million write-down of work-in-progress in Mechanical, a \$1.3 million bad debt provision in Facility Services for the Consolidated Freightways account, as well as \$0.4 million in costs associated with the replacement of the President of Facility Services.

Corporate. Corporate expenses for 2003 were flat compared to 2002. However, 2002 included \$2.8 million of costs associated with the elimination of the Chief Administrative Officer position and the early retirement of the former General Counsel. Corporate expenses for 2003 reflected a \$1.1 million increase in premiums paid for directors and officers' liability insurance (from \$0.3 million in 2002 to \$1.4 million in 2003), as well as higher professional fees related to the due diligence performed for a proposed acquisition that was not completed, Sarbanes-Oxley compliance, and additional use of outside legal counsel while in the process of recruiting a new General Counsel. The new General Counsel was hired on May 1, 2003.

Discontinued Operation

On August 15, 2003, the Company completed the sale of substantially all of the operating assets of Amtech Elevator to Otis Elevator. The operating assets sold included customer contracts, accounts receivable, facility leases and other assets, as well as a perpetual license to the name "Amtech Elevator Services." The consideration in connection with the sale included \$112.4 million in cash and Otis Elevator's assumption of trade payables and accrued liabilities. The Company realized a gain on the sale of \$52.7 million, which is net of \$32.7 million of income taxes, of which \$30.5 million was paid with the extension of the federal and state income tax returns on January 15, 2004.

The operating results and cash flows of the Elevator segment have been reported as discontinued operation in the accompanying consolidated financial statements. Income taxes have been allocated using the estimated combined federal and state tax rates applicable to Elevator for each of the periods presented.

The operating results of the discontinued operation for the years ended October 31, 2003 and 2002 are shown below. Operating results for 2003 are for the period beginning November 1, 2002 through the date of sale, August 15, 2003.

	2003	2002
	(In thousands)	
Revenues	\$ 88,147	\$ 113,874
Income before income taxes	4,142	4,319
Income taxes	1,582	1,649
Net income	\$ 2,560	\$ 2,670

Subsequent Events

On November 1, 2004, the Company acquired substantially all of the operating assets of Sentinel Guard Systems ("Sentinel"), a Los Angeles-based company, from Tracerton Enterprises, Inc. Sentinel, with annual revenues in excess of \$13.0 million, was a provider of security officer services primarily to high-rise, commercial and residential structures. In addition to its Los Angeles business, Sentinel also operates an office in San Francisco. Sentinel operations have been merged into the Company's American Commercial Security Services California operations. Under this transaction, the Company acquired customer accounts receivable and other assets of approximately \$1.3 million and assumed liabilities of approximately \$1.7 million. The consideration paid by the Company included an initial payment of \$3.4 million in shares of ABM's common stock. Additional consideration includes contingent payments, based on achieving certain revenue and

profitability targets over a three-year period, estimated to be between \$0.5 million and \$0.75 million per year, payable in shares of ABM's common stock.

On December 22, 2004, the Company acquired the operating assets of Colin Service Systems, Inc., ("Colin Service"), a facility services company based in New York, for an initial payment of approximately \$13.6 million in cash. Under certain conditions, additional consideration may include an estimated \$1.9 million payment upon the collection of the acquired receivables and three annual contingent cash payments each for approximately \$1.1 million, which are based on achieving annual revenue targets over a three-year period. With annual revenues in excess of \$70 million, Colin Service is a provider of professional onsite management, commercial office cleaning, specialty cleaning, snow removal and engineering services. Under the transaction, the Company also acquired customer accounts receivables of \$7.8 million and other operating assets. With the exception of office leases, the Company did not assume any of Colin Service's liabilities.

Adoption of Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 became effective in fiscal years beginning after December 15, 2001, with early adoption permitted. The Company adopted the provisions of SFAS No. 142 beginning with the first quarter of 2002. In accordance with this standard, goodwill is no longer amortized, but is subject to an annual assessment for impairment. The Company is required to perform goodwill impairment tests on an annual basis and, in certain circumstances, between annual tests. As of October 31, 2004, no impairment of the Company's goodwill carrying value has been indicated.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 144 became effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 requires that the same accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 retains the requirements of SFAS No. 121 to recognize an impairment loss if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and to measure the impairment loss as the difference between the carrying amount and fair value of the asset. The Company's adoption of SFAS No. 144 did not have an impact on its financial position, results of operations or liquidity.

In January 2002, the EITF released Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," which the Company adopted in 2002. For the Company's Parking segment this pronouncement requires both revenues and expenses be recognized, in equal amounts, for costs directly reimbursed from its managed parking lot clients. Previously, expenses directly reimbursed under managed parking lot agreements were netted against the reimbursement received. EITF No. 01-14 did not change the income statement presentation of revenues and expenses of any other segments and had no impact on the Company's operating profits or net income. Parking sales related solely to the reimbursement of expenses totaled \$215.8 million, \$215.3 million and \$203.8 million for years ended October 31, 2004, 2003 and 2002, respectively.

In October 2002, the EITF released Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination." EITF Issue No. 02-17 provides guidance regarding the use of certain assumptions, such as expectations of future contract renewals, in estimating the fair value of customer relationship intangible assets acquired in a business combination. EITF Issue No. 02-17 was effective for business combinations consummated after October 25, 2002. The impact of the adoption of EITF 02-17 is discussed in Note 2 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," and the section above entitled "Restatement Due to Correction of Errors."

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In November 2002, the EITF issued Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." EITF Issue No. 02-16 provides accounting guidance on how a customer (end user) and a reseller should characterize certain consideration received from a vendor and when to recognize and how to measure that consideration in the income statement. EITF Issue No. 02-16 was effective for fiscal periods beginning after December 15, 2002 for resellers, with early application permitted, while for customers it was effective prospectively for arrangements entered into after November 21, 2002. The Company, as a reseller of certain supplies and equipment, adopted the provisions of EITF Issue No. 02-16 in 2003. The Company's adoption of EITF Issue No. 02-16 did not have a material impact on its financial position, results of operations or liquidity.

In November 2002, the FASB issued Financial Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. The initial recognition and measurement provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The Company's adoption of FIN 45 did not have an impact on its financial position, results of operations or liquidity. (See Note 16 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," and the section above entitled "Off-Balance Sheet Arrangements.")

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amended SFAS No. 123 "Accounting for Stock-Based Compensation" to provide for alternative methods of transition to SFAS No. 123 and amended disclosure provisions. SFAS No. 148 was effective for financial statements for fiscal years ending after December 15, 2002. The Company continues to account for stock-based employee compensation plans using the intrinsic value method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and adopted the disclosure provisions of SFAS No. 148 effective November 1, 2002.

In May 2003, the EITF released Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides accounting guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The Company adopted the provisions of EITF Issue No. 00-21 effective in the fourth quarter of 2003. The Company's Lighting segment earns revenues under service contracts that have multiple deliverables including initial services of relamping or retrofitting and future services of periodic maintenance. Lighting's multiple deliverable contracts do not meet the criteria for treating the deliverables as separate units of accounting, hence, the revenues and direct costs associated with the initial services are deferred and amortized over the service period on a straight-line basis. This is consistent with the revenue recognition methodology used by Lighting prior to the adoption of EITF Issue No. 00-21. Therefore, the adoption had no material effect on the Company's results of operations or financial condition.

In December 2003, the FASB issued FIN 46R, a revision to FIN 46, "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R was effective at the end of the first interim period ending after March 15, 2004. The Company's adoption of FIN 46R did not have a material impact on its financial position, results of operations or liquidity.

In December 2003, the FASB issued revised SFAS No. 132 (revised 2003), "Employer's Disclosure about Pensions and Other Post-Retirement Benefits." SFAS No. 132R revised employers' disclosure about pension plans and other post-retirement benefit plans. SFAS No. 132R requires additional disclosures in annual financial statements about the types of plan assets, investment strategy, measurement dates, plan obligations, cash flows, and components of net periodic benefit cost of defined benefit pension plans and other post-retirement benefit plans. The annual disclosure requirements are effective for fiscal years ending after December 15, 2003. SFAS No. 132R also requires interim disclosure of the elements of net periodic benefit cost and the total amount of contributions paid or expected to be paid during the current fiscal year if

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significantly different from amounts previously disclosed. The interim disclosure requirements of SFAS No. 132R are effective for interim periods beginning after December 15, 2003. The Company's adoption of SFAS No. 132R did not have a material impact on its financial position, results of operations or liquidity. (See Note 7 of Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data.")

New Accounting Pronouncement

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This statement is a revision to SFAS No. 123, "Accounting for Stock-Based Compensation" and APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. In accordance with the standard, the Company will adopt SFAS No. 123R effective August 1, 2005.

Upon adoption, the Company has two application methods to choose from: the modified-prospective transition approach or the modified-retrospective transition approach. Under the modified-prospective transition method the Company would be required to recognize compensation cost for share-based awards to employees based on their grant-date fair value from the beginning of the fiscal period in which the recognition provisions are first applied as well as compensation cost for awards that were granted prior to, but not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required. Under the modified-retrospective transition method, the Company would restate prior periods by recognizing compensation cost in the amounts previously reported in the pro forma disclosure under SFAS No. 123. Under this method, the Company is permitted to apply this presentation to all periods presented or to the start of the fiscal year in which SFAS No. 123R is adopted. The Company would follow the same guidelines as in the modified-prospective transition method for awards granted subsequent to adoption and those that were granted and not yet vested. The Company has not yet determined which methodology it will adopt but believes that the impact the adoption of SFAS No. 123R will have on its financial position or results of operations will approximate the magnitude of the stock-based employee compensation cost disclosed in Note 10 of the Notes to Consolidated Financial Statements contained in Item 8, "Financial Statements and Supplementary Data," pursuant to the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure."

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses. On an ongoing basis, the Company evaluates its estimates, including those related to self-insurance reserves, allowance for doubtful accounts, valuation allowance for the net deferred income tax asset, estimate of useful life of intangible assets, impairment of goodwill, and contingencies and litigation liabilities. The Company bases its estimates on historical experience, independent valuations and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Self-Insurance Reserves. Certain insurable risks such as general liability, automobile property damage and workers' compensation are self-insured by the Company. However, commercial policies are obtained to provide coverage for certain risk exposures subject to specified limits. Accruals for claims under the Company's self-insurance program are recorded on a claim-incurred basis. The Company uses an independent actuarial firm to provide an estimate of the Company's claim costs and liabilities annually. In prior years, the Company consistently accrued its self-insurance reserves at the low end of a range between 85 percent to 115 percent of the actuarial point estimate of claim costs and liabilities. On December 14, 2004, the Company concluded that the methodology used in prior years was not in accordance with generally accepted accounting principles. Pursuant to SFAS No. 5, "Accounting for Contingencies" and FIN 14, "Reasonable Estimation of the Amount of a Loss," the minimum amount in a range may be used to accrue self-insurance reserves only if no amount within the range is a better estimate than any other amount. Because the actuarially calculated point estimate is considered a better estimate, the Company has now determined that it is, and was during those prior fiscal years, the correct liability to record. Hence, the Company now accrues the actuarial point estimate.

Using the annual actuarial report, management develops annual insurance costs for each operation, expressed as a rate per \$100 of exposure (labor and revenue) to estimate insurance costs on a quarterly basis. Additionally, management monitors new claims and claim development to assess the adequacy of the insurance reserves. The estimated future charge is intended to reflect the recent experience and trends. Trend analysis is complex and highly subjective. The interpretation of trends requires the knowledge of all factors affecting the trends that may or may not be reflective of adverse development (*e.g.*, change in regulatory requirements and change in reserving methodology). If the trends suggest that the frequency or severity of claims incurred increased, the Company might be required to record additional expenses for self-insurance liabilities. Additionally, the Company uses third party service providers to administer its claims and the performance of the service providers can impact the reserves.

Allowance for Doubtful Accounts. The Company's accounts receivable arise from services provided to its customers and are generally due and payable on terms varying from the receipt of invoice to net thirty days. The Company estimates an allowance for accounts it does not consider fully collectible. Changes in the financial condition of the customer or adverse development in negotiations or legal proceedings to obtain payment could result in the actual loss exceeding the estimated allowance.

Deferred Income Tax Asset Valuation Allowance. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. If management determines it is more likely than not that the net deferred tax asset will be realized, no valuation allowance is recorded. At October 31, 2004, the net deferred tax asset was \$89.7 million and no valuation allowance was recorded. Should future income be less than anticipated, the net deferred tax asset may not be fully recoverable.

Other Intangible Assets Apart from Goodwill. The Company engages a third party valuation firm to independently appraise the value of intangible assets acquired in larger sized business combinations. For smaller acquisitions, the Company performs an internal valuation of the intangible assets using the discounted cash flow technique. The customer relationship intangible assets are being amortized using the sum-of-the-years-digits method over the useful lives consistent with the estimated useful life considerations used in the determination of their fair values. The accelerated method of amortization reflects the pattern in which the economic benefits of the customer relationship intangible asset are expected to be realized. Trademarks and trade names are being amortized over their useful lives using the straight-line method. Other intangible assets, consisting principally of contract rights, are being amortized over the contract periods using the straight-line method. At least annually, the Company evaluates the remaining useful life of an intangible asset to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of the asset's remaining useful life changes, the remaining carrying amount of the intangible asset would be amortized over the revised remaining useful life. Furthermore, the remaining unamortized book value of

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intangibles will be reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." The first step of an impairment test under SFAS No. 144 is a comparison of the future cash flows, undiscounted, to the remaining book value of the intangible. If the future cash flows are insufficient to recover the remaining book value, a fair value of the asset, depending on its size, will be independently or internally determined and compared to the book value to determine if an impairment exists.

Goodwill. In accordance with SFAS No. 142, "Goodwill and Other Intangibles," goodwill is no longer amortized. Rather, the Company performs goodwill impairment tests on an at least an annual basis, in the fourth quarter, using the two-step process prescribed in SFAS No. 142. The first step is to evaluate for potential impairment by comparing the reporting unit's fair value with its book value. If the first step indicates potential impairment, the required second step allocates the fair value of the reporting unit to its assets and liabilities, including recognized and unrecognized intangibles. If the implied fair value of the reporting unit's goodwill is lower than its carrying amount, goodwill is impaired and written down to its implied fair value. The fair value of the reporting unit, if required to be determined, will be independently appraised.

Contingencies and Litigation. ABM and certain of its subsidiaries have been named defendants in certain litigations arising in the ordinary course of business including certain environmental matters. When a loss is probable and estimable the Company records the estimated loss. The actual loss may be greater than estimated, or litigation where the outcome was not considered probable might result in a loss.

Factors That May Affect Future Results

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

The disclosure and analysis in this Annual Report on Form 10-K contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, the Company also provides forward-looking statements in other written materials released to the public as well as oral forward-looking statements. Such statements give the Company's current expectations or forecasts of future events; they do not relate strictly to historical or current facts. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, and the outcome of contingencies and other uncertainties, such as legal proceedings, and financial results. Management tries, wherever possible, to identify such statements by using words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project" and similar expressions.

Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they evaluate forward-looking statements.

The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. Investors are advised, however, to consult any future disclosures the Company makes on related subjects in its Form 10-Q and Form 8-K reports to the Securities and Exchange Commission. Set forth below are factors that the Company thinks, individually or in the aggregate, could cause the Company's actual results to differ materially from past results or those anticipated, estimated or projected. The Company notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. The public should understand that it is not possible to predict or identify all such factors. Consequently, the following should not be considered to be a complete discussion of all potential risks or uncertainties.

A decline in commercial office building occupancy and rental rates could affect the Company's sales and profitability. The Company's sales directly depend on commercial real estate occupancy levels and the rental income of building owners. Decreases in these levels reduce demand and also create pricing pressures on building maintenance and other services provided by the Company. In certain geographic areas and service segments, the Company's most profitable work includes jobs performed for tenants in buildings in which it performs building services for the property owner or management company. A decline in occupancy rates could result in a decline in fees paid by landlords as well as tenant work which would lower sales and margins.

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In addition, in those areas of its business where the Company's workers are unionized, decreases in sales can be accompanied by relative increases in labor costs if the Company is obligated by collective bargaining agreements to retain workers with seniority and consequently higher compensation levels.

An increase in costs that the Company cannot pass on to customers could affect profitability. The Company attempts to negotiate contracts under which its customers agree to pay for increases in certain underlying costs associated with providing its services, particularly labor costs, workers' compensation and other insurance costs, and any applicable payroll taxes. If the Company cannot pass through increases in its costs to its customers under its contracts in a timely manner or at all, then the Company's expenses will increase without a corresponding increase in sales. Further, if the Company's sales decline, the Company may not be able to reduce its expenses correspondingly or at all.

The financial difficulties or bankruptcy of one or more of the Company's major customers could adversely affect results. The Company's ability to collect its accounts receivable and future sales depend, in part, on the financial strength of its customers. The Company estimates an allowance for accounts it does not consider collectible and this allowance adversely impacts profitability. In the event customers experience financial difficulty, and particularly if bankruptcy results, profitability is further impacted by the Company's failure to collect accounts receivable in excess of the estimated allowance. Additionally, the Company's future sales would be reduced.

The Company could experience major collective bargaining disputes that would lead to the loss of sales or expense increases. Approximately 41% of the Company's employees are subject to collective bargaining agreements at the local level. When one or more of the collective bargaining agreements are subject to renegotiation, the Company and the union may not agree on terms, which could result in a strike, work slowdown or other job action at one or more of the Company's locations, which could disrupt the Company in providing its services. Alternatively, the result of renegotiating a collective bargaining agreement could be a substantial increase in labor and benefits expenses that the Company could be unable to pass through to its customers for some period of time, if at all. In addition, the Company's non-union competitors may attempt to use any disputes that the Company has with its unions to the competitors' advantage in gaining market share.

The Company is subject to intense competition. The Company believes that each aspect of its business is highly competitive, and that such competition is based primarily on price and quality of service. The Company provides nearly all its services under contracts originally obtained through competitive bidding. The low cost of entry to the facility services business has led to strongly competitive markets made up of large numbers of mostly regional and local owner-operated companies, located in major cities throughout the United States and in British Columbia, Canada (with particularly intense competition in the janitorial business in the Southeast and South Central regions of the United States). The Company also competes with the operating divisions of a few large, diversified facility services and manufacturing companies on a national basis. Indirectly, the Company competes with building owners and tenants that can perform internally one or more of the services provided by the Company. These building owners and tenants might have a competitive advantage when the Company's services are subject to sales tax and internal operations are not. Furthermore, competitors may have lower costs because privately-owned companies operating in a limited geographic area may have significantly lower labor and overhead costs. These strong competitive pressures could inhibit the Company's success in bidding for profitable business and its ability to increase prices even as costs rise, thereby reducing margins.

The Company's success depends on its ability to preserve its long-term relationships with its customers. The Company's contracts with its customers are generally cancelable upon relatively short notice. However, the business associated with long-term relationships is generally more profitable than that from short-term relationships because the Company incurs start-up costs with many new contracts, particularly for training, operating equipment and uniforms. Once these costs are expensed or fully depreciated over the appropriate periods, the underlying contracts become more profitable. Therefore, the Company's loss of long-term customers could have an adverse impact on its profitability even if the Company generates equivalent sales from new customers.

Weakness in airline travel and the hospitality industry could adversely impact the Company's Parking results. A significant portion of the Company's parking sales is tied to the numbers of airline passengers and hotel guests. Parking results were adversely affected after the terrorist attacks of September 11, 2001, during the SARS crisis and at the start of the military conflict in Iraq as people curtailed both business and personal travel and hotel occupancy rates declined. As airport security precautions expanded, the decline in travel was particularly noticeable at airports associated with shorter flights for which ground transportation became the alternative. While it appears that airline travel and the hospitality industry are now recovering, there can be no assurance that airline travel will reach previous levels or increased concerns about terrorism, disease, or other adversities will not again reduce travel, adversely impacting Parking sales and operating profits.

Continued low levels of capital investments by customers could adversely impact the results at Lighting and Mechanical segments. While the economy appears to be recovering in recent months, the commercial office building and retail sectors have been slow to make capital expenditures for lighting and mechanical projects. While we expect capital investment in these areas to increase in the coming year, customers' capital project budgets could continue at low levels, which would adversely impact the Company's results.

Acquisition activity could slow or be unsuccessful. A significant portion of the Company's historic growth has come through acquisitions. A slowdown in acquisitions could lead to a slower growth rate. Because new contracts frequently involve start-up costs, sales associated with acquired operations generally have higher margins than new sales associated with internal growth. Therefore a slowdown in acquisition activity could lead to constant or lower margins, as well as lower revenue growth. Because contracts in the Company's businesses are generally short-term and personal relationships are significant in retaining customers, the Company relies on its ability to retain the managers of its acquired businesses. An inability to retain the services of the former owners and senior managers of acquired businesses could adversely affect the projected benefits of an acquisition. Moreover, the inability to successfully integrate acquisitions into the Company or to achieve the operational efficiencies anticipated in acquisitions could adversely impact sales and costs.

The Company incurs significant accounting and other control costs, which could increase. As a publicly-traded corporation, the Company incurs certain costs to comply with regulatory requirements. Most of the Company's competitors are privately-owned so these costs can be a competitive disadvantage for the Company. Should the Company's sales decline, its costs associated with regulatory compliance will rise as a percentage of sales and under certain circumstances could increase in dollars as well.

A change in the frequency or severity of claims against the Company, a deterioration in claims management, or the cancellation or nonrenewal of the Company's primary insurance policies could adversely affect the Company's results. While the Company attempts to establish adequate self-insurance reserves using an annual actuarial study, unanticipated increases in the frequency or severity of claims against the Company would have an adverse financial impact. Also, where the Company self-insures, a deterioration in claims management, whether by the Company or by a third party claims administrator, could lead to delays in settling claims thereby increasing claim costs, particularly in the workers' compensation area. In addition, catastrophic uninsured claims against the Company or the inability of the Company's insurance carriers to pay otherwise insured claims would have a material adverse financial impact on the Company.

Furthermore, many customers, particularly institutional owners and large property management companies, prefer to do business with contractors, such as the Company, with significant financial resources, who can provide substantial insurance coverage. Should the Company be unable to renew its umbrella and other commercial insurance policies at competitive rates, this loss would have an adverse impact on the Company's business.

While the Company believes that it now has adequate internal control over financial reporting, the management of the Company is required to evaluate internal control over financial reporting under Section 404 of Sarbanes-Oxley and any adverse results from such evaluation could result in a loss of investor confidence in the Company's financial reports and have an adverse effect on ABM's stock price. Pursuant to Section 404 of Sarbanes-Oxley, beginning with the Company's Annual Report on Form 10-K for the fiscal year ending October 31, 2005, management will be required to furnish a report on the Company's internal control over financial reporting. Such report will contain, among other matters, an assessment of the

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effectiveness of the Company's internal control over financial reporting as of the end of its fiscal year, including a statement as to whether or not the Company's internal control over financial reporting is effective. This assessment must include disclosure of any material weakness in internal control over financial reporting identified by management. This report must also contain a statement that the Company's auditors have issued an attestation report on management's assessment of such internal control.

Public Company Accounting Oversight Board Auditing Standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of the internal control over financial reporting under Section 404. Management's assessment of internal control over financial reporting requires management to make subjective judgments and, particularly because Auditing Standards No. 2 is newly effective, some of the judgments will be in areas that may be open to interpretation and therefore the report may be uniquely difficult to prepare and the Company's auditors may not agree with management's assessments.

The Company is still performing the process documentation and evaluation needed to comply with Section 404, which is both costly and challenging. During this process, if management identifies one or more material weakness in internal control over financial reporting (such as was identified in connection with the preparation of the 2004 financial statements) that it is not able to remediate to meet the October 31, 2005 deadline, management will be unable to assert such internal control is effective. If management is unable to assert that internal control over financial reporting is effective as of October 31, 2005 (or if the Company's auditors are unable to attest that management's report is fairly stated or they are unable to express an opinion on the effectiveness of the Company's internal control over financial reporting), the Company could lose investor confidence in the accuracy and completeness of its financial reports, which would have an adverse effect on ABM's stock price.

Additionally, while the Company currently anticipates being able to satisfy the requirements of Section 404 in a timely fashion, it cannot be certain as to the timing of completion of its evaluation, testing and any required remediation due in large part to the fact that there is no precedent available by which to measure compliance with the new Auditing Standard No. 2 at the present time. If management is not able to complete the assessment under Section 404 in a timely manner, management and the Company's auditors would be unable to conclude that the Company's internal control over financial reporting is effective as of October 31, 2005.

Other issues and uncertainties may include:

- labor shortages that adversely affect the Company's ability to employ entry level personnel,
- a reduction or revocation of the Company's line of credit that could increase interest expense and the cost of capital,
- legislation or other governmental action that detrimentally impacts the Company's expenses or reduces sales by adversely affecting the Company's customers such as state or locally-mandated healthcare benefits,
- new accounting pronouncements or changes in accounting policies,
- impairment of goodwill or other intangible assets,
- the resignation, termination, death or disability of one or more of the Company's key executives that adversely affects customer retention or day-to-day management of the Company,
- inclement weather which could disrupt the Company in providing its services resulting in reduced sales, or work performed following inclement weather could result in higher cost with partial or no corresponding compensation from customers leading to lower margins.

The Company believes that it has the human and financial resources for business success, but future profit and cash flow can be adversely (or advantageously) influenced by a number of factors, including those discussed above, any and all of which are inherently difficult to forecast.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not issue or invest in financial instruments or their derivatives for trading or speculative purposes. 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. At October 31, 2004, the Company had no outstanding long-term debt. Although the Company's assets included \$63.4 million in cash and cash equivalents at October 31, 2004, market rate risk associated with changing interest rates in the United States is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

ABM Industries Incorporated:

We have audited the accompanying consolidated balance sheets of ABM Industries Incorporated and subsidiaries as of October 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement Schedule II. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABM Industries Incorporated and subsidiaries as of October 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement Schedule II, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the accompanying consolidated financial statements, the consolidated balance sheet as of October 31, 2003, and the related consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for each of the years in the two-year period ended October 31, 2003 have been restated.

/s/ KPMG LLP

KPMG LLP

San Francisco, California
January 14, 2005

ABM Industries Incorporated and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	October 31,	
	2004	2003
	As Restated (In thousands, except share data)	
Assets		
Cash and cash equivalents	\$ 63,369	\$ 110,947
Trade accounts receivable (less allowances of \$8,372 and \$6,089)	321,449	286,606
Inventories	22,260	21,419
Deferred income taxes	40,918	36,121
Prepaid expenses and other current assets	38,092	44,037
	<hr/>	<hr/>
Total current assets	486,088	499,130
Investments and long-term receivables	7,359	11,459
Property, plant and equipment (less accumulated depreciation of \$80,296 and \$74,754)	31,354	31,988
Goodwill (less accumulated amortization of \$69,386)	227,447	188,809
Other intangibles (less accumulated amortization of \$7,988 and \$4,845)	22,290	15,849
Deferred income taxes	48,802	41,337
Other assets	19,184	15,734
	<hr/>	<hr/>
Total assets	\$ 842,524	\$ 804,306
	<hr/>	<hr/>
Liabilities		
Trade accounts payable	\$ 45,235	\$ 38,143
Income taxes payable	10,065	36,658
Accrued liabilities:		
Compensation	64,826	61,691
Taxes — other than income	18,366	15,297
Insurance claims	66,262	55,499
Other	49,674	49,403
	<hr/>	<hr/>
Total current liabilities	254,428	256,691
Retirement plans	25,658	24,175
Insurance claims	120,277	93,418
	<hr/>	<hr/>
Total liabilities	400,363	374,284
	<hr/>	<hr/>
Stockholders' equity		
Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 52,707,000 and 51,767,000 shares issued at October 31, 2004 and 2003, respectively	527	518
Additional paid-in capital	178,543	166,497
Accumulated other comprehensive loss	(108)	(268)
Retained earnings	328,258	317,261
Cost of treasury stock (4,000,000 and 3,400,000 shares at October 31, 2004 and October 31, 2003, respectively)	(65,059)	(53,986)
	<hr/>	<hr/>
Total stockholders' equity	442,161	430,022
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 842,524	\$ 804,306
	<hr/>	<hr/>

The accompanying notes are an integral part of the consolidated financial statements.

ABM Industries Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended October 31,		
	2004	2003	2002
	As Restated (In thousands, except per share data)		As Restated
Revenues			
Sales and other income	\$ 2,416,223	\$ 2,262,476	\$ 2,068,058
Gain on insurance claim	—	—	10,025
	<u>2,416,223</u>	<u>2,262,476</u>	<u>2,078,083</u>
Expenses			
Operating expenses and cost of goods sold	2,187,659	2,035,982	1,858,356
Selling, general and administrative	176,667	170,125	156,257
Interest	1,016	758	1,052
Intangible amortization	4,519	2,044	1,085
	<u>2,369,861</u>	<u>2,208,909</u>	<u>2,016,750</u>
Income from continuing operations before income taxes	46,362	53,567	61,333
Income taxes	15,889	17,943	19,649
Income from continuing operations	30,473	35,624	41,684
Income from discontinued operation, net of income taxes	—	2,560	2,670
Gain on sale of discontinued operation, net of income taxes	—	52,736	—
Net income	<u>\$ 30,473</u>	<u>\$ 90,920</u>	<u>\$ 44,354</u>
Net income per common share — Basic			
Income from continuing operations	\$ 0.63	\$ 0.73	\$ 0.85
Income from discontinued operation	—	0.05	0.05
Gain on sale of discontinued operation	—	1.07	—
	<u>\$ 0.63</u>	<u>\$ 1.85</u>	<u>\$ 0.90</u>
Net income per common share — Diluted			
Income from continuing operations	\$ 0.61	\$ 0.71	\$ 0.82
Income from discontinued operation	—	0.05	0.05
Gain on sale of discontinued operation	—	1.06	—
	<u>\$ 0.61</u>	<u>\$ 1.82</u>	<u>\$ 0.87</u>
Average common and common equivalent shares			
Basic	48,641	49,065	49,116
Diluted	50,064	50,004	51,015

The accompanying notes are an integral part of the consolidated financial statements.

ABM Industries Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balance November 1, 2001 as originally reported	48,778	\$ 488	—	\$ —	\$ 130,998	\$ (763)	\$ 230,454	\$ 361,177
Adjustments to opening stockholders' equity	—	—	—	—	—	—	(12,102)	(12,102)
Balance November 1, 2001, as restated	48,778	\$ 488	—	\$ —	\$ 130,998	\$ (763)	\$ 218,352	\$ 349,075
Comprehensive income:								
Net income, as restated	—	—	—	—	—	—	44,354	44,354
Foreign currency translation	—	—	—	—	—	(26)	—	(26)
Comprehensive income, as restated	—	—	—	—	—	—	—	44,328
Dividends:								
Common stock	—	—	—	—	—	—	(17,730)	(17,730)
Tax benefit from exercise of stock options	—	—	—	—	1,384	—	—	1,384
Stock purchases	—	—	(1,400)	(23,632)	—	—	—	(23,632)
Stock issued under employees' stock purchase and option plans and for acquisition	1,619	16	—	—	18,753	—	—	18,769
Balance October 31, 2002, as restated	50,397	\$ 504	(1,400)	\$ (23,632)	\$ 151,135	\$ (789)	\$ 244,976	\$ 372,194
Comprehensive income:								
Net income, as restated	—	—	—	—	—	—	90,920	90,920
Foreign currency translation	—	—	—	—	—	521	—	521
Comprehensive income, as restated	—	—	—	—	—	—	—	91,441
Dividends:								
Common stock	—	—	—	—	—	—	(18,635)	(18,635)
Tax benefit from exercise of stock options	—	—	—	—	1,052	—	—	1,052
Stock purchases	—	—	(2,000)	(30,354)	—	—	—	(30,354)
Stock issued under employees' stock purchase and option plans	1,370	14	—	—	14,310	—	—	14,324
Balance October 31, 2003, as restated	51,767	\$ 518	(3,400)	\$ (53,986)	\$ 166,497	\$ (268)	\$ 317,261	\$ 430,022
Comprehensive income:								
Net income	—	—	—	—	—	—	30,473	30,473
Foreign currency translation	—	—	—	—	—	160	—	160
Comprehensive income	—	—	—	—	—	—	—	30,633
Dividends:								
Common stock	—	—	—	—	—	—	(19,476)	(19,476)
Tax benefit from exercise of stock options	—	—	—	—	2,021	—	—	2,021
Stock purchases	—	—	(600)	(11,073)	—	—	—	(11,073)
Stock issued under employees' stock purchase and option plans	940	9	—	—	10,025	—	—	10,034
Balance October 31, 2004	52,707	\$ 527	(4,000)	\$ (65,059)	\$ 178,543	\$ (108)	\$ 328,258	\$ 442,161

The accompanying notes are an integral part of the consolidated financial statements.

ABM Industries Incorporated and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended October 31,		
	2004	2003	2002
		As Restated (In thousands)	As Restated
Cash flows from operating activities:			
Net income	\$ 30,473	\$ 90,920	\$ 44,354
Less income from discontinued operation	—	(55,296)	(2,670)
Income from continuing operations	30,473	35,624	41,684
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:			
Depreciation and intangible amortization	17,667	15,863	14,955
Provision for bad debts	4,641	6,544	11,681
Gain on sale of assets	(226)	(66)	(236)
Increase in deferred income taxes	(12,262)	(5,768)	(2,640)
(Increase) decrease in trade accounts receivable	(37,728)	2,225	30,782
(Increase) decrease in inventories	(229)	3,081	(4,214)
Decrease (increase) in prepaid expenses and other current assets	6,581	(3,105)	3,073
Increase in other assets	(3,074)	(5,940)	(3,445)
Increase (decrease) in income taxes payable	5,935	(769)	590
Increase in retirement plans accrual	1,483	384	2,308
Increase in insurance claims liability	37,622	9,674	7,841
Increase (decrease) in trade accounts payable and other accrued liabilities	13,314	(4,027)	(2,359)
Total adjustments to net income	33,724	18,096	58,336
Net cash flows from continuing operating activities	64,197	53,720	100,020
Net operational cash flows from discontinued operation	(30,507)	6,422	10,899
Net cash provided by operating activities	33,690	60,142	110,919
Cash flows from investing activities:			
Additions to property, plant and equipment	(11,497)	(11,621)	(7,345)
Proceeds from sale of assets	796	2,451	1,692
Decrease (increase) in investments and long-term receivables	4,100	3,493	(1,081)
Purchase of businesses	(54,152)	(40,574)	(52,448)
Proceeds from sale of business	—	112,400	—
Net investing cash flows from discontinued operation	—	(95)	(136)
Net cash (used in) provided by investing activities	(60,753)	66,054	(59,318)
Cash flows from financing activities:			
Common stock issued	10,034	14,324	17,955
Common stock purchases	(11,073)	(30,354)	(23,632)
Dividends paid	(19,476)	(18,635)	(17,730)
Repayments of long-term borrowings	—	—	(11,819)
Net cash used in financing activities	(20,515)	(34,665)	(35,226)
Net (decrease) increase in cash and cash equivalents	(47,578)	91,531	16,375
Cash and cash equivalents beginning of year	110,947	19,416	3,041
Cash and cash equivalents end of year	\$ 63,369	\$ 110,947	\$ 19,416
Supplemental data:			
Cash paid for income taxes	\$ 52,723	\$ 24,570	\$ 21,699
Non-cash investing activities:			
Common stock issued for net assets of business acquired	\$ —	\$ —	\$ 1,371

The accompanying notes are an integral part of the consolidated financial statements.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ABM Industries Incorporated (ABM) is one of the largest facility services contractors listed on the New York Stock Exchange. With annual revenues in excess of \$2.4 billion and approximately 70,000 employees, ABM and its subsidiaries (the Company) provide janitorial, parking, security, engineering, lighting and mechanical services for thousands of commercial, industrial, institutional and retail facilities in hundreds of cities throughout the United States and in British Columbia, Canada.

Principles of Consolidation. The consolidated financial statements include the accounts of ABM and its subsidiaries. All material intercompany transactions and balances have been eliminated.

The consolidated financial statements for the years ended October 31, 2003 and 2002, and the first three quarters of 2004 have been restated. All information in the notes to the consolidated financial statements affected by the restatement give effect to the restatement. (See Note 2.)

Use of Estimates. The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses. On an ongoing basis, the Company evaluates its estimates, including those related to self-insurance reserves, allowance for doubtful accounts, valuation allowance for the net deferred income tax asset, contingencies and litigation liabilities. The Company bases its estimates on historical experience, independent valuations, and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Trade Accounts Receivable. The Company's accounts receivable arise from services provided to its customers and are generally due and payable on terms varying from the receipt of invoice to net thirty days. The Company estimates an allowance for accounts it does not consider fully collectible. Changes in the financial condition of the customer or adverse development in negotiations or legal proceedings to obtain payment could result in the actual loss exceeding the estimated allowance. The Company does not believe that it has any material exposure due to either industry or regional concentrations of credit risk.

Inventories. Inventories consist of service-related supplies and are valued at amounts approximating the lower of cost (first-in, first-out basis) or market. The cost of inventories is net of vendor rebates in accordance with Emerging Issues Task Force (EITF) Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."

Investments. The Company has investments in two low income housing tax credit partnerships. Purchased in 1995 and 1998, these limited partnerships, organized by independent third parties and sold as investments, are variable interest entities as defined by Financial Accounting Standards Board (FASB) Financial Interpretation (FIN) No. 46R, "Consolidation of Variable Interest Entities." In accordance with FIN 46R, these partnerships are not consolidated in the Company's consolidated financial statements because the Company is not the primary beneficiary of the partnerships. At October 31, 2004 and 2003, the at-risk book value of these investments totaled \$3.9 million and \$5.0 million, respectively.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. At the time property, plant and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income. Maintenance and repairs are charged against income as incurred.

Depreciation and amortization are calculated using the straight-line method. Useful lives used in computing depreciation for transportation equipment average 3 to 5 years and for machinery and other equipment average 2 to 20 years. Buildings are depreciated over periods of 20 to 40 years. Leasehold improvements are amortized over the shorter of the terms of the respective leases, or the assets' useful lives.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangibles,” goodwill is no longer amortized. Rather, the Company performs a goodwill impairment test on at least an annual basis, in the fourth quarter, using the two-step process prescribed in SFAS No. 142. The first step is to evaluate for potential impairment by comparing the reporting unit’s fair value with its book value. If the first step indicates potential impairment, the required second step allocates the fair value of the reporting unit to its assets and liabilities, including recognized and unrecognized intangibles. If the implied fair value of the reporting unit’s goodwill is lower than its carrying amount, goodwill is impaired and written down to its implied fair value. The fair value of the reporting unit, if required to be determined, will be independently appraised.

Other Intangibles. The Company engages a third party valuation firm to independently appraise the fair value of intangible assets acquired in larger sized business combinations. For smaller acquisitions, the Company performs an internal valuation of the intangible assets using the discounted cash flow technique. Acquired customer relationship intangible assets are being amortized using the sum-of-the-years-digits method over their useful lives consistent with the estimated useful life considerations used in the determination of their fair values. The accelerated method of amortization reflects the pattern in which the economic benefits of the customer relationship intangible asset are expected to be realized. Trademarks and trade names are being amortized over their useful lives using the straight-line method. Other intangible assets, consisting principally of contract rights, are being amortized over the contract periods using the straight-line method. At least annually, the Company evaluates the remaining useful life of an intangible asset to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of the asset’s remaining useful life changes, the remaining carrying amount of the intangible asset would be amortized over the revised remaining useful life. Furthermore, the remaining unamortized book value of intangibles is reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-lived Assets.” The first step of an impairment test under SFAS No. 144 is a comparison of the future cash flows, undiscounted, to the remaining book value of the intangible. If the future cash flows are insufficient to recover the remaining book value, a fair value of the asset, depending on its size, will be independently or internally determined and compared to the book value to determine if an impairment exists.

Income Taxes. Income tax expense is based on reported results of operations before income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If management determines it is more likely than not that the net deferred tax asset will be realized, no valuation allowance is recorded. (See Note 11.)

Revenue Recognition. The Company earns revenue primarily under service contracts that are either fixed price, cost plus or are time and materials based. In all contract types, revenue is recognized as the services are performed. Under the fixed price contracts, with the exception of Lighting’s multiple deliverable contracts (as defined by EITF Issue No. 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables”), there are no up-front fee arrangements or acceptance requirements that would require deferral of revenue recognition under Staff Accounting Bulletin No. 104.

The Company’s Lighting segment earns revenues under service contracts that have multiple deliverables including initial services of relamping or retrofitting and future services of periodic maintenance. Lighting’s multiple deliverable contracts do not meet the criteria for treating the deliverables as separate units of accounting, hence the revenues and direct costs associated with the initial services are deferred and amortized over the service period on a straight-line basis, in accordance with EITF Issue No. 00-21.

The Company’s Parking segment reports both revenues and expenses recognized, in equal amounts, for costs directly reimbursed from its managed parking lot clients in accordance with EITF Issue No. 01-14, “Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred.”

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Parking sales related solely to the reimbursement of expenses totaled \$215.8 million, \$215.3 million and \$203.8 million for years ended October 31, 2004, 2003 and 2002, respectively.

Net Income per Common Share. The Company has reported its earnings in accordance with SFAS No. 128, "Earnings per Share." Basic net income per common share is based on 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, including common stock equivalents. Stock options account for the entire difference between basic average common shares outstanding and diluted average common shares outstanding. For purposes of computing diluted net income per common share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of the Company's common stock for the period (*i.e.*, "out-of-the-money" options). On October 31, 2004, 2003 and 2002, options to purchase common shares of 17 thousand, 2.8 million, and 3.1 million at weighted average exercise prices of \$20.40, \$16.26 and \$16.29, respectively, were excluded from the computation.

Stock-Based Compensation. The Company accounts for stock-based employee compensation plans using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company's application of APB Opinion No. 25 does not result in compensation cost because the exercise price of the options is equal to the fair value of the stock at the grant date. Under the intrinsic value method, if the fair value of the stock is greater than the exercise price at grant date, the excess is amortized to compensation expense over the estimated service life of the recipient.

Cash and Cash Equivalents. The Company considers all highly liquid instruments with original maturities of three months or less to be cash and cash equivalents.

Comprehensive Income. Comprehensive income consists of net income and other related gains and losses affecting stockholders' equity that, under generally accepted accounting principles, are excluded from net income. For the Company, such other comprehensive income items consist of unrealized foreign currency translation gains and losses.

Accounting Standards Adopted. In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 became effective in fiscal years beginning after December 15, 2001, with early adoption permitted. The Company adopted the provisions of SFAS No. 142 beginning with the first quarter of 2002. In accordance with this standard, goodwill is no longer amortized, but is subject to an annual assessment for impairment. The Company is required to perform goodwill impairment tests on an annual basis and, in certain circumstances, between annual tests. As of October 31, 2004, no impairment of the Company's goodwill carrying value has been indicated.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 144 became effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 requires that the same accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 retains the requirements of SFAS No. 121 to recognize an impairment loss if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and to measure the impairment loss as the difference between the carrying amount and fair value of the asset. The Company's adoption of SFAS No. 144 did not have an impact on its financial position, results of operations or liquidity.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In January 2002, the EITF released Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," which the Company adopted in 2002. For the Company's Parking segment this pronouncement requires both revenues and expenses be recognized, in equal amounts, for costs directly reimbursed from its managed parking lot clients. Previously, expenses directly reimbursed under managed parking lot agreements were netted against the reimbursement received. EITF No. 01-14 did not change the income statement presentation of revenues and expenses of any other segments and had no impact on the Company's operating profits or net income.

In October 2002, the EITF released Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination." EITF Issue No. 02-17 provides guidance regarding the use of certain assumptions, such as expectations of future contract renewals, in estimating the fair value of customer relationship intangible assets acquired in a business combination. EITF Issue No. 02-17 was effective for business combinations consummated after October 25, 2002. The impact of the adoption of EITF 02-17 is discussed in Note 2.

In November 2002, the EITF issued Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." EITF Issue No. 02-16 provides accounting guidance on how a customer (end user) and a reseller should characterize certain consideration received from a vendor and when to recognize and how to measure that consideration in the income statement. EITF Issue No. 02-16 was effective for fiscal periods beginning after December 15, 2002 for resellers, with early application permitted, while for customers it was effective prospectively for arrangements entered into after November 21, 2002. The Company, as a reseller of certain supplies and equipment, adopted the provisions of EITF Issue No. 02-16 in 2003. The Company's adoption of EITF Issue No. 02-16 did not have a material impact on its financial position, results of operations or liquidity.

In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. The initial recognition and measurement provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The Company's adoption of FIN 45 did not have an impact on its financial position, results of operations or liquidity. (See Note 16.)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amended SFAS No. 123 "Accounting for Stock-Based Compensation" to provide for alternative methods of transition to SFAS No. 123 and amended disclosure provisions. SFAS No. 148 was effective for financial statements for fiscal years ending after December 15, 2002. The Company continues to account for stock-based employee compensation plans using the intrinsic value method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and adopted the disclosure provisions of SFAS No. 148 effective November 1, 2002.

In May 2003, the EITF released Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides accounting guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The Company adopted the provisions of EITF Issue No. 00-21 effective in the fourth quarter of 2003. The Company's adoption of EITF Issue No. 00-21 had no material effect on its financial position, results of operations or liquidity.

In December 2003, the FASB issued FIN 46R, a revision to FIN 46, "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

FIN 46R was effective at the end of the first interim period ending after March 15, 2004. The Company's adoption of FIN 46R did not have a material impact on its financial position, results of operations or liquidity.

In December 2003, the FASB issued revised SFAS No. 132 (revised 2003), "Employer's Disclosure about Pensions and Other Post-Retirement Benefits." SFAS No. 132R revised employers' disclosure about pension plans and other post-retirement benefit plans. SFAS No. 132R requires additional disclosures in annual financial statements about the types of plan assets, investment strategy, measurement dates, plan obligations, cash flows, and components of net periodic benefit cost of defined benefit pension plans and other post-retirement benefit plans. The annual disclosure requirements were effective for fiscal years ending after December 15, 2003. SFAS No. 132R also requires interim disclosure of the elements of net periodic benefit cost and the total amount of contributions paid or expected to be paid during the current fiscal year if significantly different from amounts previously disclosed. The interim disclosure requirements of SFAS No. 132R were effective for interim periods beginning after December 15, 2003. The Company's adoption of SFAS No. 132R did not have a material impact on its financial position, results of operations or liquidity. (See Note 7.)

New Accounting Pronouncement. In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This statement is a revision to SFAS No. 123, "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. In accordance with the standard, the Company will adopt SFAS No. 123R effective August 1, 2005.

Upon adoption, the Company has two application methods to choose from: the modified-prospective transition approach or the modified-retrospective transition approach. Under the modified-prospective transition method the Company would be required to recognize compensation cost for share-based awards to employees based on their grant-date fair value from the beginning of the fiscal period in which the recognition provisions are first applied as well as compensation cost for awards that were granted prior to, but not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required. Under the modified-retrospective transition method, the Company would restate prior periods by recognizing compensation cost in the amounts previously reported in the pro forma footnote disclosure under SFAS No. 123. Under this method, the Company is permitted to apply this presentation to all periods presented or to the start of the fiscal year in which SFAS No. 123R is adopted. The Company would follow the same guidelines as in the modified-prospective transition method for awards granted subsequent to adoption and those that were granted and not yet vested. The Company has not yet determined which methodology it will adopt but believes that the impact that the adoption of SFAS No. 123R will have on its financial position or results of operations will approximate the magnitude of the stock-based employee compensation cost disclosed in Note 10 pursuant to the disclosure requirements of SFAS No. 148.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. RESTATEMENT OF PRIOR PERIODS PRESENTED

The prior period financial statements included herein have been restated for various correcting adjustments. These adjustments are discussed in more detail below.

Correction of insurance reserve methodology. On December 14, 2004, the Company concluded that the methodology it was using to estimate its self-insurance reserve in its financial statements for prior years was not in accordance with generally accepted accounting principles. For the first three quarters of 2004 and the prior fiscal years presented in these financial statements, the Company consistently accrued self-insurance reserves at the low end of a range between 85 percent and 115 percent of the actuarial point estimate of claim costs and liabilities. Pursuant to SFAS No. 5, "Accounting for Contingencies" and Financial Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss," the minimum amount in a range may be used to accrue self-insurance reserves only if no amount within the range is a better estimate than any other amount. Because the actuarially calculated point estimate is considered a better estimate, the Company has now determined that it is, and was during these prior fiscal years, the correct liability to record.

Accordingly, effective as of October 31, 2004, the Company brought its self-insurance reserves to the actuarial point estimate of claim costs and liabilities resulting in a cumulative increase in the Company's self-insurance reserves of \$22.3 million at October 31, 2003, of which \$1.5 million and \$1.2 million decreased consolidated pre-tax income in 2003 and 2002, respectively .

Late adoption of an accounting pronouncement. The restated financial statements also reflect the correction of the fair value calculation for other intangibles, primarily customer relationship intangibles, under EITF Issue No. 02-17, "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination." EITF Issue No. 02-17 provides guidance regarding the use of certain assumptions, such as expectations of future contract renewals, in estimating the fair value of customer relationship intangible assets acquired in a business combination. EITF Issue No. 02-17 was effective for business combinations consummated after October 25, 2002, but the Company did not originally report the effect it had on the three business combinations completed in 2003 until the second quarter of 2004.

Prior to adopting EITF Issue No. 02-17, the Company assigned little or no value to acquired customer contracts and related customer relationships because the contracts generally had one year terms with 30-day cancellation provisions. With the effectiveness of EITF Issue No. 02-17, assumptions regarding expectations of future contract renewals must now be incorporated in estimating the fair value of customer relationship intangible assets. As a result of the adoption of EITF 02-17, purchase accounting for acquisitions completed in 2003 was adjusted to reflect a \$13.1 million increase in acquired intangibles other than goodwill and an offsetting reduction in goodwill of \$13.1 million. The reclassified intangible assets have finite lives and must therefore be amortized.

Based on the quantitative and qualitative analyses performed by the Company in the second quarter of 2004, the resulting catch-up amortization totaling \$1.5 million for 2003 and the first quarter of 2004 did not warrant the restatement of those periods and, therefore, the adjustment was originally recorded in the second quarter of 2004. However, since the correction of the self-insurance reserves necessitated the restatement of prior periods, the Company decided also to restate its financial statements to reflect the impact of EITF 02-17.

Other adjustments. As a result of its decision to restate, the Company further determined to make three additional corrections to its financial statements, which affect the years ended October 31, 2003 and 2002. The first was to record in the proper period vacation and sick leave accruals in the Northeast region of Janitorial resulting in an increase in operating expenses and cost of goods sold of \$1.2 million in 2002, with an equal and offsetting decrease in 2003. The second was a \$1.3 million increase in bad debt expense from the write-off of the unpaid balance of a major World Trade Center (WTC) account settled in 2002 that is not specifically covered by the outstanding insurance claim. The third was a \$2.0 million (\$1.2 million after-tax) increase in the gain on sale of the Elevator segment resulting from the reversal of the write-off of an allocated portion of

ABM Industries Incorporated and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the capitalized costs associated with the prior implementation of the Company's enterprise-wide financial system because the Company has continued to use the entire system. See Note 13. The cost is being amortized over the remainder of the original life of the system with the adjustment impacting income from continuing operations for the fourth quarter of 2003 and thereafter.

The effects of the restatement for the correction of these errors are shown below.

	Cumulative Adjustment as of November 1, 2001	Year Ended October 31, 2002	Year Ended October 31, 2003	Cumulative Adjustment as of November 1, 2003
	(In thousands)			
Insurance	\$ (19,710)	\$ (1,176)	\$ (1,451)	\$ (22,337)
Intangible amortization	—	—	(899)	(899)
Vacation and sick leave	—	(1,200)	1,200	—
Bad debt expense	—	(1,300)	—	(1,300)
Depreciation	—	—	(135)	(135)
Net decrease in income from continuing operations before income taxes	(19,710)	(3,676)	(1,285)	(24,671)
Income taxes	(7,608)	(1,302)	(511)	(9,421)
Net decrease in income from continuing operations	\$ (12,102)	\$ (2,374)	\$ (774)	\$ (15,250)
Net increase in gain on sale of Elevator, net of income taxes	—	—	1,236	1,236
Net (decrease) increase in net income	\$ (12,102)	\$ (2,374)	\$ 462	\$ (14,014)

The restatement adjustment to the stockholders' equity as of November 1, 2001 was \$12.1 million.

	Fiscal 2003 Quarters				Year Ended October 31, 2003	Fiscal 2004 Quarters			Nine Months Ended July 31, 2004
	First	Second	Third	Fourth		First	Second	Third	
	(In thousands)								
Insurance	\$ (312)	\$ (255)	\$ (629)	\$ (255)	\$ (1,451)	\$ (624)	\$ (434)	\$ (608)	\$ (1,666)
Intangible amortization	—	(191)	(246)	(462)	(899)	(569)	1,468	—	899
Vacation and sick leave	1,200	—	—	—	1,200	—	—	—	—
Depreciation	—	—	—	(135)	(135)	(135)	(135)	(135)	(405)
Net increase (decrease) in income from continuing operations before income taxes	888	(446)	(875)	(852)	(1,285)	(1,328)	899	(743)	(1,172)
Income taxes	319	(170)	(334)	(326)	(511)	(507)	343	(497)	(661)
Net increase (decrease) in income from continuing operations	569	(276)	(541)	(526)	(774)	(821)	556	(246)	(511)
Net increase in gain on sale of Elevator, net of income taxes	—	—	—	1,236	1,236	—	—	—	—
Net increase (decrease) in net income	\$ 569	\$ (276)	\$ (541)	\$ 710	\$ 462	\$ (821)	\$ 556	\$ (246)	\$ (511)

ABM Industries Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The effect of restatement adjustments on segment information is shown below. While virtually all insurance claims arise from the operating segments, the insurance restatement adjustments were included in unallocated corporate expenses. Had the Company allocated the insurance adjustment among the operating segments, the reported pre-tax operating profits of the operating segments, as a whole, would have been lower with an equal and offsetting change to unallocated Corporate expenses and therefore no change to consolidated pre-tax earnings for the periods presented.

	As Reported 2003	As Reported 2002	Restatement Adjustments		As Restated 2003	As Restated 2002
			2003	2002		
(In thousands)						
Operating profit:						
Janitorial	\$ 53,487	\$ 54,337	\$ 412	\$ (2,500)	\$ 53,899	\$ 51,837
Parking	6,349	6,948	(111)	—	6,238	6,948
Security	6,485	5,639	—	—	6,485	5,639
Engineering	9,925	10,033	—	—	9,925	10,033
Lighting	5,646	8,261	—	—	5,646	8,261
Other	1,337	(1,190)	—	—	1,337	(1,190)
Corporate expense	(27,619)	(27,992)	(1,586)	(1,176)	(29,205)	(29,168)
Operating profit	55,610	56,036	(1,285)	(3,676)	54,325	52,360
Gain on insurance claim	—	10,025	—	—	—	10,025
Interest expense	(758)	(1,052)	—	—	(758)	(1,052)
Income from continuing operations before income taxes	\$ 54,852	\$ 65,009	\$ (1,285)	\$ (3,676)	\$ 53,567	\$ 61,333

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The restatements of the balance sheet as of October 31, 2003 and the statements of income and cash flows for the years ended October 31, 2003 and 2002 are presented below.

Consolidated Balance Sheet Restatement

Condensed	October 31, 2003		
	As Reported	Adjustments	As Restated
	(In thousands)		
Assets			
Cash and cash equivalents	\$ 110,947	\$ —	\$ 110,947
Trade accounts receivable	287,906	(1,300)	286,606
Inventories	21,419	—	21,419
Deferred income taxes	36,339	(218)	36,121
Prepaid expenses and other current assets	44,037	—	44,037
Total current assets	500,648	(1,518)	499,130
Property, plant and equipment	30,123	1,865	31,988
Goodwill	201,866	(13,057)	188,809
Other intangibles	3,691	12,158	15,849
Deferred income taxes	32,462	8,875	41,337
Other	27,193	—	27,193
Total assets	\$ 795,983	\$ 8,323	\$ 804,306
Liabilities			
Current liabilities	\$ 256,691	\$ —	\$ 256,691
Non current liabilities			
Retirement plans	24,175	—	24,175
Insurance claims	71,081	22,337	93,418
Total liabilities	351,947	22,337	374,284
Stockholders' equity			
Common stock	518	—	518
Additional paid-in capital	166,497	—	166,497
Accumulated other comprehensive loss	(268)	—	(268)
Retained earnings	331,275	(14,014)	317,261
Cost of treasury stock	(53,986)	—	(53,986)
Total stockholders' equity	444,036	(14,014)	430,022
Total liabilities and stockholders' equity	\$ 795,983	\$ 8,323	\$ 804,306

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Consolidated Statements of Income Restatement

	For the Year Ended October 31, 2003		
	As Reported	Adjustments	As Restated
(In thousands, except per share data)			
Revenues			
Sales and other income	\$ 2,262,476	\$ —	\$ 2,262,476
Gain on insurance claim	—	—	—
	<u>2,262,476</u>	<u>—</u>	<u>2,262,476</u>
Expenses			
Operating expenses and cost of goods sold	2,035,731	251	2,035,982
Selling, general and administrative	169,990	135	170,125
Interest	758	—	758
Intangible amortization	1,145	899	2,044
	<u>2,207,624</u>	<u>1,285</u>	<u>2,208,909</u>
Income from continuing operations before income taxes	54,852	(1,285)	53,567
Income taxes	18,454	(511)	17,943
Income from continuing operations	36,398	(774)	35,624
Income from discontinued operation, net of income taxes	2,560	—	2,560
Gain on sale of discontinued operation, net of income taxes	51,500	1,236	52,736
	<u>90,458</u>	<u>462</u>	<u>90,920</u>
Net income	<u>\$ 90,458</u>	<u>\$ 462</u>	<u>\$ 90,920</u>
Net income per common share — Basic			
Income from continuing operations	\$ 0.74	\$ (0.01)	\$ 0.73
Income from discontinued operation	0.05	—	0.05
Gain on sale of discontinued operation	1.05	0.02	1.07
	<u>\$ 1.84</u>	<u>\$ 0.01</u>	<u>\$ 1.85</u>
Net income per common share — Diluted			
Income from continuing operations	\$ 0.73	\$ (0.02)	\$ 0.71
Income from discontinued operation	0.05	—	0.05
Gain on sale of discontinued operation	1.03	0.03	1.06
	<u>\$ 1.81</u>	<u>\$ 0.01</u>	<u>\$ 1.82</u>

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	For the Year Ended October 31, 2002		
	As Reported	Adjustments	As Restated
(In thousands, except per share data)			
Revenues			
Sales and other income	\$ 2,068,058	\$ —	\$ 2,068,058
Gain on insurance claim	10,025	—	10,025
	2,078,083	—	2,078,083
Expenses			
Operating expenses and cost of goods sold	1,855,980	2,376	1,858,356
Selling, general and administrative	154,957	1,300	156,257
Interest	1,052	—	1,052
Intangible amortization	1,085	—	1,085
	2,013,074	3,676	2,016,750
Income from continuing operations before income taxes	65,009	(3,676)	61,333
Income taxes	20,951	(1,302)	19,649
Income from continuing operations	44,058	(2,374)	41,684
Income from discontinued operation, net of income taxes	2,670	—	2,670
Gain on sale of discontinued operation, net of income taxes	—	—	—
Net income	\$ 46,728	\$ (2,374)	\$ 44,354
Net income per common share — Basic			
Income from continuing operations	\$ 0.90	\$ (0.05)	\$ 0.85
Income from discontinued operation	0.05	—	0.05
Gain on sale of discontinued operation	—	—	—
	\$ 0.95	\$ (0.05)	\$ 0.90
Net income per common share — Diluted			
Income from continuing operations	\$ 0.86	\$ (0.04)	\$ 0.82
Income from discontinued operation	0.06	(0.01)	0.05
Gain on sale of discontinued operation	—	—	—
	\$ 0.92	\$ (0.05)	\$ 0.87

ABM Industries Incorporated and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Consolidated Statements of Cash Flows Restatement

Condensed	For the Year Ended October 31, 2003		
	As Reported	Adjustments	As Restated
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 90,458	\$ 462	\$ 90,920
Less income from discontinued operation	(54,060)	(1,236)	(55,296)
Income from continuing operations	36,398	(774)	35,624
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities	17,322	774	18,096
Net cash flows from continuing operating activities	53,720	—	53,720
Net operational cash flows from discontinued operation	6,422	—	6,422
Net cash provided by operating activities	60,142	—	60,142
Cash flows from investing activities	66,054	—	66,054
Cash flows from financing activities	(34,665)	—	(34,665)
Net increase in cash and cash equivalents	91,531	—	91,531
Cash and cash equivalents beginning of year	19,416	—	19,416
Cash and cash equivalents end of year	\$ 110,947	\$ —	\$ 110,947
Condensed	For the Year Ended October 31, 2002		
	As Reported	Adjustments	As Restated
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 46,728	\$ (2,374)	\$ 44,354
Less income from discontinued operation	(2,670)	—	(2,670)
Income from continuing operations	44,058	(2,374)	41,684
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities	55,962	2,374	58,336
Net cash flows from continuing operating activities	100,020	—	100,020
Net operational cash flows from discontinued operation	10,899	—	10,899
Net cash provided by operating activities	110,919	—	110,919
Cash flows from investing activities	(59,318)	—	(59,318)
Cash flows from financing activities	(35,226)	—	(35,226)
Net increase in cash and cash equivalents	16,375	—	16,375
Cash and cash equivalents beginning of year	3,041	—	3,041
Cash and cash equivalents end of year	\$ 19,416	\$ —	\$ 19,416

Certain amounts in Notes 3, 4, 5, 10, 11, 12, 13, 18 and 19 have been restated to reflect the restatement adjustments described above.

ABM Industries Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****3. INSURANCE**

The Company self-insures certain insurable risks such as general liability, automobile property damage, and workers' compensation. Commercial policies are obtained to provide for \$150.0 million of coverage for certain risk exposures above the self-insured retention limits (*i.e.*, deductibles). For claims incurred after November 1, 2002, substantially all of the self-insured retentions increased from \$0.5 million (inclusive of legal fees) to \$1.0 million (exclusive of legal fees). Effective April 14, 2003, the deductible for California workers' compensation insurance increased to \$2.0 million per occurrence due to general insurance market conditions. While the higher self-insured retention increases the Company's risk associated with workers' compensation liabilities, during the history of the Company's self-insurance program, few claims have exceeded \$1.0 million.

The Company uses an independent actuary to annually evaluate the Company's estimated claim costs and liabilities and accrues self-insurance reserves in an amount that is equal to the actuarial point estimate. (See Note 2.) The estimated liability for claims incurred but unpaid at October 31, 2004 and 2003 was \$186.5 million and \$148.9 million, respectively. The actuarial review completed in November 2004 indicated that there were adverse developments in the Company's insurance reserves related to workers' compensation claims in the State of California during the four-year period ended October 31, 2003, for which the Company recorded a charge of \$17.2 million.

As discussed in Note 2, during the fourth quarter of 2004, the Company corrected its methodology for estimating its self-insurance reserves to comply with generally accepted accounting principles. This resulted in a cumulative increase in the Company's self-insurance reserves of \$22.3 million at October 31, 2003, of which \$1.5 million and \$1.2 million decreased consolidated pre-tax income in 2003 and 2002, respectively. Of the \$17.2 million adverse development charge, \$2.5 million is attributable to the correction of methodology.

The combined impact on the self-insurance reserves of correcting the Company's reserving methodology and the adverse development recognized in 2004 totaled \$41.6 million and consisted of the \$22.3 million cumulative increase in reserves at October 31, 2003 and \$19.3 million of insurance charges in 2004 included in Corporate, of which \$17.2 million is attributable to the adverse development in insurance reserves.

In connection with certain self-insurance programs, the Company had standby letters of credit at October 31, 2004 and 2003 supporting the estimated unpaid liability in the amount of \$88.3 million and \$67.6 million, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at October 31 consisted of the following:

	2004	2003
		As Restated
	(In thousands)	
Land	\$ 879	\$ 876
Buildings	4,175	4,133
Transportation equipment	14,126	13,717
Machinery and other equipment	78,163	73,846
Leasehold improvements	14,307	14,170
	111,650	106,742
Less accumulated depreciation and amortization	80,296	74,754
Total	\$ 31,354	\$ 31,988

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. GOODWILL AND OTHER INTANGIBLES

Goodwill: The changes in the carrying amount of goodwill for the years ended October 31, 2004 and 2003 were as follows (acquisitions are discussed in Note 12):

Segment	Balance as of October 31, 2003	Initial Payments for Acquisitions	Contingent Amounts	Balance as of October 31, 2004
	As Restated			
	(In thousands)			
Janitorial	\$ 131,258	\$ —	\$ 7,963	\$ 139,221
Parking	28,263	—	486	28,749
Security	7,806	28,991	808	37,605
Engineering	2,174	—	—	2,174
Lighting	17,356	—	390	17,746
Other	1,952	—	—	1,952
Total	\$ 188,809	\$ 28,991	\$ 9,647	\$ 227,447

Segment	Balance as of October 31, 2002	Initial Payments for Acquisitions	Contingent Amounts	Balance as of October 31, 2003
	As Restated			
	(In thousands)			
Janitorial	\$ 108,698	\$ 13,873	\$ 8,687	\$ 131,258
Parking	27,271	—	992	28,263
Security	7,213	—	593	7,806
Engineering	2,174	—	—	2,174
Lighting	16,701	—	655	17,356
Other	1,952	—	—	1,952
Total	\$ 164,009	\$ 13,873	\$ 10,927	\$ 188,809

Other Intangibles: The changes in the gross carrying amount and accumulated amortization of other intangibles apart from goodwill for the years ended October 31, 2004 and 2003 were as follows (acquisitions are discussed in Note 12):

	Gross Carrying Amount			Accumulated Amortization				
	October 31, 2003	Additions	Retirements	October 31, 2004	October 31, 2003	Additions	Retirements	October 31, 2004
	As Restated							
	(In thousands)							
Customer contracts and related relationships	\$ 12,957	\$ 8,260	\$ —	\$ 21,217	\$ (866)	\$ (2,680)	\$ —	\$ (3,546)
Trademarks and trade names	300	2,700	—	3,000	(33)	(537)	—	(570)
Other (contract rights, etc.)	7,437	—	(1,376)	6,061	(3,946)	(1,302)	1,376	(3,872)
Total	\$ 20,694	\$ 10,960	\$ (1,376)	\$ 30,278	\$ (4,845)	\$ (4,519)	\$ 1,376	\$ (7,988)

ABM Industries Incorporated and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Gross Carrying Amount				Accumulated Amortization			
	October 31, 2002	Additions	Retirements	October 31, 2003	October 31, 2002	Additions	Retirements	October 31, 2003
	As Restated	As Restated	As Restated	As Restated	As Restated	As Restated	As Restated	
	(In thousands)							
Customer contracts and related relationships	\$ —	\$ 12,957	\$ —	\$ 12,957	\$ —	\$ (866)	\$ —	\$ (866)
Trademarks and trade names	—	300	—	300	—	(33)	—	(33)
Other (contract rights, etc.)	7,175	262	—	7,437	(2,801)	(1,145)	—	(3,946)
Total	\$ 7,175	\$ 13,519	\$ —	\$ 20,694	\$ (2,801)	\$ (2,044)	\$ —	\$ (4,845)

The weighted average remaining lives as of October 31, 2004 and the amortization expense for the years ended October 31, 2004, 2003 and 2002 of intangibles other than goodwill, as well as the estimated amortization expense for such intangibles for each of the five succeeding fiscal years are as follows:

	Weighted Average Remaining Life (Years)	Amortization Expense			Estimated Amortization Expense				
		2004	2003	2002	2005	2006	2007	2008	2009
		As Restated							
	(In thousands)								
Customer contracts and related relationships	11.5	\$ 2,680	\$ 866	\$ —	\$ 2,886	\$ 2,621	\$ 2,355	\$ 2,090	\$ 1,825
Trademarks and trade names	4.3	537	33	—	607	540	540	540	203
Other (contract rights, etc.)	4.2	1,302	1,145	1,085	966	681	82	77	61
Total	10.0	\$ 4,519	\$ 2,044	\$ 1,085	\$ 4,459	\$ 3,842	\$ 2,977	\$ 2,707	\$ 2,089

The customer relationship intangible assets are being amortized using the sum-of-the-years-digits method over their useful lives consistent with the estimated useful life considerations used in the determination of their fair values. The accelerated method of amortization reflects the pattern in which the economic benefits of the customer relationship intangible asset are expected to be realized. Trademarks and trade names are being amortized over their useful lives using the straight-line method. Other intangible assets, consisting principally of contract rights, are being amortized over the contract periods using the straight-line method.

6. LINE OF CREDIT FACILITY

In April 2003, the Company increased the amount of its syndicated line of credit to \$250.0 million. This line of credit will expire July 1, 2005. No compensating balances are required under the facility and the interest rate is determined at the time of borrowing based on the London Interbank Offered Rate (LIBOR) plus a spread of 0.875% to 1.50% or, for overnight borrowings, at the prime rate plus a spread of 0.00% to 0.25% or, for overnight to one week, at the Interbank Offered Rate (IBOR) plus a spread of 0.875% to 1.50%. The spreads for LIBOR, prime and IBOR borrowings are based on the Company's leverage ratio. The facility calls for a commitment fee payable quarterly, in arrears, of 0.175%, based on the average, daily, unused portion. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with the Company's self-insurance program and cash borrowings are considered to be outstanding amounts. As of October 31, 2004 and 2003, the total outstanding amounts under this facility were \$96.5 million and \$69.0 million, respectively, in the form of standby letters of credit. The provisions of the credit facility require the Company to maintain certain financial ratios and limit outside borrowings. The Company was in compliance with all covenants as of October 31, 2004.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. EMPLOYEE BENEFIT PLANS

The Company offers the following employee benefit plans to its employees:

401(k) Plan

Prior to 2002, the Company had a 401(k) plan covering certain qualified non-union employees, which provided for employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plan allowed participants to make pre-tax contributions which the Company matched at various percentages of employee contributions depending on the particular employee group. Effective January 1, 2002, the Company amended the plan to adopt the “safe harbor” rules of 401(k) plans. These rules contain more generous company match provisions and cover many employees not previously included. As the result of the amendment of the original plan, the Company has been incurring additional costs since January 2002. A second, non-“safe harbor” 401(k) plan was adopted on that date for certain other employee groups. All amounts contributed to the plans are deposited into a trust fund administered by independent trustees.

The Company’s matching 401(k) contributions required by the 401(k) plans for 2004, 2003 and 2002 were \$5.7 million, \$5.2 million and \$4.2 million, respectively.

Retirement and Post-Retirement Plans

The Company has the following unfunded defined benefit plans:

Supplemental Executive Retirement Plan. The Company has unfunded retirement agreements for approximately 55 current and former directors and senior executives, many of which are fully vested. The retirement agreements for senior executives provide for monthly benefits for ten years commencing at the later of the respective retirement dates of those executives or age 65. The benefits are accrued over the vesting period. Effective December 31, 2002, this plan was amended to preclude new participants.

Non-Employee Director Retirement Plan. Non-employee directors who have completed at least five years of service are eligible to receive ten years of monthly retirement benefits equal to the monthly retainer fee received prior to retirement, reduced on a pro-rata basis for fewer than ten years of service. Benefit payments commence at the later of the respective retirement dates of those directors or age 62 (early retirement) or 72 (senior retirement) and ends at the earlier of the 121st month after retirement or the death of the director. The benefits are accrued over required vesting periods.

Service Award Benefit Plan. The Company has an unfunded service award benefit plan, with a retroactive vesting period of five years. This plan is a “severance pay plan” as defined by the Employee Retirement Income Security Act (ERISA) and covers certain qualified employees. The plan provides participants, upon termination, with a guaranteed seven days pay for each year of employment subsequent to November 1, 1989. The Company, at its discretion, may also award additional days each year. Effective January 1, 2002, this plan was amended to no longer award any further days to employees. The enhancement of the 401(k) plan has replaced benefits previously provided under this plan. The Company will continue to incur interest costs related to this plan as the value of the previously earned benefits continues to increase.

The Company has the following unfunded post-retirement benefit plan:

Death Benefit Plan. The Death Benefit Plan has a vesting period of ten years. This plan covers certain qualified employees and, upon termination on or after the employee’s 62nd birthday, provides fifty percent of the death benefit that the employee was entitled to prior to retirement subject to a maximum of \$150,000. Coverage during retirement continues until death for retired employees hired before September 1, 1980. On March 1, 2003, the post-retirement death benefit for any active employees hired after September 1, 1980 was eliminated, although active employees hired before September 1, 1980 who retire on or after their 62nd birthday will continue to be covered between retirement and death. For employees hired after

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

September 1, 1980 and retired before March 1, 2003, the post-retirement death benefit continues until the retired employees 70th birthday.

Benefit Obligations

	Defined Benefit Plans at October 31,		Post-Retirement Benefit Plan at October 31,	
	2004	2003	2004	2003
(In thousands)				
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 9,370	\$ 9,700	\$ 4,177	\$ 3,849
Service cost	492	317	40	51
Interest cost	759	803	275	277
Termination benefits accrued upon divestiture	—	440	—	—
Benefits paid	(942)	(1,890)	—	—
Benefit obligation at end of year	\$ 9,679	\$ 9,370	\$ 4,492	\$ 4,177

Components of Net Period Benefit Cost

The components of net periodic benefit cost of the defined benefit retirement plans and the post-retirement benefit plan for the years ended October 31, 2004, 2003 and 2002 were:

	2004	2003	2002
	(In thousands)		
Defined Benefit Plans			
Service cost	\$ 492	\$ 317	\$ 311
Interest	759	803	670
Net expense	\$ 1,251	\$ 1,120	\$ 981
Post-Retirement Benefit Plan			
Service cost	\$ 40	\$ 51	\$ 170
Interest	275	277	329
Net expense	\$ 315	\$ 328	\$ 499

Assumptions

The weighted average rate assumptions used to determine benefit obligations and net periodic benefit cost for the years ended October 31, 2004, 2003 and 2002 were:

	Defined Benefit Plans			Post-Retirement Benefit Plan		
	2004	2003	2002	2004	2003	2002
Discount rate	5.75%	6.67%	6.87%	5.75%	6.25%	6.75%
Rate of compensation increase	1.25%	1.38%	1.52%	3.00%	3.00%	3.00%

Estimated Future Benefit Payments

The retirement and post-retirement benefit plans are unfunded agreements, therefore, no contributions are expected to be made.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table illustrates estimated future benefit payments, which are calculated using the same assumptions used to measure the Company's benefit obligation and are based upon expected future service:

	<u>Defined Benefit Plans</u>	<u>Post-Retirement Benefit Plan</u>
	(In thousands)	
2005	\$ 676	\$ 276
2006	1,351	277
2007	1,207	269
2008	1,189	272
2009	1,218	276
2010-2014	5,851	1,507

Deferred Compensation Plan

The Company has an unfunded deferred compensation plan available to executive, management, administrative or sales employees whose annualized base salary exceeds \$95,000. The plan allows employees to make pre-tax contributions from one to twenty percent of their compensation. The deferred amount earns interest equal to the prime interest rate on the last day of the calendar quarter up to six percent. If the prime rate exceeds six percent, the deferred compensation interest rate is equal to six percent plus one half of the excess over six per cent. The average interest rate credited to the deferred compensation amounts for 2004, 2003 and 2002 were 4.35%, 4.10% and 4.71%, respectively. At October 31, 2004, there were 63 active participants and 60 retired or terminated employees participating in the plan.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Deferred compensation liability at beginning of year	\$ 10,315	\$ 9,894	\$ 9,055
Employee contributions	1,222	1,170	1,135
Interest accrued	470	414	439
Payments	(809)	(1,163)	(735)
Deferred compensation liability at end of year	\$ 11,198	\$ 10,315	\$ 9,894

Pension Plan Under Collective Bargaining

Certain qualified employees of the Company are covered under union-sponsored collectively bargained multi-employer defined benefit plans. Contributions for these plans were approximately \$34.9 million, \$29.2 million and \$26.7 million in 2004, 2003 and 2002, respectively. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts.

ABM Industries Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****8. LEASE COMMITMENTS AND RENTAL EXPENSE**

The Company is contractually obligated to make future payments under noncancelable operating lease agreements for various facilities, vehicles, and other equipment. As of October 31, 2004, future minimum lease commitments under noncancelable operating leases were as follows:

Fiscal Years	(In thousands)	
2005	\$	48,363
2006		37,172
2007		30,563
2008		25,171
2009		18,507
Thereafter		49,450
Total minimum lease commitments	\$	209,226

Rental expense for continuing operations for the years ended October 31 is summarized as follows:

	2004	2003	2002
	(In thousands)		
Minimum rentals under noncancelable leases	\$ 58,239	\$ 54,360	\$ 51,441
Contingent rentals	32,697	34,390	35,093
Short-term rental agreements	5,966	8,175	11,076
	\$ 96,902	\$ 96,925	\$ 97,610

Contingent rentals are applicable to leases of parking lots and garages and are based on percentages of the gross receipts or other financial parameters attributable to the related facilities.

9. CAPITAL STOCK**Common Stock**

On March 12, 2002, ABM's Board of Directors declared a 2-for-1 split of ABM's common stock in the form of a 100% stock dividend payable on May 7, 2002 to stockholders of record on March 29, 2002. A total of 24.9 million shares of common stock were issued in connection with the stock split. The par value of the shares was not changed from \$0.01.

Treasury Stock

On September 16, 2001, ABM's Board of Directors authorized the purchase of up to 2.0 million shares of ABM's outstanding common stock at any time through December 31, 2001, which authorization was later extended through January 31, 2003. As of October 31, 2002, the Company had purchased 1.4 million shares at a cost of \$23.6 million (an average price per share of \$16.88). In the three months ended January 31, 2003, the Company purchased the remaining 0.6 million shares at a cost of \$9.3 million (an average price per share of \$15.50).

On March 11, 2003, ABM's Board of Directors authorized the purchase of up to 2.0 million additional shares of ABM's outstanding common stock at any time through December 31, 2003. As of October 31, 2003, the Company purchased 1.4 million shares under this authorization at a cost of \$21.1 million (an average price per share of \$15.04). In the two months ended December 31, 2003, the Company purchased 0.1 million shares at a cost of \$1.7 million (an average price per share of \$16.90).

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On December 9, 2003, ABM's Board of Directors authorized the purchase of up to 2.0 million additional shares of ABM's outstanding common stock at any time through December 31, 2004. As of October 31, 2004, the Company had purchased 0.5 million shares under this authorization at a cost of \$9.4 million (an average price per share of \$18.77). No purchases were made in November and December 2004 under this authorization.

Preferred Stock

ABM is authorized to issue 0.5 million shares of preferred stock. None of these preferred shares are currently issued.

Common Stock Rights Plan

Under the Company's stockholder rights plan one preferred stock purchase right (a Right) attached to each outstanding share of common stock on April 22, 1998, and a Right has attached or will attach to each subsequently issued share of common stock. The Rights are exercisable only if a person or group acquires 20% or more of ABM's common stock (an Acquiring Person) or announces a tender offer for 20% or more of the common stock. Each Right entitles stockholders to buy one-two thousandths of a share of newly created participating preferred stock, par value \$0.01 per share, of ABM at an initial exercise price of \$87.50 per Right, subject to adjustment from time to time. However, if any person becomes an Acquiring Person, each Right will then entitle its holder (other than the Acquiring Person) to purchase, at the exercise price, common stock (or, in certain circumstances, participating preferred stock) of ABM having a market value at that time of twice the Right's exercise price. These Rights holders would also be entitled to purchase an equivalent number of shares at the exercise price if the Acquiring Person were to control ABM's Board of Directors and cause the Company to enter into certain mergers or other transactions. In addition, if an Acquiring Person acquired between 20% and 50% of ABM's voting stock, ABM's Board of Directors may, at its option, exchange one share of ABM's common stock for each Right held (other than Rights held by the Acquiring Person). Rights held by the Acquiring Person will become void. The Theodore Rosenberg Trust and The Sydney J. Rosenberg Trust, and certain related persons, cannot be Acquiring Persons under the Rights plan, therefore, changes in their holdings will not cause the Rights to become exercisable or non-redeemable or trigger the other features of the Rights. The Rights will expire on April 22, 2008, unless earlier redeemed by the ABM's Board of Directors at \$0.005 per Right.

Stock Options

The Company has four stock option plans which are described below.

"Time-Vested" Incentive Stock Option Plan

In 1987, the Company adopted a stock option plan under which 2.4 million shares were reserved for grant. In March 1994, this plan was amended to reserve an additional 2.0 million shares. In March 1996, the plan was amended again to reserve another 4.0 million shares. The options become exercisable at a rate of 20% per year beginning one year after date of grant and terminate no later than 10 years plus one month after date of grant. Options which terminate without being exercised may be reissued. At October 31, 2004, 0.8 million shares remained available for grant.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Transactions under this plan are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance October 31, 2001	3,166,000	\$ 11.14
Granted (Weighted average fair value of \$4.56)	313,000	\$ 14.94
Exercised	(505,000)	\$ 8.48
Forfeitures	(346,000)	\$ 13.00
Balance October 31, 2002	2,628,000	\$ 11.86
Granted (Weighted average fair value of \$3.15)	483,000	\$ 14.88
Exercised	(381,000)	\$ 7.35
Forfeitures	(100,000)	\$ 15.35
Balance October 31, 2003	2,630,000	\$ 12.93
Granted (Weighted average fair value of \$4.04)	266,000	\$ 16.62
Exercised	(399,000)	\$ 10.14
Forfeitures	(119,000)	\$ 15.38
Balance October 31, 2004	2,378,000	\$ 13.69

Range of Prices	Outstanding at October 31, 2004			Exercisable at October 31, 2004	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 5.63 - \$ 6.66	56,000	0.9	\$ 6.51	56,000	\$ 6.51
\$ 8.72 - \$ 14.11	932,000	4.0	\$ 11.07	738,000	\$ 10.63
\$ 14.70 - \$ 20.40	1,390,000	6.9	\$ 15.74	582,000	\$ 15.83
Total	2,378,000	5.6	\$ 13.69	1,376,000	\$ 12.66

“Price-Vested” Performance Stock Option Plans

In December 1996, the Company adopted a stock option plan (the 1996 Plan) under which 3.0 million shares have been reserved. In December 2001, the Company adopted an additional but substantially similar plan (the 2002 Plan) under which 4.0 million shares were reserved for grant under the plan. The options expire ten years after the date of grant and any options which terminate without being exercised may be reissued. Each option has a pre-defined vesting price which provides for accelerated vesting. If, during the first four years, the stock price achieved and maintained a set price for ten out of thirty consecutive trading days, the options associated with the price would vest. The prices established were \$12.50, \$15.00, \$17.50 and \$20.00 in the 1996 Plan. On September 10, 2002, the Board of Directors established accelerated vesting prices of \$20.00, \$22.50, \$25.00 and \$27.50 for the 2002 Plan. On December 6, 2004, the Compensation Committee of ABM’s Board of Directors approved an amendment to the 2002 Plan to raise the accelerated vesting prices to \$22.50, \$25.00, \$27.50, and \$30.00. This change is effective for grants on and after December 6, 2004. The 1996 Plan and 2002 Plan provide that 25% of the options granted will vest at each price point. If, at the end of four years, any of the stock price performance targets were not achieved, then the remaining options would vest at the end of eight years from the date the options were granted. Options vesting during the first year

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

following grant do not become exercisable until after the first anniversary of grant. At October 31, 2004, 0.2 million and 2.7 million shares remained available for grant under the 1996 Plan and the 2002 Plan, respectively.

Transactions under these plans are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance October 31, 2001	2,060,000	\$ 11.89
Granted (Weighted average fair value of \$6.09)	1,190,000	\$ 16.67
Exercised	(130,000)	\$ 13.89
Forfeitures	(60,000)	\$ 10.06
Balance October 31, 2002	3,060,000	\$ 13.70
Granted (Weighted average fair value of \$3.60)	231,000	\$ 14.59
Exercised	(130,000)	\$ 10.09
Forfeitures	(150,000)	\$ 16.29
Balance October 31, 2003	3,011,000	\$ 13.79
Granted (Weighted average fair value of \$5.52)	85,000	\$ 18.10
Exercised	(270,000)	\$ 11.86
Forfeitures	(60,000)	\$ 13.48
Balance October 31, 2004	2,766,000	\$ 14.12

Range of Prices	Outstanding at October 31, 2004			Exercisable at October 31, 2004	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 10.00 - \$ 10.38	980,000	2.4	\$ 10.04	650,000	\$ 10.03
\$ 13.20 - \$ 20.40	1,786,000	7.4	\$ 16.37	785,000	\$ 16.08
Total	2,766,000	5.6	\$ 14.12	1,435,000	\$ 13.34

Executive Stock Option Plan (aka "Age-Vested" Career Stock Option Plan)

In 1984, the Company adopted a stock option plan whereby 1.36 million shares were reserved for grant. In March 1996, another 2.0 million shares were reserved for grant under the plan. As amended on December 20, 1994, options which have been granted at fair market value are 50% exercisable when the option holders reach their 61st birthdays and the remaining 50% will vest on their 64th birthdays. To the extent vested, the options may be exercised at any time prior to one year after termination of employment. On December 9, 2003, ABM's Board of Directors amended and restated the plan to provide that no further grants may be made under the Plan. At the time of this amendment, 1.0 million shares were available for grant under the plan. These shares, as well as any shares related to options that are cancelled without being exercised, will no longer be reserved for issuance under the plan.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Transactions under this plan are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance October 31, 2001	1,834,000	\$ 11.50
Granted (Weighted average fair value of \$6.29)	155,000	\$ 15.38
Exercised	(79,000)	\$ 10.40
Forfeitures	(139,000)	\$ 13.84
Balance October 31, 2002	1,771,000	\$ 11.72
Granted	—	—
Exercised	(30,000)	\$ 8.70
Forfeitures	(190,000)	\$ 15.34
Balance October 31, 2003	1,551,000	\$ 11.31
Granted	—	—
Exercised	(134,000)	\$ 8.36
Forfeitures	(39,000)	\$ 14.04
Balance October 31, 2004	1,378,000	\$ 11.52

Range of Prices	Outstanding at October 31, 2004			Exercisable at October 31, 2004	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 2.86	256,000	2.2	\$ 2.86	80,000	\$ 2.86
\$ 5.63 - \$ 9.72	152,000	5.9	\$ 6.03	22,000	\$ 5.63
\$10.38	92,000	14.9	\$ 10.38	3,000	\$ 10.38
\$14.70 - \$18.30	878,000	10.5	\$ 15.12	160,000	\$ 14.74
	1,378,000	8.8	\$ 11.52	265,000	\$ 10.35

Employee Stock Purchase Plan

In 1985, the Company adopted an employee stock purchase plan under which sale of 10.0 million shares of its common stock was authorized. In March 1996 and 1999, sales of an additional 2.4 million shares each were authorized, and again in March 2001, 2.4 million additional shares were authorized under this plan. The purchase price of the shares under the plan was the lesser of 85% of the fair market value at the commencement of each plan year or 85% of the fair market value on the date of purchase. Employees could designate up to 10% of their compensation for the purchase of stock, subject to a \$25,000 annual limit.

The weighted average fair values of the purchase price rights granted in 2004, 2003, and 2002 were \$4.29, \$4.16 and \$3.85, respectively. During 2004, 2003 and 2002, the number of shares of stock issued under the plan were 0.1 million, 0.9 million and 0.9 million, respectively; and were issued at weighted average prices of \$11.72, \$12.20 and \$13.36, respectively. The aggregate purchases for 2004, 2003 and 2002, were \$1.0 million, \$11.1 million and \$11.6 million, respectively. The plan terminated upon issue of all available shares in November 2003.

ABM Industries Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

On March 9, 2004, the stockholders of ABM approved the 2004 Employee Stock Purchase Plan under which an aggregate of 2.0 million shares may be issued. The participant's purchase price is 85% of the lower of the fair market value of ABM's stock on the first day of each six-month period in the fiscal year (i.e., May and November, or in the case of the first offering period, the price on August 1, 2004) or the last trading day of each month. The first offering period was a three-month period which commenced on August 1, 2004. The second offering period commenced on November 1, 2004. Employees may designate up to 10% of their compensation for the purchase of stock, subject to a \$25,000 annual limit. Employees are required to hold their shares for a minimum of six months from the date of purchase.

The weighted average fair value of the purchase rights granted in 2004 under the new plan was \$3.41. During 2004, 0.1 million shares of stock was issued under the plan at a weighted average price of \$15.25. The aggregate purchase for 2004 was \$1.2 million. At October 31, 2004, 1.9 million shares remained unissued under the plan.

10. STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation plans using the intrinsic value method under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company's application of APB Opinion No. 25 does not result in compensation cost because the exercise price of the options is equal to the fair value of the stock at the grant date. Under the intrinsic value method, if the fair value of the stock is greater than the exercise price at grant date, the excess is amortized to compensation expense over the estimated service life of the recipient.

As all options granted since October 31, 1995 had exercise prices equal to the market value of the underlying common stock on the date of grant, no stock-based employee compensation cost was reflected in net income for the years ended October 31, 2004, 2003 and 2002. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to all outstanding employee options granted after October 31, 1995 using the retroactive restatement method:

	2004	2003	2002
		As Restated	As Restated
		(In thousands except per share amounts)	
Net income, as reported	\$ 30,473	\$ 90,920	\$ 44,354
Deduct: Stock-based employee compensation cost, net of tax effect, that would have been included in net income if the fair value method had been applied	1,979	3,591	3,941
Net income, pro forma	\$ 28,494	\$ 87,329	\$ 40,413
Net income per common share — Basic			
As reported	\$ 0.63	\$ 1.85	\$ 0.90
Pro forma	\$ 0.59	\$ 1.78	\$ 0.82
Net income per common share — Diluted			
As reported	\$ 0.61	\$ 1.82	\$ 0.87
Pro forma	\$ 0.58	\$ 1.75	\$ 0.79

For purposes of calculating the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, the fair value of stock-based awards to employees, including purchase rights issued under the Employee Stock Purchase Plan, is calculated through the use of option pricing models. The use of these models requires subjective assumptions, including future stock price volatility and expected time to exercise, which can have a significant effect on the calculated values. The

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions:

	2004	2003	2002
Expected life from the date of grant	7.4 years	7.4 years	9.7 years
Expected stock price volatility average	24.9%	23.0%	32.5%
Expected dividend yield	2.3%	2.6%	2.2%
Risk-free interest rate	3.7%	3.3%	4.4%
Weighted average fair value of grants	\$ 4.40	\$ 3.21	\$ 5.82

The Company's pro forma calculations are based on a single option valuation approach. The computed pro forma fair value of the options awards are amortized over the required vesting periods. For purposes of the pro forma calculations, should options vest earlier, the remaining unrecognized value is recognized immediately and stock option forfeitures are recognized as they occur.

As discussed in Note 1, in December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This statement is a revision to SFAS No. 123 and supercedes APB Opinion No. 25.

11. INCOME TAXES

The income taxes provision for continuing operations is made up of the following components for each of the years ended October 31:

	2004	2003	2002
		As Restated (In thousands)	As Restated
Current			
Federal	\$ 23,177	\$ 22,402	\$ 19,408
State	4,889	2,044	2,887
Foreign	85	109	63
Deferred			
Federal	(7,633)	(6,137)	(3,745)
State	(4,629)	(475)	1,036
	<u>\$ 15,889</u>	<u>\$ 17,943</u>	<u>\$ 19,649</u>

Income tax expense attributable to income from continuing operations differs from the amounts computed by applying the U.S. statutory rates to pre-tax income from continuing operations as a result of the following for the years ended October 31:

	2004	2003	2002
		As Restated	As Restated
Statutory rate	35.0%	35.0%	35.0%
State and local taxes on income, net of federal tax benefit	4.3%	3.2%	3.1%
Tax credits	(6.3)%	(5.8)%	(6.4)%
Tax liability no longer required	—	—	(2.4)%
Nondeductible expenses and other — net	1.3%	1.1%	2.7%
	<u>34.3%</u>	<u>33.5%</u>	<u>32.0%</u>

ABM Industries Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at October 31 are presented below:

	2004	2003
		As Restated
		(In thousands)
Deferred tax assets:		
Self-insurance claims	\$ 73,352	\$ 56,874
Deferred and other compensation	17,391	14,441
Bad debt allowance	3,528	2,421
State taxes	785	2,469
Other	5,099	7,241
Total gross deferred tax assets	100,155	83,446
Deferred tax liabilities:		
Goodwill and other acquired intangibles	(8,526)	(3,454)
Deferred software development cost	(1,909)	(2,534)
Total gross deferred tax liabilities	(10,435)	(5,988)
Net deferred tax assets	\$ 89,720	\$ 77,458

Management has determined that it is more likely than not that the total net deferred tax asset will be realized.

12. ACQUISITIONS

Acquisitions have been accounted for using the purchase method of accounting. The operating results generated by the companies and businesses acquired have been included in the accompanying consolidated financial statements from their respective dates of acquisition. The excess of the purchase price (including contingent amounts) over fair value of the net tangible and intangible assets acquired is included in goodwill. Most purchase agreements provide for initial payments and contingent payments based on the annual pre-tax income or other financial parameters for subsequent periods ranging generally from two to five years.

Cash paid for acquisitions, including initial payments and contingent amounts based on subsequent earnings, was \$54.2 million, \$40.6 million and \$52.4 million in the years ended October 31, 2004, 2003 and 2002, respectively. Of those payment amounts, \$9.9 million, \$10.9 million and \$8.1 million were the contingent amounts paid in the years ended October 31, 2004, 2003 and 2002, respectively, on earlier acquisitions as provided by the respective purchase agreements. Of the \$9.9 million paid in 2004, \$0.3 million was added to other intangibles and \$9.6 million to goodwill. All amounts paid in 2003 and 2002 were added to goodwill. In addition, shares of ABM's common stock with a fair market value of \$1.4 million at the date of issuance were issued in 2002. The common stock issuance in 2002 was the final payment made under the contingent payment provisions of a 1997 acquisition.

The Company made the following acquisitions during the year ended October 31, 2004:

On March 15, 2004, the Company acquired substantially all of the operating assets of Security Services of America, LLC (SSA), a North Carolina limited liability company and wholly-owned subsidiary of SSA Holdings II, LLC. SSA, also known as "Silverhawk Security Specialists" and "Elite Protection Services," provided full service private security and investigative services to a diverse client base that includes small, medium and large businesses throughout the Southeast and Midwest regions of the United States. The total acquisition cost included an initial cash payment of \$40.7 million, net of liabilities assumed totaling

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$0.3 million, plus contingent payments equal to 20% to 25% of adjusted earnings before interest and taxes, depending upon the level of actual earnings, for each of the years in the five-year period following the date of acquisition. Of the total purchase price, \$7.1 million was allocated to customer relationship intangible asset and \$2.7 million to trademarks and trade names. Additionally, \$2.2 million of the total purchase price was allocated to fixed and other tangible assets and \$29.0 million to goodwill.

On April 2, 2004, the Company acquired substantially all of the commercial janitorial assets of the Northeast United States Division of Initial Contract Services, Inc., a provider of janitorial services based in New York. The acquisition included key accounts throughout the Northeast region totaling approximately 50 buildings. The total acquisition cost included an initial cash payment of \$3.5 million, of which \$0.9 million was allocated to customer relationship intangible asset, \$1.8 million to accounts receivable and \$0.8 million to other assets, plus annual contingent payments for each of the years in the five-year period following the acquisition date, calculated as follows: 3% of the acquired operation's revenues for the first and second year, 2% for the third and fourth year, and 1% for the fifth year.

Acquisitions made during the year ended October 31, 2003 were as follows:

On January 31, 2003, the Company acquired the commercial self-performed janitorial cleaning operations of Horizon, a provider of janitorial services based in Red Bank, New Jersey. Assets acquired by the Company included key customer accounts in the eastern, mid-western and south central United States. The total adjusted acquisition cost was \$14.7 million, which included the assumption of payroll-related liabilities totaling \$0.2 million. Of the total adjusted acquisition cost, \$12.9 million was originally allocated to goodwill and \$1.8 million to fixed and other assets at the time of acquisition. As a result of the restatement of the year ended October 31, 2003 to reflect the adoption of EITF 02-17, \$4.2 million of the \$12.9 million goodwill was re-allocated to other intangibles. (See Note 2.)

On April 30, 2003, the Company acquired selected assets of Valet, a provider of parking services based in Culver City, California. The total acquisition cost included an initial cash payment of \$1.7 million, substantially all of which was allocated to goodwill, plus annual contingent payments of \$0.3 million for the three years subsequent to the acquisition date, if specified levels of variable gross profits from the acquired operations are maintained. As a result of the restatement of the year ended October 31, 2003 to reflect the adoption of EITF 02-17, the \$1.7 million previously allocated to goodwill was re-allocated to other intangibles. (See Note 2.)

On August 29, 2003, the Company acquired substantially all of the assets and operations of HGO, a provider of janitorial services based in King of Prussia, Pennsylvania. Assets acquired by the Company include key customer accounts in the greater Philadelphia metropolitan area, including locations in New Jersey and Delaware. The total acquisition cost was \$12.8 million, plus annual contingent amounts of approximately \$1.1 million for the three years subsequent to the acquisition date if specified levels of customer accounts are retained, and additional annual contingent amounts for the three years subsequent to the acquisition date if financial performance exceeds agreed-upon levels. Of the total initial acquisition cost, \$12.4 million was originally allocated to goodwill and \$0.4 million to fixed and other assets at the time of acquisition. Contingent amounts, if paid, will be allocated to goodwill. As a result of the restatement of 2003 to reflect the adoption of EITF 02-17, \$7.4 million of the \$12.4 million goodwill was re-allocated to other intangibles. (See Note 2.)

Acquisitions made during the year ended October 31, 2002 were as follows:

The Company acquired the service contracts and selected assets of Triumph Security Corporation and Triumph Cleaning Corporation (collectively, Triumph) with customers located in New York City effective January 26 and 28, 2002, respectively.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On February 28, 2002, the Company acquired the security contracts, accounts receivable and selected assets of Foulke Associates, Inc. (Foulke) with customers located throughout Georgia, Florida, Maryland, Pennsylvania and Virginia.

The total cost of the Triumph and Foulke acquisitions was \$8.8 million, of which \$7.1 million was allocated to goodwill. The aggregate purchase prices of these acquisitions do not reflect payments of contingent consideration based upon the future results of operations of the businesses acquired. As these acquisitions were not material, pro forma information is not included in the accompanying consolidated financial statements.

On July 12, 2002, the Company acquired the operations of Lakeside Building Maintenance, Inc. and an affiliated company (collectively, Lakeside) with customers located in Chicago, Cincinnati, Cleveland, Columbus, Detroit, Indianapolis, Louisville, Milwaukee, Nashville and St. Louis. The total down payment acquisition cost was \$41.1 million, which included the assumption of liabilities totaling \$4.2 million. Of the down payment, \$39.5 million was allocated to goodwill. Contingent amounts are payable over a three-year period commencing July 13, 2002. The first two annual payments were equal to fifty percent of Lakeside's Adjusted Earnings Before Interest Taxes Depreciation and Amortization for each year of the two-year period following the acquisition, while the final payment will be equal to \$5.3 million provided that the sellers, including managers now employed by the Company, fulfill the other terms and conditions of the asset purchase agreement. The asset purchase agreement was amended in 2004 to eliminate a sales level requirement to better align Lakeside management with ABM Janitorial in the renewal of customer contracts.

The following pro forma information represents Lakeside's results of operations for the period November 1, 2001 through July 12, 2002. The actual results of operations of Lakeside for the period July 13, 2002 through October 31, 2002 are included in the Company's results of operations for the year ended October 31, 2002.

	2002		
	ABM	Lakeside	Proforma
	As Restated	Unaudited (In thousands, except per share data)	Unaudited
Revenues	\$ 2,076,783	\$ 113,460	\$ 2,190,243
Operating and SG&A expense	2,014,398	106,413	2,120,811
Interest expense	1,052	1,365	2,417
Total expenses	2,015,450	107,778	2,123,228
Income from continuing operations before income taxes	61,333	5,682	67,015
Income taxes	19,649	2,063	21,712
Net income from continuing operations	\$ 41,684	\$ 3,619	\$ 45,303
Net income per common share from continuing operations			
Basic	\$ 0.85	—	\$ 0.92
Diluted	\$ 0.82	—	\$ 0.89
Average common shares outstanding			
Basic	49,116	—	49,116
Diluted	51,015	—	51,015

Due to the size of the other acquisitions, pro forma information is not included in the consolidated financial statements.

ABM Industries Incorporated and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****13. DISCONTINUED OPERATION**

On August 15, 2003, the Company sold substantially all of the operating assets of Amtech Elevator Services, Inc., a wholly-owned subsidiary of ABM that represented the Company's Elevator segment, to Otis Elevator Company, a wholly-owned subsidiary of United Technologies Corporation (Otis Elevator). The operating assets sold included customer contracts, accounts receivable, facility leases and other assets, as well as a perpetual license to the name "Amtech Elevator Services." The consideration in connection with the sale included \$112.4 million in cash and Otis Elevator's assumption of trade payables and accrued liabilities. The Company realized a gain on the sale of \$52.7 million, which is net of \$32.7 million of income taxes, of which \$30.5 million was paid with the extension of the federal and state income tax returns on January 15, 2004.

The operating results and cash flows of the Elevator segment have been reported as discontinued operation in the accompanying consolidated financial statements. Income taxes have been allocated using the estimated combined federal and state tax rates applicable to Elevator for each of the periods presented.

The operating results of the discontinued operation for the years ended October 31, 2003 and 2002 are shown below. Operating results for 2003 are for the period beginning November 1, 2002 through the date of sale, August 15, 2003.

	2003	2002
	(In thousands)	
Revenues	\$ 88,147	\$ 113,874
Income before income taxes	4,142	4,319
Income taxes	1,582	1,649
Net income	\$ 2,560	\$ 2,670

Assets and liabilities of the discontinued operation were as follows at August 15, 2003 (the date of sale):

	August 15, 2003
	(In thousands)
Trade accounts receivable, net	\$ 17,432
Inventories	6,634
Prepaid expenses and other current assets	518
Property, plant and equipment, net	362
Goodwill	3,907
Other assets	48
Total assets	28,901
Trade accounts payable	2,909
Accrued liabilities:	
Compensation	2,059
Taxes — other than income	337
Other	2,564
Total liabilities	7,869
Net assets	\$ 21,032

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate fair value due to the short-maturity of these instruments.

Financial instruments included in investments and long-term receivables have no quoted market prices and, accordingly, a reasonable estimate of fair market value could not be made without incurring excessive costs. However, the Company believes by reference to stated interest rates and security held that the fair value of the assets would not differ significantly from the carrying value.

15. CONTINGENCIES

In September 1999, a former employee filed a gender discrimination lawsuit against ABM in the state of Washington. On May 19, 2003, a Washington state court jury for the Spokane County Superior Court, in the case named *Forbes v. ABM*, awarded \$4.0 million in damages. The court later awarded costs of \$0.7 million to the plaintiff, pre-judgment interest in the amount of \$0.3 million and an additional \$0.8 million to mitigate the federal tax impact of the plaintiff's award. The U.S. Supreme Court is currently deciding whether courts are permitted to award any amounts for mitigation for federal tax consequences in wrongful termination cases. ABM is appealing the jury's verdict and the award of costs to the State Court of Appeals on the grounds that it was denied a fair trial and that Forbes failed to prove that ABM engaged in discrimination or retaliation. ABM has stayed enforcement of the judgment by procuring a \$7.0 million letter of credit. Interest on the judgment is assessed at 2% above the U.S. Treasury Bill rate. ABM believes that the award against ABM was excessive and that the verdict was inconsistent with the law and the evidence. Because ABM believes that the judgment will be reversed upon appeal and that it will prevail in a new trial, ABM has not recorded any liability in its financial statements associated with the judgment. However, there can be no assurance that ABM will prevail in this matter. As of October 31, 2004, ABM had incurred and recorded legal fees of \$0.3 million associated with the appeal. These fees, which include the cost of a new trial, are expected to total approximately \$0.5 million. In addition, ABM will incur annual fees of approximately 1% of the amount of the letter of credit. Oral arguments are scheduled for February 17, 2005.

ABM and some of its subsidiaries have been named defendants in certain other litigation arising in the ordinary course of business. In the opinion of management, based on advice of legal counsel, such matters should have no material effect on the Company's financial position, results of operations or cash flows.

16. GUARANTEES AND INDEMNIFICATION AGREEMENTS

We have applied the measurement and disclosure provisions of FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others," to our agreements that contain guarantee and certain indemnification clauses. FIN 45 requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. As of October 31, 2003 and 2004, we did not have any material guarantees that were issued or modified subsequent to December 31, 2002.

However, the Company is party to a variety of contractual agreements under which it may be obligated to indemnify the other party for certain matters. Primarily, these agreements are standard indemnification arrangements in its ordinary course of business. Pursuant to these arrangements, the Company may agree to indemnify, hold harmless and reimburse the indemnified parties for losses suffered or incurred by the indemnified party, generally its customers, in connection with any claims arising out of the services that the Company provides. The Company also incurs costs to defend lawsuits or settle claims related to these indemnification arrangements and in most cases these costs are paid from its insurance program. The term of these indemnification arrangements is generally perpetual. Although the Company attempts to place limits on this indemnification reasonably related to the size of the contract, the maximum obligation is not always

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

explicitly stated and, as a result, the maximum potential amount of future payments the Company could be required to make under these arrangements is not determinable.

ABM's certificate of incorporation and bylaws may require it to indemnify Company directors and officers against liabilities that may arise by reason of their status as such and to advance their expenses incurred as a result of any legal proceeding against them as to which they could be indemnified. ABM has also entered into indemnification agreements with its directors to this effect. The overall amount of these obligations cannot be reasonably estimated, however, the Company believes that any loss under these obligations would not have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company currently has directors' and officers' insurance.

17. SUBSEQUENT EVENTS

On November 1, 2004, the Company acquired substantially all of the operating assets of Sentinel Guard Systems (Sentinel), a Los Angeles-based company, from Tracerton Enterprises, Inc. Sentinel, with annual revenues in excess of \$13.0 million, was a provider of security officer services primarily to high-rise, commercial and residential structures. In addition to its Los Angeles business, Sentinel also operated an office in San Francisco. Sentinel operations have been merged into the Company's American Commercial Security Services California operations. Under this transaction, the Company acquired customer accounts receivable and other assets of approximately \$1.3 million and assumed liabilities of approximately \$1.7 million. The consideration paid by the Company included an initial payment of \$3.4 million in shares of ABM's common stock. Additional consideration includes contingent payments, based on achieving certain revenue and profitability targets over a three-year period, estimated to be between \$0.5 million and \$0.75 million per year, payable in shares of ABM's common stock.

On December 22, 2004, the Company acquired the operating assets of Colin Service Systems, Inc., (Colin Service), a facility services company based in New York, for an initial payment of approximately \$13.6 million in cash. Under certain conditions, additional consideration may include an estimated \$1.9 million payment upon the collection of the acquired receivables and three annual contingent cash payments each for approximately \$1.1 million, which are based on achieving annual revenue targets over a three-year period. With annual revenues in excess of \$70 million, Colin Service is a provider of professional onsite management, commercial office cleaning, specialty cleaning, snow removal and engineering services. Under the transaction, the Company also acquired customer accounts receivable of \$7.8 million and other operating assets. With the exception of office leases, the Company did not assume any of Colin Service's liabilities.

18. SEGMENT INFORMATION

Under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," segment information is presented under the management approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers.

The Company is currently organized into seven separate operating segments. Under the criteria of SFAS No. 131, Janitorial, Parking, Security, Engineering, and Lighting are reportable segments. Mechanical and Facility Services are included in the Other segment. Substantially all of the operating assets of the Elevator segment were sold on August 15, 2003 and its operating results are reported separately under discontinued operation. (See Note 13.) All segments are distinct business units. They are managed separately because of their unique services, technology and marketing requirements. Nearly 100% of the operations and related sales are within the United States and no single customer accounts for more than 5% of sales.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Corporate expenses are not allocated. The unallocated corporate expenses include the \$17.2 million adverse development charge in 2004 and \$2.1 million, \$1.5 million and \$1.2 million insurance restatement adjustments for 2004, 2003 and 2002, respectively, (see Notes 2 and 3) and centralization of marketing and sales expenses. While virtually all insurance claims arise from the operating segments, this adjustment was recorded as unallocated corporate expense. Had the Company allocated the insurance charge among the segments, the reported pre-tax operating profits of the segments, as a whole, would have been reduced by \$19.3 million, \$1.5 million and \$1.2 million for 2004, 2003 and 2002, respectively, with an equal and offsetting change to unallocated corporate expenses and therefore no change to consolidated pre-tax earnings.

	<u>Janitorial</u>	<u>Parking</u>	<u>Security</u>	<u>Engineering</u>	<u>Lighting</u>	<u>Other</u>	<u>Corporate</u>	<u>Assets Held for Sale</u>	<u>Consolidated Totals</u>
(In thousands)									
Year ended October 31, 2004									
Sales and other income	\$ 1,442,901	\$ 384,547	\$ 224,715	\$ 200,771	\$ 112,074	\$ 49,459	\$ 1,756	\$ —	\$ 2,416,223
Operating profit	\$ 60,574	\$ 9,514	\$ 9,002	\$ 11,976	\$ 2,822	\$ 1,486	\$ (47,996)		\$ 47,378
Interest expense	—	—	—	—	—	—	(1,016)	—	(1,016)
Income from continuing operations before income taxes	\$ 60,574	\$ 9,514	\$ 9,002	\$ 11,976	\$ 2,822	\$ 1,486	\$ (49,012)	\$ —	\$ 46,362
Identifiable assets	\$ 383,566	\$ 78,548	\$ 90,627	\$ 38,159	\$ 85,411	\$ 14,997	\$ 151,216	\$ —	\$ 842,524
Depreciation expense	\$ 5,237	\$ 1,092	\$ 552	\$ 34	\$ 1,578	\$ 134	\$ 4,521	\$ —	\$ 13,148
Intangible amortization expense	\$ 2,766	\$ 706	\$ 929	\$ —	\$ —	\$ 118	\$ —	\$ —	\$ 4,519
Capital expenditures	\$ 5,795	\$ 1,085	\$ 182	\$ 81	\$ 1,524	\$ 38	\$ 2,792	\$ —	\$ 11,497
Year ended October 31, 2003 (As Restated)									
Sales and other income	\$ 1,368,282	\$ 380,576	\$ 159,670	\$ 180,230	\$ 127,539	\$ 45,394	\$ 785	\$ —	\$ 2,262,476
Operating profit(1)	\$ 53,899	\$ 6,238	\$ 6,485	\$ 9,925	\$ 5,646	\$ 1,337	\$ (29,205)	\$ —	\$ 54,325
Interest expense	—	—	—	—	—	—	(758)	—	(758)
Income from continuing operations before income taxes(1)	\$ 53,899	\$ 6,238	\$ 6,485	\$ 9,925	\$ 5,646	\$ 1,337	\$ (29,963)	\$ —	\$ 53,567
Identifiable assets(1)	\$ 363,004	\$ 78,185	\$ 35,828	\$ 35,728	\$ 80,211	\$ 13,909	\$ 197,441	\$ —	\$ 804,306
Depreciation expense(1)	\$ 5,425	\$ 1,368	\$ 268	\$ 59	\$ 1,584	\$ 176	\$ 4,939	\$ —	\$ 13,819
Intangible amortization expense(1)	\$ 1,488	\$ 415	\$ —	\$ —	\$ —	\$ 141	\$ —	\$ —	\$ 2,044
Capital expenditures	\$ 5,017	\$ 1,228	\$ 109	\$ 18	\$ 1,551	\$ 91	\$ 3,607	\$ —	\$ 11,621

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Janitorial	Parking	Security	Engineering	Lighting	Other	Corporate	Assets Held for Sale	Consolidated Totals
(In thousands)									
Year ended October 31, 2002									
(As Restated)									
Sales and other income	\$ 1,197,035	\$ 363,511	\$ 140,569	\$ 173,561	\$ 130,858	\$ 61,963	\$ 561	\$ —	\$ 2,068,058
Gain on insurance claim(1)	—	—	—	—	—	—	10,025	—	10,025
Total revenues(1)	\$ 1,197,035	\$ 363,511	\$ 140,569	\$ 173,561	\$ 130,858	\$ 61,963	\$ 10,586	\$ —	\$ 2,078,083
Operating profit(1)	\$ 51,837	\$ 6,948	\$ 5,639	\$ 10,033	\$ 8,261	\$ (1,190)	\$ (29,168)	\$ —	\$ 52,360
Gain on insurance claim(1)	—	—	—	—	—	—	10,025	—	10,025
Interest expense	—	—	—	—	—	—	(1,052)	—	(1,052)
Income from continuing operations before income taxes(1)	\$ 51,837	\$ 6,948	\$ 5,639	\$ 10,033	\$ 8,261	\$ (1,190)	\$ (20,195)	\$ —	\$ 61,333
Identifiable assets(1)	\$ 335,114	\$ 80,889	\$ 31,295	\$ 32,435	\$ 82,197	\$ 15,080	\$ 103,404	\$ 32,136	\$ 712,550
Depreciation expense(1)	\$ 5,091	\$ 1,764	\$ 304	\$ 85	\$ 1,725	\$ 240	\$ 4,661	\$ —	\$ 13,870
Intangible amortization expense	\$ 700	\$ 244	\$ —	\$ —	\$ —	\$ 141	\$ —	\$ —	\$ 1,085
Capital expenditures	\$ 3,643	\$ 1,119	\$ 289	\$ 39	\$ 722	\$ 141	\$ 1,392	\$ —	\$ 7,345

(1) See Note 2.

ABM Industries Incorporated and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. QUARTERLY INFORMATION (UNAUDITED)

	Fiscal Quarter				
	First	Second	Third	Fourth	Year
(In thousands, except per share amounts)					
Nine months ended July 31, 2004, as reported					
Sales and other income	\$ 570,823	\$ 590,345	\$ 623,773		
Gross profit from continuing operations	\$ 53,988	\$ 57,221	\$ 68,425		
Net income from continuing operations	\$ 7,156	\$ 6,784	13,394		
Net income per common share — Basic	\$ 0.15	\$ 0.14	\$ 0.27		
Net income per common share — Diluted	\$ 0.14	\$ 0.14	\$ 0.27		
Year ended October 31, 2004, as restated					
Sales and other income	\$ 570,823	\$ 590,345	\$ 623,773	\$ 631,282	\$ 2,416,223
Gross profit from continuing operations	\$ 53,364	\$ 56,787	\$ 67,817	\$ 50,596	\$ 228,564
Net income from continuing operations	\$ 6,335	\$ 7,340	\$ 13,148	\$ 3,650	\$ 30,473
Net income per common share — Basic	\$ 0.13	\$ 0.15	\$ 0.27	\$ 0.08	\$ 0.63
Net income per common share — Diluted	\$ 0.13	\$ 0.15	\$ 0.26	\$ 0.07	\$ 0.61
Year ended October 31, 2003, as reported					
Sales and other income	\$ 552,444	\$ 562,537	\$ 569,093	\$ 578,402	\$ 2,262,476
Gross profit from continuing operations	\$ 48,391	\$ 57,330	\$ 57,373	\$ 63,651	\$ 226,745
Net income from continuing operations	\$ 3,750	\$ 9,248	\$ 10,556	\$ 12,844	\$ 36,398
Net income from discontinued operation	588	644	1,182	146	2,560
Net gain on sale of discontinued operation	—	—	—	51,500	51,500
	\$ 4,338	\$ 9,892	\$ 11,738	\$ 64,490	\$ 90,458
Net income per common share — Basic					
Income from continuing operations	\$ 0.08	\$ 0.19	\$ 0.21	\$ 0.26	\$ 0.74
Income from discontinued operation	0.01	0.01	0.03	—	0.05
Gain on sale of discontinued operation	—	—	—	1.05	1.05
	\$ 0.09	\$ 0.20	\$ 0.24	\$ 1.31	\$ 1.84
Net income per common share — Diluted					
Income from continuing operations	\$ 0.08	\$ 0.18	\$ 0.21	\$ 0.26	\$ 0.73
Income from discontinued operation	0.01	0.02	0.02	—	0.05
Gain on sale of discontinued operation	—	—	—	1.03	1.03
	\$ 0.09	\$ 0.20	\$ 0.23	\$ 1.29	\$ 1.81

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Quarter				
	First	Second	Third	Fourth	Year
(In thousands, except per share amounts)					
Year ended October 31, 2003, as restated					
Sales and other income	\$ 552,444	\$ 562,537	\$ 569,093	\$ 578,402	\$ 2,262,476
Gross profit from continuing operations	\$ 49,279	\$ 57,075	\$ 56,744	\$ 63,396	\$ 226,494
Net income from continuing operations	\$ 4,319	\$ 8,972	\$ 10,015	\$ 12,318	\$ 35,624
Net income from discontinued operation	588	644	1,182	146	2,560
Net gain on sale of discontinued operation	—	—	—	52,736	52,736
	<u>\$ 4,907</u>	<u>\$ 9,616</u>	<u>\$ 11,197</u>	<u>\$ 65,200</u>	<u>\$ 90,920</u>
Net income per common share — Basic					
Income from continuing operations	\$ 0.09	\$ 0.19	\$ 0.20	\$ 0.25	\$ 0.73
Income from discontinued operation	0.01	0.01	0.03	—	0.05
Gain on sale of discontinued operation	—	—	—	1.07	1.07
	<u>\$ 0.10</u>	<u>\$ 0.20</u>	<u>\$ 0.23</u>	<u>\$ 1.32</u>	<u>\$ 1.85</u>
Net income per common share — Diluted					
Income from continuing operations	\$ 0.09	\$ 0.18	\$ 0.20	\$ 0.24	\$ 0.71
Income from discontinued operation	0.01	0.01	0.02	0.01	0.05
Gain on sale of discontinued operation	—	—	—	1.06	1.06
	<u>\$ 0.10</u>	<u>\$ 0.19</u>	<u>\$ 0.22</u>	<u>\$ 1.31</u>	<u>\$ 1.82</u>

See Note 2.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. In connection with the audit of the Company's consolidated financial statements for the year ended October 31, 2004, the Company's management and independent registered public accounting firm, KPMG LLP, reported to the Company's Audit Committee of the Board of Directors the identification of a "material weakness" (as such term is defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in internal control over financial reporting. The material weakness identified related to the Company's historical accounting for the Company's self-insurance reserves, which did not recognize that the actuarially calculated point estimate contained in the independent actuarial reports on which such self-insurance reserves were based was considered a better estimate of the Company's self-insurance liability under SFAS No. 5, "Accounting for Contingencies" and Financial Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss" and would have been the correct liability amount to record. The result of this error was restatement of the Company's prior period financial statements presented in this Annual Report on Form 10-K. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2 of Notes to Consolidated Financial Statements.

During the year ended October 31, 2004, the Company has taken steps to strengthen its control processes to guard against the improper application of generally accepted accounting principles ("GAAP"). Among other things, the Company has recently hired another Corporate Assistant Controller whose primary responsibility is implementing new accounting pronouncements, including monitoring recent publications on new and developing standards and pronouncements by the Public Company Accounting Oversight Board, Financial Accounting Standards Board, Emerging Issues Task Force and the American Institute of Certified Public Accountants. In particular response to the material weakness, the Company will verify the then-applicable GAAP requirements in respect of the establishment of such self-insurance reserves before defining the requirements of each annual independent actuarial report, such that the contents of the report clarify and support the appropriate GAAP requirements. Additionally, the independent actuary will make a formal presentation of its findings to the Audit Committee in a regularly scheduled quarterly meeting attended by the Company's independent auditor. The Company believes that these efforts have addressed the material weakness that affected internal control over financial reporting for the year ended October 31, 2004 and the years that have been restated.

As required by paragraph (b) of Rules 13a-15 or 15d-15 under 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 Annual Report on Form 10-K. Based on this evaluation and the identification of the material weakness described above, these officers concluded that as of the end of the period covered by this Annual Report on Form 10-K these controls and procedures were not adequate 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. These officers believe, however, that the actions taken to improve its disclosure controls and procedures and address the material weakness, particularly those described above, should be adequate to provide reasonable assurance that these objectives can be achieved in the future. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake.

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Certificates with respect to disclosure controls and procedures by ABM's Chief Executive Officer and Chief Financial Officer under Rule 13a-14(a) of the Exchange Act are attached to this Annual Report on Form 10-K as Exhibits 31.1 and 31.2.

Changes in Internal Control Over Financial Reporting. No change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the Company's fourth fiscal quarter has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

The information required by this item regarding ABM's executive officers is included in Part I under "Executive Officers of the Registrant." The information required by this item regarding ABM's directors is incorporated by reference from the information set forth under the caption "Proposal 1 — Election of Directors" in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders.

The information required by this item regarding ABM's Audit Committee and audit committee financial expert is incorporated by reference from the information set forth under the caption "Corporate Governance — Audit Committee" in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders. The information required by this item regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information set forth under the caption "Principal Stockholders — Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders.

The Company has adopted and posted on its Website (www.abm.com) the ABM Code of Business Conduct & Ethics (the "Code of Ethics") that applies to all directors, officers and employees of the Company, including the Company's Chief Executive Officer, Chief Financial Officer and Corporate Controller. If any amendments are made to the Code of Ethics or if any waiver, including any implicit waiver, from a provision of the Code of Ethics is granted to the Company's Chief Executive Officer, Chief Financial Officer or Corporate Controller, the Company will disclose the nature of such amendment or waiver on its Website.

ABM's common stock is listed on the New York Stock Exchange. As a result, ABM's Chief Executive Officer is required to make and he has made on April 4, 2004, a CEO's Annual Certification to the New York Stock Exchange in accordance with Section 303A.12 of the New York Stock Exchange Listed Company Manual stating that he was not aware of any violations by the Company of the New York Stock Exchange corporate governance listing standards.

ITEM 11. *EXECUTIVE COMPENSATION*

The information required by this item is incorporated by reference from the information set forth under the captions "Executive Compensation" and "Further Information Concerning the Board of Directors" contained in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference from the information set forth under the caption “Principal Stockholders” contained in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders.

The following tables provides information regarding the Company’s equity compensation plans as of October 31, 2004:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders:			
“Time-Vested” Incentive Stock Option Plan	2,378,000	\$ 13.69	779,000
“Price-Vested” Performance Stock Option Plans	2,766,000	14.12	2,965,000
“Age-Vested” Career Stock Option Plan	1,378,000	11.52	—
Employee Stock Purchase Plan	—	—	1,900,000
Equity compensation plans not approved by security holders:			
	—	—	—
Total	6,522,000	\$ 13.41	5,644,000

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from the information set forth under the captions “Executive Compensation” and “Further Information Concerning the Board of Directors” contained in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from the information set forth under the caption “Audit-Related Matters” contained in the Proxy Statement to be used by ABM in connection with its 2005 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Form 10-K:

1. Consolidated Financial Statements of ABM Industries Incorporated and Subsidiaries:
Independent Auditors' Report
Consolidated Balance Sheets — October 31, 2004 and 2003
Consolidated Statements of Income — Years ended October 31, 2004, 2003 and 2002
Consolidated Statements of Stockholders' Equity and Comprehensive Income — Years ended October 31, 2004, 2003 and 2002
Consolidated Statements of Cash Flows — Years ended October 31, 2004, 2003 and 2002
Notes to Consolidated Financial Statements.
2. Consolidated Financial Statement Schedule of ABM Industries Incorporated and Subsidiaries:
Schedule II — Consolidated Valuation Accounts — Years ended October 31, 2004, 2003 and 2002.

All other schedules are omitted because they are not applicable or because the required information is included in the consolidated financial statements or the notes thereto.

(b) Exhibits:

See Exhibit Index.

(c) Additional Financial Statements:

The individual financial statements of the registrant's subsidiaries have been omitted since the registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements are wholly-owned subsidiaries.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Henrik C. Slipsager

Henrik C. Slipsager
President, Chief Executive Officer and Director

January 14, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Henrik C. Slipsager

Henrik C. Slipsager,
President, Chief Executive Officer and Director
(Principal Executive Officer)

January 14, 2005

/s/ George B. Sundby

George B. Sundby
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)
January 14, 2005

/s/ Linda Chavez

Linda Chavez, Director
January 14, 2005

/s/ Maryellen C. Herringer

Maryellen C. Herringer, Director
January 14, 2005

/s/ Henry L. Kotkins, Jr.

Henry L. Kotkins, Jr., Director
January 14, 2005

/s/ Theodore Rosenberg

Theodore Rosenberg, Director
January 14, 2005

/s/ Maria De Martini

Maria De Martini
Vice President, Controller and
Chief Accounting Officer
(Principal Accounting Officer)
January 14, 2005

/s/ Luke S. Helms

Luke S. Helms, Director
January 14, 2005

/s/ Charles T. Horngren

Charles T. Horngren, Director
January 14, 2005

/s/ Martinn H. Mandles

Martinn H. Mandles
Chairman of the Board and Director
January 14, 2005

/s/ William W. Steele

William W. Steele, Director
January 14, 2005

Schedule II

CONSOLIDATED VALUATION ACCOUNTS

	Balance Beginning of Year	Charges to Costs and Expenses	Write-offs Net of Recoveries	Balance End of Year
	(In thousands)			
Allowance for doubtful accounts, as restated				
Years ended October 31,				
2004	\$ 6,089	\$ 4,641	\$ (2,358)	\$ 8,372
2003	5,293	6,544	(5,748)	6,089
2002	8,457	11,681	(14,845)	5,293

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of ABM Industries Incorporated, dated November 25, 2003 (incorporated by reference to Exhibit No. 3.1 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
3.2	Bylaws, as amended June 10, 2003 (incorporated by reference to Exhibit No. 3.2 to the registrant's Form 10-Q Quarterly Report for the quarter ended July 31, 2003, File No. 1-8929).
4.1	Credit Agreement, dated as of June 28, 2002, among ABM Industries Incorporated, various financial institutions and Bank of America, N.A., as Administrative Agent, as amended through April 23, 2003 (incorporated by reference to Exhibit No. 4.1 to the registrant's Form 10-Q Quarterly Report for the quarter ended April 30, 2003, File No. 1-8929).
10.1†	Executive Stock Option Plan (aka "Age-Vested" Career Stock Option Plan), as amended and restated as of January 11, 2005.
10.2†	"Time-Vested" Incentive Stock Option Plan, as amended and restated as of January 11, 2005.
10.3†	Form of Stock Option Agreement under the "Time-Vested" Incentive Stock Option Plan.
10.4†	"1996 Price-Vested" Performance Stock Option Plan, as amended and restated as of January 11, 2005.
10.5†	Form of Stock Option Agreement under the "1996 Price-Vested" Performance Stock Option Plan.
10.6†	2002 Price-Vested Performance Stock Option Plan, as amended and restated as of January 11, 2005.
10.7†	Form of Stock Option Agreement under the 2002 Price-Vested Performance Stock Option Plan.
10.8†	2004 Employee Stock Purchase Plan (incorporated by reference to Exhibit No. 99.1 to the registrant's Registration Statement on Form S-8, dated as of June 15, 2004, File No. 333-116487).
10.9†	Deferred Compensation Plan (incorporated by reference to Exhibit No. 10.28 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 1993, File No. 1-8929).
10.10†	Service Award Benefit Plan, as amended and restated as of January 11, 2005.
10.11†	Supplemental Executive Retirement Plan as amended and restated as of December 9, 2003 (incorporated by reference to Exhibit No. 10.20 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
10.12†	Form of Non-Employee Director Retirement Benefit Agreement (incorporated by reference to Exhibit No. 10.27 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
10.13†	Form of Indemnification Agreement for Directors.
10.14	Rights Agreement, dated as of March 17, 1998, between the Company and Chase Mellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference to Exhibit No. 4.1 to the registrant's Form 8-K Current Report dated as of March 17, 1998, File No. 1-8929).
10.15	First Amendment to Rights Agreement, dated as of May 6, 2002, between ABM Industries Incorporated and Mellon Investor Services LLC, as successor Rights Agent (incorporated by reference to Exhibit No. 10.77 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2002, File No. 1-8929).
10.16†	Agreement with Martinn H. Mandles (incorporated by reference to Exhibit No. 10.71 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2002, File No. 1-8929).
10.17†	ABM Executive Retiree Healthcare and Dental Plan.
10.18†	Corporate Executive Employment Agreement with Henrik C. Slipsager as of November 1, 2003 (incorporated by reference to Exhibit No. 10.22 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
10.19†	Corporate Executive Employment Agreement with Jess E. Benton, III, as of November 1, 2003 (incorporated by reference to Exhibit No. 10.23 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).

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Exhibit Number	Description
10.20†	Corporate Executive Employment Agreement with James P. McClure as of November 1, 2003 (incorporated by reference to Exhibit No. 10.24 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
10.21†	Corporate Executive Employment Agreement with George B. Sundby as of November 1, 2003 (incorporated by reference to Exhibit No. 10.25 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
10.22†	Corporate Executive Employment Agreement with Steven M. Zaccagnini as of November 1, 2003 (incorporated by reference to Exhibit No. 10.27 to the registrant's Form 10-K Annual Report for the fiscal year ended October 31, 2003, File No. 1-8929).
10.23†	Corporate Executive Employment Agreement with William T. Petty as of April 1, 2004.
10.24†	Form of Corporate Executive Employment Agreement.
21.1	Subsidiaries of the Registrant.
23.1	Consent of the Independent Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Management contract, compensatory plan or arrangement.

ABM INDUSTRIES INCORPORATED
EXECUTIVE STOCK OPTION PLAN
(as amended and restated as of January 11, 2005)

ARTICLE 1

Definitions

As used herein, the following terms have the meanings hereinafter set forth unless the context clearly indicates to the contrary:

- (a) "Board" shall mean the Board of Directors of the Company.
 - (b) "Committee" shall mean the Compensation Committee of the Board, or such other committee as the Board may designate. The Committee shall consist of not fewer than three members of the Board. Each member of the Committee shall be a "disinterested person" as defined in Rule 16b-3 under the Securities Exchange Act of 1934.
 - (c) "Company" shall mean ABM Industries Incorporated.
 - (d) For the purposes of this Plan, the term "fair market value," when used in reference to the date of grant of an option or the date of surrender of Stock in payment for the purchase of shares pursuant to the exercise of an option, as the case may be, shall refer to the closing price of the Stock as quoted in the Composite Transactions Index for the New York Stock Exchange, on the day before such date as published in the "Wall Street Journal," or if no sale price was quoted in any such Index on such date, then as of the next preceding date on which such a sale price was quoted.
 - (e) "Nonemployee Director" shall mean a member of the Board who is neither an employee of the Company nor of any Subsidiary.
 - (f) "Option" shall mean an option to purchase Stock granted to the provisions of Article VI hereof.
 - (g) "Optionee" shall mean an individual to whom an Option has been granted hereunder.
 - (h) "Plan" shall mean the ABM Industries Incorporated Executive Stock Option Plan, the terms of which are set forth herein.
 - (i) "Stock" shall mean the Common Stock of the Company or, in the event that the outstanding shares of Stock are hereafter changed into or exchanged for shares of a
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different stock or securities of the Company or some other corporation, such other stock or securities.

(j) "Stock Option Agreement" shall mean the agreement between the Company and the Optionee under which the Optionee may purchase Stock hereunder.

(k) "Subsidiary" shall mean any corporation, the majority of the outstanding capital stock of which is owned, directly or indirectly, by the Company.

(l) "Vesting Date" shall mean an Optionee's "Initial Vesting Date" or "Final Vesting Date", as the case may be. An Optionee's Initial Vesting Date shall apply to the first fifty percent (50 %) of the shares covered by his or her Option, and shall mean the Optionee's sixty-first (61st) birthday. An Optionee's Final Vesting Date shall apply to the remaining fifty percent (50%) of the shares covered by such Option, and shall mean the Optionee's sixty fourth (64th) birthday.

ARTICLE II

The Plan

2.1 Name. This Plan shall be known as the "ABM Industries Incorporated Executive Stock Option Plan".

2.2 Purpose. The purpose of the Plan is to advance the interests of the Company and its shareholders by affording to Nonemployee Directors and to key management employees of the Company and its Subsidiaries an opportunity to acquire or increase their proprietary interest in the Company by the grant to such individuals of Options under the terms set forth herein. By thus encouraging such individuals to become owners of the Company shares, the Company seeks to motivate, retain, and attract those highly competent individuals upon whose judgment, initiative, leadership, and continued efforts the success of the Company in large measure depends.

ARTICLE III

Participants

Any officer or other key management employee of the Company or its Subsidiaries shall be eligible to participate in the Plan. Prior to December 9, 2003, the Committee may grant Options to any eligible employee in accordance with such determinations as the Committee from time to time in its sole discretion shall make. Effective December 9, 2003, no additional Options shall be granted under the Plan. Each Nonemployee Director who both (1) is such on the date of the 1995 Annual Meeting of Stockholders, and (2) does not hold an Option, automatically shall receive as of such date only, an Option to purchase 12,000 shares of Stock, but subject to Section 6.2 (regarding the ineligibility of 10 percent ((10%) holders). Each Nonemployee Director who becomes such after the 1995 Annual Meeting of Stockholders and prior to December 9, 2003,

automatically shall receive, as of the date of his or her election or appointment to the Board, an Option to purchase 12,000 shares of Stock.

ARTICLE IV

Administration

4.1 Duties and Powers of Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have the sole discretion and authority to determine from among eligible employee those to whom an the time or times at which the Options may be granted and the number of shares of Stock to be subject to each Option. Subject to the express provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the details and provisions of each Stock Option Agreement, and to make all other determinations necessary or advisable in the administration of the Plan.

4.2 Majority Rule. A majority of the members of the committee shall constitute a quorum, and any action taken by a majority present at a meeting at which a quorum is present or any action taken without a meeting evidenced by a writing executed by a majority of the whole Committee shall constitute the action of the Committee.

4.3 Company Assistance. The Company shall supply fill and timely information to the Committee on all matters relating to eligible employees and Nonemployee Directors, their employment or service, death, retirement, disability or other termination of employment or service, and such other pertinent facts as the Committee may require. The Company shall furnish the Committee with such clerical and other assistance as is necessary in the performance of its duties.

ARTICLE V

Shares of Stock Subject to Plan

5.1 Limitations. Subject to adjustment pursuant to the provisions of Section 5.3 hereof, the number of shares of Stock which may be issued and sold hereunder shall not exceed 2,360,000 shares. Such shares may be either authorized and unissued shares or shares issued and thereafter acquired by the Company.

5.2 Options and Awards Granted Under Plan. Shares of Stock with respect to which an Option granted hereunder shall have been exercised shall not again be available for Options hereunder. If Options granted hereunder shall terminate for any reason without being wholly exercised, new Options may be granted hereunder for the number of shares to which such Option termination relates.

5.3 Antidilution. In the event that the outstanding shares of Stock hereafter are changed into or exchanged for a different number or kind of shares or other securities of

the Company or of another corporation by reason of merger, consolidation, other reorganization, recapitalization, reclassification, combination of shares, stock split-up or stock dividend:

- (a) The aggregate number and kind of shares subject to Options which may be granted hereunder shall be adjusted appropriately;
- (b) Rights under outstanding Options granted hereunder, both as to the number of subject shares and the Option price, shall be adjusted appropriately;
- (c) Where dissolution or liquidation of the Company or any merger or combination in which the Company is not a surviving corporation is involved, each outstanding Option granted hereunder shall terminate, but the Optionee shall have the right, immediately prior to such dissolution, liquidation, merger, or combination, to exercise his Option in whole or in part, without regard to any time of exercise provisions.

The foregoing adjustments and the manner of application of the foregoing provisions shall be determined solely the Committee, and any such adjustment may provide for the elimination of fractional share interests

ARTICLE VI

Options

6.1 Option Grant and Agreement. Each Option granted hereunder shall be evidenced by minutes of a meeting or the written consent of the Committee and by a written Stock Option Agreement dated as of the date of grant and executed by the Company and the Optionee, which Agreement shall set forth such terms and conditions as may be determined by the Committee consistent with the Plan.

6.2 Participant Limitation. The Committee shall not grant an Option to any individual for such number of shares of Stock that, immediately after the grant, the total number of shares of Stock owned or subject to all options exercisable at any time by such individual exceed ten percent (10 %) of the total combined voting power of all Stock of the Company or its Subsidiaries. For this purpose an individual shall be considered as owning stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants, and stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries.

6.3 Option Price. The per share Option price of the Stock subject to each Option shall be determined by the Committee, but the per share price shall not be less than the Fair Market Value of the Stock on the date the Option is granted. The per share Option

price of the Stock subject to each Option granted to a Nonemployee Director shall equal 100% of the Fair Market Value of the Stock on the date the Option is granted.

6.4 Period of Exercisability. Subject to Sections 6.5 (a) and 6.7, the period during which each Option may be exercised shall be determined in accordance with the following rules. As to the first fifty percent (50%) of the shares covered by an Option, the Option may be exercised during the period commencing on the Optionee's Initial Vesting Date and ending one (1) year after the Optionee's termination of employment with the Company and all of its Subsidiaries (termination from the Board, in the case of Nonemployee Director).

As to the remaining fifty percent (50%) of the shares covered by the Option, the Option may be exercised during the period commencing on the Optionee's Final Vesting Date and ending one (1) year after the Optionee's termination of employment with the Company and all of its Subsidiaries (termination from the Board, in the case of a Nonemployee Director).

6.5 Option Exercise.

(a) Options granted hereunder may not be exercised unless the Optionee shall have remained in the employ of the Company or its Subsidiaries (on the Board in the case of a Nonemployee Director) until the applicable Vesting Date.

(b) Options may be exercised in whole or in part from time to time with respect to whole shares only, during such period for the exercise thereof, and shall be exercised by written notice of exercise with respect to a specified number of shares delivered to the Company at its headquarters office, and payment in full to the Company at said office of the amount of the Option price for the number of shares of Stock with respect to which the Option is exercised. In addition to and at the time of payment of the Option price, Optionee shall pay to the Company in cash the full amount of all the federal and/or state withholding taxes applicable to the taxable income of such Optionee resulting from such exercise.

6.6 Nontransferability of Option. No Option shall be transferable by an Optionee and shall be exercisable only by him.

6.7 Effect of Termination of Employment or Service. If, prior to an Optionee's applicable Vesting Date, the Optionee's employment or service shall be terminated by the Company or a Subsidiary with or without cause, or by the act of the Optionee, the right to exercise such Option (or portion thereof) shall terminate and all rights thereunder shall cease.

6.8 Rights as Stockholder. An Optionee shall have no rights as a stockholder with respect to any shares subject to such Option prior to the purchase of such shares by exercise of such Option as provided herein.

ARTICLE VII

Stock Certificates

The Company shall not be required to issue or deliver any certificate for shares of Stock purchased upon the exercise of any Option granted hereunder prior to fulfillment of all the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which the Stock is then listed;
- (b) The completion of any registration or other qualification of such shares under any federal or state law or under the rulings or regulations of the Securities Exchange Commission or any other governmental regulatory body, which the Committee shall in its sole discretion deem necessary or advisable;
- (c) The obtaining of any approval or other clearance from any federal or state governmental agency which the Committee shall in its sole discretion determine to be necessary or advisable; and
- (d) The lapse of such reasonable period of time following the exercise of the Option as the Committee from time to time may establish or approve for reasons of administrative convenience.

ARTICLE VIII

Amendment and Termination of Plan

The Board may at any time, or from time to time, amend or terminate the Plan in any respect, except that, to the extent required to maintain this Plan's qualification under Rule 16b-3, any amendment shall be subject to stockholder approval.

ARTICLE IX

Miscellaneous

9.1 No Effect on Employment or Service. Nothing in the Plan or in any Option granted hereunder or in any Stock Option Agreement shall confer upon any employee the right to continue as a member of the Board or in the employ of the Company or in any Subsidiary.

9.2 Use of Proceeds. The proceeds received by the Company from the sale of Stock pursuant to the exercise of Options shall be added to the Company's general funds and used for general corporate purposes.

9.3 Effective Date. The effective date of this amendment and restatement of the Plan is December 9, 2003, the date of its approval by the Board. The amendment and restatement of the Plan shall have no effect on the Options granted under the Plan prior to the amendment and restatement.

9.4 Plan Binding on Successors. The Plan shall be binding upon the successors and assigns of the Company.

9.5 Singular, Plural; Gender. Wherever used herein, nouns in the singular shall include the plural and the masculine pronoun shall include the feminine gender.

9.6 Headings Not Part of Plan. Headings of Articles and Sections hereof are inserted for convenience and reference; they constitute no part of the Plan.

ABM INDUSTRIES INCORPORATED
“TIME VESTED” INCENTIVE STOCK OPTION PLAN
(as amended and restated as of January 11, 2005)

ARTICLE I

GENERAL

1. PURPOSE.

This “Time Vested” Incentive Stock Option Plan (the “Plan”) is intended to increase incentive and to encourage stock ownership on the part of nonemployee directors of ABM Industries Incorporated (the “Company”) and selected key employees of the Company or of other corporations which are to become subsidiaries of the Company, and other individuals whose efforts may aid the Company. It is also the purpose of the Plan to provide such employees and other individuals with a proprietary interest, or to increase their proprietary interest, in the Company and its subsidiaries, and to encourage them to remain in the employ of the Company or its subsidiaries. It is intended that certain options granted pursuant to the Plan shall constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), and that certain other options granted pursuant to the Plan shall not constitute incentive stock options (“nonqualified stock options”).

2. ADMINISTRATION.

The Plan shall be administered by the Officer Compensation & Stock Option Committee (the “Committee”) of the Board of Directors of the Company (the “Board”). The Committee shall from time to time at its discretion make determinations with respect to the persons to who options shall be granted and the amount of such options. The Committee shall consist of not fewer than three members of the Board. Each member of the Committee shall be a “disinterested person” as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended (“Rule 16b-3”).

The interpretation and construction by the Committee of any provisions of the Plan or of any option granted under it shall be final. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under it.

3. ELIGIBILITY.

Subject to Section 2 of this Article I, the persons who shall be eligible to receive options under the Plan shall be such officers and key employees (including directors who are also salaried employees of the Company) of the Company as the Committee shall select. In addition, independent contractors of the Company who are not also salaried

employees of the Company shall be eligible to receive nonqualified stock options (but such persons shall not be eligible to receive incentive stock options). The terms “officers and key employees” as used herein shall mean such key employees as may be determined by the Committee in its sole discretion. Directors of the Company who are not employees of the Company nor of any of its subsidiary corporations (“nonemployee directors”) shall be eligible only for the options automatically granted pursuant to Article V.

Except where the context otherwise requires, the term “Company,” as used herein, shall include (i) ABM Industries Incorporated and (ii) any of its “subsidiary corporations” which meet the definition of subsidiary corporation contained in Section 424(f) of the Code, and the terms “officers and key employees of the Company,” and words of similar import, shall include officers and key employees of each such subsidiary corporation, as well as officers and key employees of ABM Industries Incorporated.

4. SHARES OF STOCK SUBJECT TO THE PLAN.

The shares that may be issued under the Plan shall be authorized and unissued and reacquired shares of the Company’s common stock (the “Common Stock”). The aggregate number of shares which may be issued under the Plan shall not exceed 2,100,000 shares of Common Stock, unless an adjustment is required in accordance with Article III.

5. AMENDMENT OF THE PLAN.

The Board of Directors may at any time, or from time to time, amend this Plan in any respect, except that, to the extent required to maintain this Plan’s qualification under Rule 16b-3, any such amendment shall be subject to stockholder approval. In addition, as required by Rule 16b-3, the provisions of Article V regarding the formula for determining the amount, exercise price, and timing of nonemployee director options shall in no event be amended more than once every six months, other than to comport with changes in the Code and/or the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). (ERISA is inapplicable to the Plan.)

6. APPROVAL OF STOCKHOLDERS.

All options granted under the Plan before the Plan is approved by affirmative vote at the next meeting of stockholders of the Company, or any adjournment thereof, of the holders of a majority of the outstanding shares of Common Stock shall be subject to such approval. No option granted hereunder may become exercisable unless and until such approval is obtained.

7. TERM OF PLAN.

The Plan, as amended and restated herein, shall remain in effect until amended or terminated by the Board in accordance with Section 5 of Article I. However, without further stockholder approval, no option which is intended to be an incentive stock option

may be granted under the Plan after December 19, 2005. Notwithstanding the foregoing, each option granted under the Plan shall remain in effect until such option has been satisfied by the issuance of shares or terminated in accordance with its terms and the terms of the Plan.

8. RESTRICTIONS

All options granted under the Plan shall be subject to the requirement that, if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the shares subject to options granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issuance, if any, or purchase of shares in connection therewith, such options may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

9. NONASSIGNABILITY.

No option shall be assignable or transferable by the grantee except by will or by the laws of descent and distribution. During the lifetime of the optionee, the option shall be exercisable only by him, and no other person shall acquire any rights therein.

10. WITHHOLDING TAXES.

Whenever shares of Common Stock are to be issued under the Plan, the Company shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares.

11. DEFINITION OF "FAIR MARKET VALUE."

For the purposes of this Plan, the term "fair market value," when used in reference to the date of grant of an option or the date of surrender of Common Stock in payment for the purchase of shares pursuant to the exercise of an option, as the case may be, shall refer to the closing price of the Common Stock as quoted in the Composite Transactions Index for the New York Stock Exchange, on the day before such date as published in the "Wall Street Journal," or if no sale price was quoted in any such Index on such date, then as of the next preceding date on which such a sale price was quoted.

ARTICLE II

STOCK OPTIONS

1. AWARD OF STOCK OPTIONS.

Awards of stock options may be made under the Plan under all the terms and conditions contained herein. However, in the cases of incentive stock options the aggregate fair market value (determined as of the date of grant) of the stock with respect to which incentive stock options are exercisable for the first time by such officer or key employee during any calendar year (under all incentive stock options plans of the Company and its parent and subsidiary corporations) shall not exceed \$100,000. The date on which any option is granted shall be the date of the Committee's authorization of such grant or such later date as may be determined by the Committee at the time such grant is authorized.

2. TERM OF OPTIONS AND EFFECT OF TERMINATION.

Notwithstanding any other provision of the Plan, no nonqualified stock option granted under the Plan shall be exercisable after the expiration of ten (10) years and one (1) month from the date of its grant, and no incentive stock option granted under the Plan shall be exercisable after the expiration of ten (10) years from the date of grant. In addition, notwithstanding any other provision of the Plan, no incentive stock option granted under the Plan to a person who, at the time such option is granted and in accordance with Section 425(d) of the Code, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company shall be exercisable after the expiration of five (5) years from the date of its grant.

In the event that any outstanding option under the Plan expires by reason of lapse of time or otherwise is terminated for any reason, then the shares of Common Stock subject to any such option which have not been issued pursuant to the exercise of the option shall again become available in the pool of shares of Common Stock for which options may be granted under the Plan.

3. CANCELLATION OF AND SUBSTITUTION FOR NONQUALIFIED OPTIONS.

The Company shall have the right to cancel any nonqualified stock option at any time before it otherwise would have expired by its terms and to grant to the same optionee in substitution therefor a new nonqualified stock option stating an option price which is lower (but not higher) than the option price stated in the cancelled option. Any such substituted option shall contain all other terms and conditions of the cancelled option provided, however, that notwithstanding Section 2 of this Article II such substituted option shall not be exercisable after the expiration of ten (10) years from the date of grant of the cancelled option.

4. TERMS AND CONDITIONS OF OPTIONS.

Options granted pursuant to the Plan shall be evidenced by agreements in such form as the Committee shall from time to time determine, which agreements shall comply with the following terms and conditions.

(A) OPTIONEE'S AGREEMENT

Each optionee shall agree to remain in the employ of and to render to the Company his services for a period of one (1) year from the date of the option, but such agreement shall not impose upon the Company any obligation to retain the optionee in its employ for any period.

(B) NUMBER OF SHARES AND TYPE OF OPTION

Each option agreement shall state the number of shares to which the option pertains and whether the option is intended to be an incentive stock option or a nonqualified stock option. Notwithstanding any contrary provision of the Plan, during any single fiscal year of the Company, no individual shall be granted options covering more than 25,000 shares of Common Stock.

(C) OPTION PRICE

Each option agreement shall state the option price per share (or the method by which such price shall be computed). The option price per share shall not be less than 99% of the fair market value of a share of the Common Stock on the date such option is granted. In the cases of incentive stock options and options granted to non-employee directors pursuant to Article V hereof, the option price shall be not less than 100% of the fair market value of a share of the Common Stock on the date such option is granted. Notwithstanding the foregoing, the option price per share of an incentive stock option granted to a person who, on the date of such grant and in accordance with Section 424(d) of the Code, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company shall be not less than 110% of the fair market value of a share of the Common Stock on the date that the option is granted.

(D) MEDIUM AND TIME OF PAYMENT

The option price shall be payable upon the exercise of an option in the legal tender of the United States or, in the discretion of the Committee, in shares of the Common Stock or in a combination of such legal tender and such shares. Upon receipt of payment, the Company shall deliver to the optionee (or person entitled to exercise the option) a certificate or certificates for the shares of Common Stock to which the option pertains.

(E) EXERCISE OF OPTIONS

Pursuant to the terms of a written option agreement approved by the Committee, each option shall become exercisable at a rate of twenty percent (20%) per year of the shares subject to the option, commencing one year after the date that the option was granted, but only if the optionee has been continuously employed by the Company from the date of grant through the date of vesting. The Committee may, in its discretion, waive any vesting provisions contained in an option agreement.

To the extent that an option has become vested (except as provided in Article III), and subject to the foregoing restrictions, it may be exercised in whole or in such lesser amount as may be authorized by the option agreement provided, however, that no partial exercise of an option shall be for fewer than twenty-five (25) shares. If exercised in part, the unexercised portion of an option shall continue to be held by the optionee and may thereafter be exercised as herein provided. Notwithstanding any inconsistent or contrary Plan provisions, in the event an optionee who is at least age 64 dies while in the service of the Company or of a subsidiary, all unvested options granted after April 19, 1999 shall immediately vest and become fully exercisable as of the date of such death.

(F) TERMINATION OF EMPLOYMENT EXCEPT BY DISABILITY OR DEATH

In the event that an optionee shall cease to be employed by the Company for any reason other than his death or disability, his option shall terminate on the date three (30) months after the date that he ceases to be an employee of the Company.

(G) DISABILITY OF OPTIONEE

If an optionee shall cease to be employed by the Company by reason of his becoming permanently and totally disabled within the meaning of Section 22(e)(3) of the Code (as determined by the Committee), such option shall terminate on the date one (1) year after cessation of employment due to such disability.

(H) DEATH OF OPTIONEE AND TRANSFER OF OPTION

If an optionee should die while in the employ of the Company, or within the three-month period after termination of his employment with the Company during which he is permitted to exercise an option in accordance with Subsection 4(F) of this Article II, such option shall terminate on the date one (1) year after the optionee's death. During such one-year period, such option may be exercised by the executors or administrators of the optionee's estate or by any person or persons who shall have acquired the option directly from the optionee by his will or the applicable law of descent and distribution. During such one-year period, such option may be exercised with respect to the number of shares for which the deceased optionee would have been entitled to exercise it at the time of his death and also with respect to 10 percent of the additional number of shares for which he would have been entitled to exercise it during the balance of the option period, had he survived and remained in the employ of the Company.

ARTICLE III

RECAPITALIZATIONS AND REORGANIZATIONS

The number of shares of Common Stock covered by the Plan, the maximum number of shares with respect to which options may be granted during any single fiscal year to any employee, and the number of shares and price per share of each outstanding option, shall be proportionately adjusted for any increase or decrease in the number of

issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend, or any other increase or decrease in the number of issued and outstanding shares of Common Stock effected without receipt of consideration by the Company.

If the Company shall be the surviving corporation in any merger or consolidation, each outstanding option shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are subject to that option would have been entitled (unless the Committee determines the provisions of the following sentences are applicable to such merger or consolidation). A Change in Control of the Company (as defined below) shall cause each outstanding option to terminate, provided that each optionee in the event of a Change in Control which will cause his option to terminate shall have the right immediately prior to such Change in Control to exercise his option in whole or in part, subject to every limitation on the exercisability of such option other than any vesting provisions. For purposes hereof, a "Change in Control" means:

(1) the acquisition (other than by ABM or by an employee benefit plan or related trust sponsored or maintained by ABM), directly or indirectly, in one or more transactions, by any person or by any group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 or any comparable successor provisions (the "Exchange Act"), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of twenty-five percent or more of either the outstanding shares of common stock or the combined voting power of ABM's outstanding voting securities entitled to vote generally, if the acquisition was not previously approved by the existing directors;

(2) the acquisition (other than by ABM or by an employee benefit plan or related trust sponsored or maintained by ABM), directly or indirectly, in one or more transactions, by any such person or by any group of persons of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of fifty percent or more of either the outstanding shares of common stock or the combined voting power of ABM's outstanding voting securities entitled to vote generally, whether or not the acquisition was approved by the existing directors, other than an acquisition that complies with clause (i) and (ii) of paragraph (3);

(3) consummation of a reorganization, merger or consolidation of ABM or the sale or other disposition of all or substantially all of ABM's assets unless, immediately following such event, (i) all or substantially all of the stockholders of ABM immediately prior to such event own, directly or indirectly, seventy-five percent or more of the then outstanding voting securities entitled to vote generally of the resulting corporation (including without limitation, a corporation which as a result of such event owns ABM or all or substantially all of ABM's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership of ABM's outstanding voting securities entitled to vote generally immediately prior to such event and (ii) the securities of the surviving

or resulting corporation received or retained by the stockholders of ABM is publicly traded;

(4) approval by the stockholders of the complete liquidation or dissolution of ABM; or

(5) a greater than one-third change in the composition of the Board of Directors within 24 months if not approved by a majority of the pre-existing directors.

provided that, with respect of options that are outstanding as of September 22, 1999, the following shall also apply:

A dissolution or liquidation of the Company, a merger or consolidation in which the Company is not the surviving corporation or a “change in control” of the Company (as defined below) (each a “Terminating Transaction”), shall cause each outstanding option to terminate, unless the agreement of merger or consolidation or any agreement relating to a dissolution, liquidation or change in control shall otherwise provide, provided that each optionee in the event of a Terminating Transaction which will cause his option to terminate shall have the right immediately prior to such Terminating Transaction to exercise his option in whole or in part, subject to every limitation on the exercisability of such option other than any vesting provisions. For purposes of this proviso only, a “change of control” shall be deemed to have occurred when (i) a person or group or persons acquires fifty percent (50%) or more of the Company’s voting securities, and (ii) the Board of Directors of the company or the Committee shall have determined that such a “change of control,” as established by the Board or Committee, has been satisfied.

The foregoing adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

ARTICLE IV

MISCELLANEOUS PROVISIONS

1. RIGHTS AS A STOCKHOLDER.

An optionee or a transferee of an option shall have no rights as a stockholder with respect to any shares covered by an option until the date of the receipt of payment (including any amounts required by the Company pursuant to Section 10 of Article I) by the Company. No adjustment shall be made as to any option for dividends (ordinary or

extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to such date of receipt of payment, except as provided in Article III.

2. MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS.

Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend, renew or cancel outstanding options granted under the Plan. Notwithstanding the foregoing, however, no modification of an option shall, without the consent of the optionee impair or diminish any rights or obligations under any option theretofore granted under the Plan. For purposes of the preceding sentence, the right of the Company pursuant to Section 3 of Article II to cancel any outstanding nonqualified option and to issue therefor a substituted nonqualified option stating a lower portion price shall not be construed or impairing or diminishing an optionee's rights or obligations.

3. OTHER PROVISIONS.

The option agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the option or restrictions required by any applicable securities laws, as the Committee shall deem advisable.

4. APPLICATION OF FUNDS.

The proceeds received by the Company from the sale of Common Stock pursuant to the exercise of options will be used for general corporate purposes.

5. NO OBLIGATION TO EXERCISE OPTION.

The granting of an option shall impose no obligation upon the optionee or a transferee of the option to exercise such option.

ARTICLE V

NONEMPLOYEE DIRECTOR OPTIONS

The provisions of this Article V are applicable only to options granted to nonemployee directors. The provisions of Article II are applicable to options granted to other individuals.

1. GRANTING OF OPTIONS.

Each nonemployee director who is a nonemployee director on the date of the 1994 Annual Meeting of Stockholders, automatically will receive, as of such date only, an option to purchase 2,000 shares of Common Stock. Each nonemployee director who

becomes a nonemployee director after the 1994 Annual Meeting of Stockholders automatically will receive, as of the date of such nonemployee director's election or appointment to the Board of Directors of the Company, an option to purchase 2,000 shares of Common Stock.

Each continuing nonemployee director (i.e., a nonemployee director who has received an initial grant of an option to purchase 2,000 shares of Common Stock) automatically will receive, on the first day of each subsequent fiscal year, an option to purchase 2,000 shares of Common Stock.

2. TERMS OF OPTIONS.

(A) OPTION AGREEMENT

Each option shall be evidenced by written stock option agreement which shall be executed by the optionee and the Company.

(B) OPTION PRICE

The price of the shares subject to each option shall be 100% of the fair market value for such shares on the date that the option is granted.

(C) EXERCISABILITY

An option granted pursuant to this Article V shall become exercisable at the rate of twenty percent (20%) per year of the shares subject to the option, commencing one year after the date that the option was granted, but only if the optionee has been a nonemployee director continuously from the date of grant through the date of vesting.

(D) EXPIRATION OF OPTIONS

In the event that an optionee shall cease to be a nonemployee director for any reason other than his death or disability, his option shall terminate on the date three (3) months after the date that he ceases to be a nonemployee director.

If an optionee shall cease to be a nonemployee director by reason of his becoming permanently and totally disabled within the meaning of Section 22(e)(3) of the Code (as determined by the Committee), such option shall terminate on the date one (1) year after his cessation of service as nonemployee director.

If an optionee should die while a nonemployee director, or within the three-month period described above in this Subsection 2(D), such option shall terminate on the date one (1) year after the optionee's death. During such one-year period, such option may be exercised by the executors or administrators of the optionee's estate or by any person or persons who shall have acquired the option directly from the optionee by his will or the applicable law of descent and distribution. During such one-year period, such

option may be exercised with respect to the number of shares for which the deceased optionee would have been entitled to exercise it at the time of his death and also with respect to 10 percent of the additional number of shares for which he would have been entitled to exercise it during the balance of the option period, had he survived and remained a nonemployee director.

(E) INCENTIVE STOCK OPTIONS.

Options granted pursuant to this Article V shall not be designated as incentive stock options.

(F) OTHER TERMS.

All provisions of the Plan not inconsistent with this Article V shall apply to options granted to nonemployee directors.

ABM INDUSTRIES INCORPORATED
“TIME-VESTED” INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT made and entered into this ____Day of _____, by and between ABM Industries Incorporated, a Delaware corporation (the “Company”), and **Employee Name**, an employee (the “Employee”) of the Company or of a subsidiary of the Company (hereinafter included within the term “Company”) within the meaning of Section 425(f) of the Internal Revenue Code of 1986, as amended (the “Code”),

WITNESSETH

WHEREAS, the Company has adopted the “Time-Vested” Incentive Stock Option Plan (the “Plan”), providing for the granting to its employees of stock options relating to shares of its common stock (the “Common Stock”) and the administering of the Plan by the Executive Officer Compensation & Stock Option Committee of the Board of Directors (“Committee”); and

WHEREAS, the Plan provides for the grant of certain options which are intended to be incentive stock options (“incentive stock options” or “options”) within the meaning of Section 422 of the Code; and

WHEREAS, the Employee is an officer or key employee who is in a position to make an important contribution to the long-term performance of the Company;

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. The Company hereby grants to the Employee an incentive stock option to purchase **XXX** shares of the Common Stock at the price set forth in Paragraph 2, on the terms and conditions hereinafter stated. In consideration of the grant of this option and the other rights which are being concurrently granted to him, the Employee hereby agrees to continue in the employment of the Company for a period of at least one year from the date of grant of this option.

2. The purchase price per share is **\$XXXX** which is hereby agreed to be 100% of the fair market value, as defined in Paragraph 4, of such Common Stock at the date of grant.

3. This option may not be exercised in whole or in part until _____. On _____, this option shall become exercisable with respect to twenty (20) percent of the number of shares stated in Paragraph 1. Upon the expiration of twelve (12) months from _____ this option may be exercised to the extent of twenty (20) percent of the shares subject to the option plus the shares as to which the right to exercise the option has previously accrued but has not been exercised (for a total of 40%). Upon the expiration of the next twelve (12) month period thereafter, this option may be exercised to the extent of twenty (20) percent of the shares subject to the option plus the shares as to which the right to exercise the option has previously accrued but has not been exercised (for a total of 60%). Upon the expiration of the next twelve (12) month period thereafter, this option may be exercised to the extent of twenty (20) percent of the shares subject to the option plus the shares as to which the right to exercise the option has previously accrued but has not been exercised (for a total of 80%). Upon the expiration of the next twelve (12) month period thereafter, this option will be fully exercisable.

Notwithstanding any other provision of this Agreement, this option is not exercisable after the expiration of ten years from the date hereof.

4. For the purposes of this Agreement, the terms “fair market value,” when used in reference to the date of grant of this option or the date of any surrender of Common Stock in payment for the purchase of shares pursuant to the exercise of this option, as the case may be, shall refer to the closing price of the Common Stock as quoted in the Composite Transactions Index for the New York Stock Exchange, on the day before such date as published in the “Wall Street Journal,” or if no sale price was quoted in any such Index on such date, then as of the next preceding date on which such a sale price was quoted.

5. The number of shares of Common Stock covered hereby and the price per share thereof shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend, or any other increase or decrease in the number of issued and outstanding shares of Common Stock effected without receipt of consideration by the Company.

If the Company shall be the surviving corporation in any merger or consolidation, this option (to the extent that it is still outstanding) shall pertain (unless the Committee determines the provisions of the following sentence are applicable to such merger or consolidation) to and apply to the securities of which a holder of the same number of shares of Common Stock that are subject to the option would have been entitled. A dissolution or liquidation of the Company, a merger or consolidation in which the Company is not the surviving corporation or a "change in control" of the Company (as defined below) (each a "Terminating Transaction") shall cause this option to terminate, unless the agreement of merger or consolidation or any agreement relating to a dissolution liquidation or change in control shall otherwise provide, provided that the Employee in the event of a Terminating Transaction which will cause his option to terminate shall have the right immediately prior to such Terminating Transaction to exercise this option in whole or in part subject to every limitation on exercisability provided herein other than the vesting provision set forth in Paragraph 3. For purposes hereof, a "change in control" shall be deemed to have occurred when (i) a person or group of persons acquires fifty percent (50%) or more of the Company's voting securities, and (ii) the Board of Directors of the Company or the Committee shall have determined that such a "change in control" has occurred or the criteria for a "change in control," as established by the Board or Committee has been satisfied.

The foregoing adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

The grant of the options shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

6. No partial exercise of this option will be permitted for fewer than twenty-five shares.

7. In the event of termination of the Employee's employment for any reason other than his death or disability, this option may not be exercised after three months after the date he ceases to be an employee of the Company.

8. This option shall be exercisable during the Employee's lifetime only by him and shall be nontransferable by the Employee otherwise than by will or the laws of descent and distribution.

9. In the event the Employee ceases to be employed by the Company on account of his permanent and total disability within the meaning of Section 22(e) (3) of the Code (as determined by the Committee) this option may not be exercised after one year after cessation of employment due to such disability.

10. In the event of the Employee's death while in the employ of the Company, or during the three-month period following termination of employment during which the Employee is permitted to exercise this option pursuant to Paragraph 8, this option may not be exercised after the date one year after the Employee's death. During such one-year period, this option may be exercised by the executor or administrator of the Employee's estate or any person who shall have acquired the option from the Employee by his will or the applicable law of descent and distribution. During such one-year period, such option may be exercised with respect to the number of shares for which the deceased optionee would have been entitled to exercise it at the time of his death and also with respect to ten percent of the additional number of shares for which he would have been entitled to exercise it during the balance of the option period, had he survived and remained in the employ of the Company. Any such transferee exercising this option must furnish the Company upon request of the Committee (a) written notice of his status as transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of the option in compliance with any laws or regulations pertaining to said transfer, and (c) written acceptance of the terms and conditions of the option as prescribed in this Agreement.

11. This option may be exercised by the person then entitled to do so as to any share which may then be purchased by giving written notice of exercise to the Company, specifying the number of full shares to be purchased and accompanied by full payment of the purchase price thereof and the amount of any income tax the Company is required by law to withhold by reason of such exercise. The purchase price shall be payable in cash.

12. Neither the Employee nor any person claiming under or through him shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable upon the exercise of the option until the date of receipt of payment (including any amounts required by income tax withholding requirements) by the Company.

13. Any notice to be given to the Company under the terms of this Agreement shall be addressed to ABM Industries Incorporated, in care of its Corporate Secretary, at 160 Pacific Avenue, Suite 222, San Francisco, California 94111, or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Employee shall be addressed to the Employee at the address set forth beneath his signature hereto, or at any such other address as the Employee may hereafter designate in writing. Any such notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope, addressed as aforesaid, registered and deposited, postage and registry fee prepaid, in a post office or branch post office regularly maintained by the United States Government.

14. Except as otherwise provided herein, the option herein granted and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution attachment or similar process upon the rights and privileges conferred hereby. Upon any attempt to transfer, assign, pledge or otherwise dispose of said option, or of any right or privilege conferred hereby, contrary to the provisions hereof, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, said option and the rights and privileges conferred hereby shall immediately become null and void.

15. Subject to the limitations on transferability contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and assigns of the parties hereto.

16. The rights awarded hereby are subject to the requirement that, if at any time the Committee shall determine, in its sole discretion, that the listing, registration or qualification of the shares of Common Stock subject to such rights upon any securities exchange or under any state or Federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such rights or issuance of shares in connection therewith, such rights may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

17. In the event the Employee disposes of any of the shares that may be acquired hereunder within two years of the date hereof or within one year of the date such shares are acquired hereunder, Employee agrees to notify the Company in writing within ten days of the date of such disposition of the number of shares disposed of, the nature of the transaction, and the amount received (if any) upon such disposition. Employee understands that such a disposition may result in imposition of withholding taxes, and agrees to remit to the Company on request any amount requested to satisfy any withholding tax liability.

18. The Employee agrees to notify in writing the Corporate Secretary of the Company of his intention, if any, to terminate his employment within ten days after said intention is formed.

19. Subject to any employment contract with the Employee, the terms of employment of the Employee shall be determined from time to time by the Company or the subsidiary employing the Employee, as the case may be, and the Company, or the subsidiary employing the Employee, as the case may be, shall have the right, which is hereby expressly reserved, to terminate the employee or change the terms of the employment at any time for any reason whatsoever, with or without good cause.

20. Whenever shares of Common Stock are to be issued to the Employee in satisfaction of the rights conferred hereby, the Company shall have the right to require the Employee to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares.

21. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon Employee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

22. In the event that any provision in this Agreement shall be invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on the remaining provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed the Agreement, in duplicate, the day and year first above written.

ABM INDUSTRIES INCORPORATED

BY _____
Henrik C. Slipsager
President and Chief Executive Officer

BY _____
(Employee)

ABM INDUSTRIES INCORPORATED
"1996 PRICE VESTED" PERFORMANCE STOCK OPTION PLAN
(as amended and restated as of January 11, 2005)

1. PURPOSE; DEFINITIONS

The purpose of The Plan is to give ABM Industries Incorporated and its Affiliates a long-term stock option plan to help in attracting, retaining and motivating senior executives, and to provide the Company and its Affiliates with the ability to provide incentives more directly linked to the profitability of the Company's businesses and increases in stockholder value.

For purposes of The Plan, the following terms are defined as set forth below:

- a. "Affiliate" or "Affiliates" means any and all subsidiary corporations or other entities controlled by the Company and designated by The Committee from time to time as such.
 - b. "Board" or "The Board" means the board of directors ("Directors") of the Company.
 - c. "Cause" means:
 - (1) misconduct or any other willful or knowing violation of any Company policy or employment agreement,
 - (2) unsatisfactory performance such that the Company notifies the Optionee of the Company's intention not to renew the Optionee's employment agreement with the Company,
 - (3) a material breach by The Optionee of his or her duties as an employee which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and its affiliated companies (other than a breach arising from the failure of The Optionee to work as a result of incapacity due to physical or mental illness) and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach, or
 - (4) the conviction of The Optionee of a felony that has been affirmed on appeal or as to which the period in which an appeal can be taken has lapsed.
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- d. "Change in Control" and "Change in Control Price" have the meanings set forth in Sections 6b and 6c of The Plan, respectively.
- e. "Code" or "The Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- f. "Commission" or "The Commission" means the Securities and Exchange Commission or any successor agency.
- g. "Committee" or "The Committee" means the committee referred to in Section 2 of The Plan.
- h. "Company" or "The Company" means ABM Industries Incorporated, a Delaware corporation.
- i. "Disability" means the inability of The Optionee to perform his or her duties as an employee on an active full-time basis as a result of incapacity due to mental or physical illness which continues for more than ninety (90) days after the commencement of such incapacity, such incapacity to be determined by a physician selected by the Company or its insurers and acceptable to The Optionee or the Optionee's legal representative (such agreement as to acceptability not to be withheld unreasonably).
- j. "Eligible Person" has the meaning stated in Section 4 of The Plan.
- k. "Exchange Act" or "The Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- l. For the purposes of this Plan, the term "Fair Market Value," when used in reference to the date of grant of an option or the date of surrender of Stock in payment for the purchase of shares pursuant to the exercise of an option, as the case may be, shall refer to the closing price of the Stock as quoted in the Composite Transactions Index for the New York Stock Exchange, on the day before such date as published in the "Wall Street Journal," or if no sale price was quoted in any such Index on such date, then as of the next preceding date on which such a sale price was quoted.
- m. "Non-Employee Director" shall mean a member of The Board who qualifies as a disinterested person as defined in Rule 16b-3, as promulgated by The Commission under The Exchange Act, or any successor definition adopted by The Commission, and also qualifies as an "outside director" for the purposes of Section 162(m) of The Code and the regulations promulgated thereunder.
- n. "Optionee" shall mean any Eligible Person who has been granted Stock Options under The Plan.

- o. "Plan" or "The Plan" means the ABM Industries Incorporated "1996 Price Vested" performance Stock Option Plan, as set forth herein and as hereinafter amended from time to time.
- p. "Retirement" means retirement from active full-time employment with the Company or any of its Affiliates at or after age sixty-four (64).
- q. "Rule 16b-3" means Rule 16b-3, as promulgated by The Commission under Section 16(b) of The Exchange Act, as amended from time to time.
- r. "Stock" means common stock, par value \$0.01 per share, of the Company.
- s. "Stock Option" or "Option" means an option granted under Section 5 of The Plan.
- t. "Termination of Employment" means the termination of an Optionee's employment with the Company or any of its Affiliates, excluding any such termination where there is a simultaneous reemployment by the Company or any of its Affiliates. An Optionee shall be deemed to have terminated employment if he or she ceases to perform services for the Company or any of its Affiliates on an active full-time basis, notwithstanding the fact that such Optionee continues to receive compensation or benefits pursuant to an employment contract or other agreement or arrangement with the Company or any of its Affiliates. A non-medical leave of absence shall, unless such leave of absence is otherwise approved by The Committee, be deemed a Termination of Employment. An Optionee employed by an Affiliate of the Company shall also be deemed to incur a Termination of Employment if that Affiliate ceases to be an Affiliate of the Company, as the case may be, and that Optionee does not immediately thereafter become an employee of the Company or any other Affiliate of the Company.

In addition, certain other terms have definitions given to them as they are used herein.

2. ADMINISTRATION

The Plan shall be administered by the Executive Officer Compensation & Stock Option Committee of The Board or such other committee of The Board, composed solely of not less than two Non-Employee Directors, each of whom shall be appointed by and serve at the pleasure of The Board. If at any time no such committee(s) shall be in office, the functions of The Committee specified in The Plan shall be exercised by The Board.

The Committee shall have all discretionary authority to administer the Plan and to grant Stock Options pursuant to the terms of The Plan to senior executives of the Company and any of its Affiliates.

Among other things, The Committee shall have the discretionary authority, subject to the terms of The Plan:

- a. to select the Eligible Persons to whom Stock Options may from time to time be granted;
- b. to determine the number of shares of Stock to be covered by each Stock Option granted hereunder; and
- c. to determine the terms and conditions of any Stock Option granted hereunder including, but not limited to, the option price (subject to Section 5a of The Plan) and any vesting condition, restriction or limitation based on such factors as The Committee shall determine.

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing The Plan as it shall, from time to time, deem advisable, to interpret the terms and provisions of The Plan and any Stock Option issued under The Plan (and any agreement relating thereto) and to otherwise supervise the administration of The Plan.

The Committee may act only by a majority of its members then in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of The Committee.

Any determination made by The Committee or pursuant to delegated authority pursuant to the provisions of The Plan with respect to any Stock Option shall be made in the sole discretion of The Committee or such delegate at the time of the grant of the Stock Option or, unless in contravention of any express term of The Plan, at any time thereafter. All decisions made by The Committee or any appropriately delegated officer pursuant to the provisions of The Plan shall be final and binding on all persons, including the Company and Plan participants, and shall be given the maximum deference permitted by law.

3. STOCK SUBJECT TO PLAN

Subject to adjustment as provided herein, the total number of shares of Stock available for grant under The Plan shall be one million five hundred thousand (1,500,000). No individual shall be eligible to receive Stock Options to purchase more than 100,000 shares of Stock under The Plan. Shares subject to a Stock Option under The Plan may be authorized and unissued shares or may be treasury shares.

If any Stock Option terminates without being exercised, shares subject to such Stock Option shall be available for further grants under The Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, or extraordinary distribution with respect to the Stock or other change in corporate structure affecting the Stock, The Committee or The Board may make such substitution or adjustments in the number, kind and option price of shares authorized or outstanding as Stock Options, and/or such other equitable substitution or adjustments as its may determine to be appropriate in its sole discretion; provided, however, that the number of shares subject to any Stock Option shall always be a whole number.

4. ELIGIBILITY

Senior executives who are actively employed on a full-time basis by the Company or any of its Affiliates, and who are responsible for or contribute to the management, growth and profitability of the business of the Company or any of Affiliates, are eligible to be granted Stock Options under The Plan (“Eligible Persons”).

5. STOCK OPTIONS

Any Stock Option granted under The Plan shall be in the form attached hereto as Annex “A”, which is incorporated herein and made a part of The Plan, with such changes as The Committee may from time to time approve which are consistent with The Plan. None of the Stock Options granted under The Plan shall be “incentive stock options” within the meaning of Section 422 of The Code.

The grant of a Stock Option shall occur on the date The Committee selects a Senior Executive of the Company or any of its Affiliates to receive any grant of a Stock Option, determines the number of shares of Stock to be subject to such Stock Option to be granted to such Senior Executive, and specifies the terms and provisions of said Stock Option. Such selection shall be evidenced in the records of the Company whether in the minutes of the meetings of The Committee or by their consent in writing. The Company shall notify an Optionee of any grant of a Stock Option, and a written option agreement or agreements shall be duly executed and delivered by the Company to the Optionee.

Stock Options granted under The Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions as The Committee shall deem desirable:

- a. **OPTION PRICE.** The option price per share of Stock purchasable under a Stock Option shall be the greater of: (i) \$20.00 per share, (ii) the Fair Market Value per share of Stock on the grant date, or (iii) the Fair Market Value per share of Stock on the date of Stockholder approval of The Plan .
- b. **OPTION TERM.** The term of each Stock Option shall be ten (10) years from its date of grant, unless earlier terminated.

- c. EXERCISABILITY. Except as otherwise provided herein, each Stock Option shall be exercisable during its term only if such Stock Option has vested, and only after the first (1st) anniversary of its date of grant.
- d. VESTING. Each Stock Option shall have assigned to it by The Committee a vesting price (the "Vesting Price") which will be used to provide for accelerated vesting so that such Stock Option will vest immediately if, on or before the close of business on the fourth (4th) anniversary of its date of grant, the Fair Market Value of the Common Stock shall have been equal to or greater than the Vesting Price with respect to such Stock Option for ten (10) trading days in any period of thirty (30) consecutive trading days. Any Stock Option that has not vested on or before the close of business on the fourth (4th) anniversary of its date of grant shall vest at the close of business on the business day immediately preceding the eighth (8th) anniversary of its date of grant, if such Option has not previously terminated. Notwithstanding any inconsistent or contrary provision of the Plan, in the event an Optionee who is at least age 64 dies while in the service of the Company or of a subsidiary of the Company, the then unvested portion of such Optionee's Stock Options granted after April 19, 1999 shall immediately vest and become fully exercisable as of the date of such death.
- e. METHOD OF EXERCISE. Subject to the provisions of this Section 5 of The Plan, Stock Options may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares of Stock subject to the Stock Option to be purchased.

The option price of Stock to be purchased upon exercise of any Option shall be paid in full:

- (1) in cash (by certified or bank check or such other instrument as the Company may accept),
- (2) in the discretion of The Committee, in the form of unrestricted Stock already owned by The Optionee for six (6) months or more and based on the Fair Market Value of the Stock on the date the Stock Option is exercised,
- (3) in any other form approved in the discretion of The Committee, or
- (4) by any combination thereof.

In the discretion of The Committee, payment for any shares subject to a Stock Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan

proceeds to pay the purchase price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

No shares of Stock shall be issued until full payment therefor has been made. The Optionee shall have all of the rights of a stockholder of the Company holding the Stock that is subject to such Stock Option (including, if applicable, the right to vote the share and the right to receive dividends), only when The Optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 9a of The Plan.

f. **NON-TRANSFERABILITY OF STOCK OPTIONS.** No Stock Option shall be transferable by The Optionee other than:

- (1) to a beneficiary designation satisfactory to The Committee, or
- (2) by will or by the laws of descent and distribution.

All Stock Options shall be exercisable, during The Optionee's lifetime, only by The Optionee or by the guardian or legal representative of The Optionee, it being understood that the terms "holder" and "Optionee" include the guardian and legal representative of The Optionee named in the option agreement and any person to whom an option is transferred by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. The Committee may establish such procedures as it deems appropriate for an Optionee to designate a beneficiary to whom any amounts payable in the event of the Optionee's death are to be paid or by whom any rights of the Optionee, after the Optionee's death, may be exercised.

g. **TERMINATION BY DEATH, DISABILITY, RETIREMENT OR BY THE COMPANY WITHOUT CAUSE.** If The Optionee's employment terminates by reason of death, Disability or Retirement, or if such employment is terminated by the Company without Cause, in each case prior to the vesting of a Stock Option held by The Optionee, the following provisions shall apply:

- (1) if termination occurs by death or Disability, or by the Company without Cause, such Stock Options shall be exercisable only within ninety (90) days of such termination, and only if such Stock Options are then vested; and
- (2) if termination occurs by Retirement or other "voluntary quit," such Stock Options shall terminate immediately.

- h. **TERMINATION BY THE COMPANY FOR CAUSE.** If The Optionee's employment is terminated by the Company for Cause prior to the vesting of a Stock Option, such Stock Options shall terminate immediately.
- i. **TERMINATION AFTER VESTING.** If The Optionee's employment is terminated for any reason after a Stock Option has vested, such Stock Options shall be exercisable only within ninety (90) days of such termination.
- j. **CHANGE IN CONTROL CASH OUT.** Notwithstanding any other provision of The Plan, upon the occurrence of a Change of Control all outstanding Stock Options shall immediately vest and become fully exercisable, and during the ninety (90) day period from and after such Change in Control (the "Exercise Period"), The Optionee shall have the right, in lieu of the payment of the exercise price for the shares of Stock being purchased under the Stock Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Stock Option to the Company and to receive cash, within ninety (90) days of such notice, in an amount equal to the amount by which the Change in Control Price per share of Stock on the date of such election shall exceed the exercise price per share of Stock under the Stock Option (the "Spread"), multiplied by the number of shares of Stock granted under the Stock Option as to which the right granted under this Section 5j of The Plan shall have been exercised.

Notwithstanding the foregoing, if any right granted pursuant to this Section 5j of The Plan would make a Change in Control transaction ineligible for pooling of interests accounting under APB No. 16 than but for this Section 5j of The Plan would otherwise be eligible for such accounting treatment, The Committee shall have the authority to replace the cash payable pursuant to this Section 5j of The Plan with Stock having a Fair Market Value equal to the cash that would otherwise be payable hereunder. For purposes of this Section 5j only, the date of grant of any Stock Option approved by The Committee on December 17, 1996 shall be deemed to be the date on which The Plan is approved by the Company's stockholders.

6. CHANGE IN CONTROL PROVISIONS

- a. **IMPACT OF EVENT.** Notwithstanding any other provision of The Plan to the contrary, in the event of a Change in Control, any Stock Options outstanding as of the date such Change in Control is determined to have occurred, and not then vested and exercisable, shall become vested and exercisable to the full extent of the original grant, provided that such

accelerated vesting shall occur only if The Optionee is an active full-time employee of the Company or any of its Affiliates as of such date.

b. DEFINITION OF CHANGE IN CONTROL. For purposes of The Plan, a “Change in Control” shall mean the happening of any of the following events:

(i) the acquisition (other than by the Company or by an employee benefit plan or related trust sponsored or maintained by the Company), directly or indirectly, in one or more transactions, by any person or by any group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 or any comparable successor provisions (the “Exchange Act”), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of twenty-five percent or more of either the outstanding shares of common stock or the combined voting power of the Company’s outstanding voting securities entitled to vote generally, if the acquisition was not previously approved by the existing directors;

(ii) the acquisition (other than by the Company or by an employee benefit plan or related trust sponsored or maintained by the Company), directly or indirectly, in one or more transactions, by any such person or by any group of persons of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of fifty percent or more of either the outstanding shares of common stock or the combined voting power of the Company’s outstanding voting securities entitled to vote generally, whether or not the acquisition was approved by the existing directors, other than an acquisition that complies with clause (x) and (y) of paragraph (iii) below;

(iii) consummation of a reorganization, merger or consolidation of the Company or the sale or other disposition of all or substantially all of the Company’s assets unless immediately following such event, (x) all or substantially all of the stockholders of the Company immediately prior to such event own, directly or indirectly, seventy-five percent or more of the then outstanding voting securities entitled to vote generally of the resulting corporation (including without limitation, a corporation which as a result of such event owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership of the Company’s outstanding voting securities entitled to vote generally immediately prior to such event, and (y) the securities of the surviving or resulting corporation received or retained by the stockholders of the Company are publicly traded;

(iv) approval by the stockholders of the complete liquidation or dissolution of the Company; or

(v) a greater than one-third change in the composition of the Board of Directors within 24 months if not approved by a majority of the pre-existing directors.

provided, however, that, in respect of options outstanding as of September 22, 1999, a “Change of Control” shall also mean the happening at any of the following events:

(1) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of The Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under The Exchange Act) of thirty percent (30%) or more of either:

(a) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”), or

(b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of Directors (the “Outstanding Company Voting Securities”),

(c) excluding, however, the following acquisitions of Outstanding Company Common Stock and Outstanding Company Voting Securities:

(i) any acquisition directly from the Company (other than an acquisition pursuant to the exercise of a conversion privilege),

(ii) any acquisition by the Company,

(iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporate controlled by the Company, or

(iv) any acquisition by any Person pursuant to a reorganization, merger or consolidation if, following such reorganization, merger or consolidation, the conditions described in Section 6b(3) of The Plan are satisfied; or

(2) Individuals who, as of the effective date of The Plan, constitute The Board (the “Incumbent Board”) cease for any reason to constitute

at least a majority of The Board; provided, however, that any individual who becomes a member of The Board subsequent to such effective date, whose election, or nomination for election by the Company's shareholders, was approved by:

(a) a vote of at least a majority of Directors then comprising the Incumbent Board, or

(b) a vote of at least a majority of the Directors then constituting the Executive Committee of The Board at a time when such Committee comprised at least five members and all members of such Committee were either members of the Incumbent Board of considered as being members of the Incumbent Board, pursuant to Section 6b(2)(a),

shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under The Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than The Board shall not be so considered as a member of the incumbent Board; or

(3) Approval by the shareholders of the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Business Combination"); excluding, however, such a Business Combination pursuant to which:

(a) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination own, directly or indirectly, more than sixty percent (60%) of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be,

(b) no Person (other than the Company, any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or such corporation resulting from such Business Combination and any Person beneficially owning, immediately prior to such Business Combination, directly or indirectly, twenty percent (20%) or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) will beneficially own, directly or indirectly, twenty (20%) or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors, and

(c) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of The Board, providing for such Business Combination; or

(4) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

c. CHANGE IN CONTROL PRICE. For purposes of The Plan, "Change in Control Price" means the higher of:

(1) the highest reported sales price, regular way, of a share of Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national securities exchange on which such shares are listed or on NASDAQ, as applicable, during the ninety (90) day period prior to and including the date of a Change in Control, or

(2) if the Change in Control is the result of a tender or exchange offer or a Business Combination, the highest price per share of Stock paid in such tender or exchange offer or Business Combination; provided, however, that in the case of a Stock Option which:

(a) is held by an Optionee who is an officer of the Company and is subject to Section 16(b) of The Exchange Act, and

(b) was granted within two hundred and forty (240) days of the Change in Control,

then the Change in Control Price for such Stock Option shall be the Fair Market Value of the Stock on the date such Stock Option is exercised or canceled. To the extent that the consideration paid in any

such transaction described above consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in the sole discretion of The Board.

7. TERM, AMENDMENT AND TERMINATION

The Plan will terminate on December 17, 2006. Stock Options outstanding as of December 17, 2006 shall not be affected or impaired by the termination of The Plan.

The Committee shall have authority to amend The Plan without the approval of the Company's stockholders to take into account changes in law and tax and accounting rules, including Rule 16b-3 and Section 162(m) of The Code; provided that no amendment shall be made without the Optionee's consent which would impair the rights of an Optionee under a Stock Option theretofore granted.

8. UNFUNDED STATUS OF PLAN

It is presently intended that The Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under The Plan to deliver Stock or make payments; provided, however, that, unless The Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of The Plan.

9. GENERAL PROVISIONS

- a. The Committee may require each person purchasing shares pursuant to a Stock Option to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which The Committee deems appropriate to reflect any restrictions on transfer.

Notwithstanding any other provision of The Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for shares of Stock under The Plan prior to fulfillment of all of the following conditions:

- (1) the listing or approval for listing,
- (2) any registration or other qualification, and
- (3) the obtaining of any other consent, approval, or permit from any state or federal governmental agency which The Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

- b. Nothing contained in The Plan shall prevent the Company or any of its Affiliates from adopting other or additional compensation arrangements for any Optionee.
- c. The adoption of The Plan shall not confer upon any Optionee any right to continued employment, nor shall it interfere in any way with the right of the Company or any of its Affiliates to terminate the employment of any Optionee with or without cause at any time whatsoever absent a written employment contract to the contrary.
- d. No later than the date as of which an amount first becomes includable in the gross income of the Optionee for federal income tax purposes with respect to any Stock Option under The Plan, and prior to the delivery of any shares of Stock to any Optionee, the Optionee shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld by the Company with respect to such amount. In the discretion of The Committee, withholding obligations may be settled with Stock in an amount having a Fair Market Value not exceeding the minimum withholding tax payable by the Optionee with respect to the income recognized, including Stock that is subject to the Stock Option that gives rise to the withholding requirement. The obligations of the Company under The Plan shall be conditional on such payment or arrangements, and the Company and any of its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Optionee. The Committee shall establish such procedures as it deems appropriate, including the making of irrevocable elections, for the settlement of withholding obligations with Stock.
- e. In the case of a grant of a Stock Option to any employee of a Company Affiliate, the Company, may, if The Committee so directs, issue or transfer the shares of Stock covered by the Stock Option to the Affiliate, for such lawful consideration as The Committee may specify, upon the condition or understanding that the Affiliate will transfer the shares of Stock to that Optionee in accordance with the terms of the Stock Option specified by The Committee pursuant to the provisions of The Plan.
- f. The Plan and all Stock Options made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of law.

10. EFFECTIVE DATE OF PLAN

Subject to approval by the Stockholders of the Company on March 18, 1997, The Plan shall be effective on December 17, 1996.

ABM INDUSTRIES INCORPORATED

“PRICE-VESTED” PERFORMANCE STOCK OPTION PLAN
STOCK OPTION AGREEMENT

THIS AGREEMENT (“Agreement”) dated as of the **Grant Date** between ABM Industries Incorporated, a Delaware corporation (the “Company”), and **Employee Name** (the “Optionee”).

WITNESSETH:

The Company has adopted the ABM Industries Incorporated “Price-Vested” Performance Stock Option Plan (the “Plan”). The Plan is made a part hereof with the same effect as if set forth in this Agreement. All capitalized terms that are used herein and not otherwise defined shall have the meanings set forth in the Plan.

In consideration of the mutual promises and covenants made herein and the mutual benefits to be derived here from, the parties hereto agree as follows:

1. Grant of Options.

Subject to the provisions of this Agreement and to the Plan, the Company hereby grants to the Optionee the right and option (the “Option”) to purchase:

- a. XXXX shares of common stock (“Common Stock”) of the Company at an exercise price of \$___per share and a Vesting Price of \$___per share,
- b. XXXX shares of Common Stock at an exercise price of \$___per share and a Vesting Price of \$___per share,
- c. XXXX shares of Common Stock at an exercise price of \$___per share and a Vesting Price of \$___per share, and
- d. XXXX shares of Common Stock at an exercise price of \$___per share and a Vesting Price of \$___per share.

2. Exercisability of Options.

- a. No unvested and/or expired Option may be exercised, and
- b. any unexpired vested Option may be exercised in whole or in part at the times and in the manner set forth in the Plan; provided, however, that an unexpired vested Option may not be exercised:
 - (1) before the first (1st) anniversary of its date of grant,
 - (2) at any one time as to fewer than 100 shares, or such number of shares as to which such Option is then exercisable if such number of shares is less than 100,
 - (3) on or after the tenth (10th) anniversary of its date of grant.

3. Vesting of Options.

Each Option granted hereunder shall vest in the circumstances set forth in the Plan or as set forth in this paragraph. During the four-year period commencing on its date of grant, each Option granted hereunder shall vest at such time as the Fair Market Value of the Common Stock shall have been equal to or greater than the Vesting Price with respect to such Stock Option for ten (10) trading days in any period of thirty (30) consecutive trading days. Any Stock Option that has not vested on or before the close of business on the fourth (4th) anniversary of its date of grant shall vest at the close of business on the eighth (8th) anniversary of its date of grant, if such Option has not previously terminated.

4. No Right to Employment.

Nothing in this Agreement or the Plan shall confer upon the Optionee any right to continue in the employ of the Company or any of its Affiliates, or interfere in any way with the right of the Company or any such Affiliate to terminate such employment with or without cause at any time whatsoever absent a written employment contract to the contrary.

5. Effect of Certain Changes.

- a. If there is any change in the number of issued shares of Common Stock through the declaration of stock dividends, or through recapitalization resulting in stock splits, or combinations or exchanges of such shares, the number of Options granted pursuant to this Agreement that have not been exercised or lapsed, and the price per share of such Options shall be proportionately adjusted by the Committee to reflect any increase or decrease in the number of shares of Common Stock, provided, however, that any fractional shares resulting from such adjustment shall be eliminated.
- b. In the event of a change in the Common Stock of the Company as presently constituted, which is limited to a change of all of its authorized shares with a par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be a Common Stock within the meaning of this Agreement and the Plan.
- c. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

6. Payment of Transfer Taxes, Fees and Other Expenses.

The Company agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of shares acquired pursuant to exercise of the Options, together with any and all other fees and expenses necessarily incurred by the Company in connection therewith.

7. Taxes and Withholding.

- a. No later than the date of exercise of any Options granted hereunder, and prior to the delivery of any shares of Stock to any Optionee, the Optionee shall pay to the Company or make arrangements satisfactory to The Committee regarding payment of any federal, state or local taxes of any kind required by law to be withheld upon the exercise of such Options and the Company shall, to the extent permitted or required by law, have the right to deduct from any payment of any kind otherwise due to the Optionee, federal, state and local taxes of any kind required by law to be withheld upon the exercise of such Options,
- b. Optionee agrees that, in the event any governmental taxing authority claims that any unpaid taxes, interest or penalties are due and owing in connection with The Optionee's exercise of any Stock Options granted under the Plan, the Optionee will be solely responsible to defend and/or pay any such claim. Employee further agrees to indemnify and hold The Company harmless from defending and/or paying any such claim, including reasonable attorney's fees, in the event that any governmental taxing authority seeks payment of any and all such unpaid taxes, interest or penalties from the Company.

8. Notices.

Any notice to be given under the terms of this Agreement shall be in writing and delivered to the Company at 160 Pacific Avenue, Suite #222, San Francisco, California, 94111, Attention: Corporate Secretary, and to the Optionee at his/her address of record or at such other address as either party may hereafter designate in writing to the other.

9. Effect of Agreement.

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor(s) of the Company.

10. Laws Applicable to Construction.

The Options have been granted, executed and delivered in the State of California, and the interpretation, performance and enforcement of this Agreement, shall be governed by the laws of the State of California, as applied to contracts executed in and performed wholly within the State of California.

11. Interpretation.

In the event of any ambiguity in this Agreement, any term which is not defined in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to:

- a. interpret the Plan,
- b. prescribe, amend and rescind rules and regulations relating to the Plan, and
- c. make all other determinations deemed necessary or advisable for the administration of the Plan.

12. Headings.

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

13. Amendment.

This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by a duly authorized officer and the Optionee has hereunto set his or her hand.

ABM INDUSTRIES INCORPORATED:

OPTIONEE:

Henrik C. Slipsager
President and Chief Executive Officer

Employee

ABM INDUSTRIES INCORPORATED
2002 PRICE-VESTED PERFORMANCE STOCK OPTION PLAN
(as amended and restated as of January 11, 2005)

1. PURPOSE; DEFINITIONS.

ABM Industries Incorporated hereby establishes the ABM Industries Incorporated 2002 Price-Vested Performance Stock Option Plan (the "Plan"), effective as of December 11, 2001. The purpose of the Plan is to give ABM Industries Incorporated and its Affiliates a long-term stock option plan to help in recruiting, retaining motivating and rewarding senior executives, and to provide the Company and its Affiliates with the ability to provide incentives more directly linked to the profitability of the Company's businesses and increases in stockholder value.

For purposes of the Plan, the following terms are defined as set forth below:

- a. "Affiliate" or "Affiliates" means any and all subsidiary corporations or other entities controlled by the Company and designated by the Committee from time to time as such.
 - b. "Board" or "the Board" means the board of directors ("Directors") of the Company.
 - c. "Cause" means:
 - (1) misconduct or any other willful or knowing violation of any Company policy or employment agreement,
 - (2) unsatisfactory performance such that the Company notifies the Optionee of the Company's intention not to renew the Optionee's employment agreement with the Company,
 - (3) a material breach by the Optionee of his or her duties as an employee which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and its affiliated companies (other than a breach arising from the failure of the Optionee to work as a result of incapacity due to physical or mental illness) and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach, or
 - (4) the conviction of the Optionee of a felony that has been affirmed on appeal or as to which the period in which an appeal can be taken has lapsed.
 - d. "Change in Control" and "Change in Control Price" have the meanings set forth in Sections 6b and 6c of the Plan, respectively.
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- e. "Code" or "the Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- f. "Commission" or "the Commission" means the Securities and Exchange Commission or any successor agency.
- g. "Committee" or "the Committee" means the committee referred to in Section 2 of the Plan.
- h. "Company" or "the Company" means ABM Industries Incorporated, a Delaware corporation.
- i. "Disability" means the inability of the Optionee to perform his or her duties as an employee on an active fulltime basis as a result of incapacity due to mental or physical illness which continues for more than ninety (90) days after the commencement of such incapacity, such incapacity to be determined by a physician selected by the Company or its insurers and acceptable to the Optionee or the Optionee's legal representative (such agreement as to acceptability not to be withheld unreasonably).
- j. "Eligible Person" has the meaning set forth in Section 4 of the Plan.
- k. "Exchange Act" or "the Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any comparable successor provisions.
- l. For the purposes of this Plan, the term "Fair Market Value," when used in reference to the date of grant of an option or the date of surrender of Stock in payment for the purchase of shares pursuant to the exercise of an option, as the case may be, shall refer to the closing price of the Stock as quoted in the Composite Transactions Index for the New York Stock Exchange, on the day before such date as published in the "Wall Street Journal," or if no sale price was quoted in any such Index on such date, then as of the next preceding date on which such a sale price was quoted.
- m. "Non-Employee Director" shall mean a member of the Board who qualifies as a Non-Employee Director as defined in Rule 16b-3, and also qualifies as an "outside director" for the purposes of Section 162(m) of the Code and the regulations promulgated thereunder.
- n. "Optionee" shall mean any Eligible Person who has been granted Stock Options under the Plan.
- o. "Plan" or "the Plan" means the ABM Industries Incorporated 2002 Price-Vested Performance Stock Option Plan, as set forth herein and as hereinafter amended from time to time.

- p. "Retirement" means retirement from active full-time employment with the Company or any of its Affiliates at or after age sixty-four (64).
- q. "Rule 16b-3" means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.
- r. "Stock" means common stock, par value \$0.01 per share, of the Company.
- s. "Stock Option" or "Option" means an option granted under Section 5 of the Plan.
- t. "Termination of Employment" means the termination of an Optionee's employment with the Company or any of its Affiliates, excluding any such termination where there is a simultaneous reemployment by the Company or any of its Affiliates. An Optionee shall be deemed to have terminated employment if he or she ceases to perform services for the Company or any of its Affiliates on an active full-time basis, notwithstanding the fact that such Optionee continues to receive compensation or benefits pursuant to an employment contract or other agreement or arrangement with the Company or any of its Affiliates. A non-medical leave of absence shall, unless such leave of absence is otherwise approved by the Committee, be deemed a Termination of Employment. An Optionee employed by an Affiliate of the Company shall also be deemed to incur a Termination of Employment if that Affiliate ceases to be an Affiliate of the Company, as the case may be, and that Optionee does not immediately thereafter become an employee of the Company or any other Affiliate of the Company.

In addition, certain other terms have definitions given to them as they are used herein.

2. ADMINISTRATION.

The Plan shall be administered by the Executive Officer Compensation & Stock Option Committee of the Board or such other committee of the Board, composed solely of not less than two Non-Employee Directors, each of whom shall be appointed by and serve at the pleasure of the Board. If at any time no such committee(s) shall be in office, the functions of the Committee specified in the Plan shall be exercised by the Board.

The Committee shall have all discretionary authority to administer the Plan and to grant Stock Options pursuant to the terms of the Plan to senior executives of the Company and any of its Affiliates.

Among other things, the Committee shall have the discretionary authority, subject to the terms of the Plan:

- a. to select the Eligible Persons to whom Stock Options may from time to time be granted;

b. to determine the number of shares of Stock to be covered by each Stock Option granted hereunder; and

c. to determine the terms and conditions of any Stock Option granted hereunder including, but not limited to, the option price (subject to Section 5a of the Plan) and any vesting condition, restriction or limitation based on such factors as the Committee shall determine.

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable, to interpret the terms and provisions of the Plan and any Stock Option issued under the Plan (and any agreement relating thereto) and to otherwise supervise the administration of the Plan.

The Committee may act only by a majority of its members then in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee.

Any determination made by the Committee or pursuant to delegated authority pursuant to the provisions of the Plan with respect to any Stock Option shall be made in the sole discretion of the Committee or such delegate at the time of the grant of the Stock Option or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and plan participants, and shall be given the maximum deference permitted by law.

3. STOCK SUBJECT TO PLAN.

Subject to adjustment as provided herein, the total number of shares of Stock available for grant under the Plan shall be two million (2,000,000). No individual shall be eligible to receive Stock Options to purchase more than 100,000 shares of Stock under the Plan. Shares subject to a Stock Option under the Plan may be authorized and unissued shares or may be treasury shares.

If any Stock Option terminates without being exercised, shares subject to such Stock Option shall be available for further grants under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, or extraordinary distribution with respect to the Stock or other change in corporate structure affecting the Stock, the Committee or the Board may make such substitution or adjustments in the number, kind and option price of shares authorized or outstanding as Stock Options, and/or such other equitable substitution or adjustments as its may determine to be appropriate in its sole discretion; provided, however, that the number of shares subject to any Stock Option shall always be a whole number.

4. ELIGIBILITY.

Senior executives who are actively employed on a full-time basis by the Company or any of its Affiliates, and who are responsible for or contribute to the management, growth and profitability of the business of the Company or any of Affiliates, are eligible to be granted Stock Options under the Plan (“Eligible Persons”).

5. STOCK OPTIONS.

Any Stock Option granted under the Plan shall be in the form attached hereto as Annex “A”, which is incorporated herein and made a part of the Plan, with such changes as the Committee may from time to time approve which are consistent with the Plan. None of the Stock Options granted under the Plan shall be “incentive stock options” within the meaning of Section 422 of the Code.

The grant of a Stock Option shall occur on the date the Committee selects a Senior Executive of the Company or any of its Affiliates to receive any grant of a Stock Option, determines the number of shares of Stock to be subject to such Stock Option to be granted to such Senior Executive, and specifies the terms and provisions of said Stock Option. Such selection shall be evidenced in the records of the Company whether in the minutes of the meetings of the Committee or by their consent in writing. The Company shall notify an Optionee of any grant of a Stock Option, and a written option agreement or agreements shall be duly executed and delivered by the Company to the Optionee.

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions as the Committee shall deem desirable:

- a. Option Price. The option price per share of Stock purchasable under a Stock Option shall be the Fair Market Value per share of Stock on the grant date.
- b. Option Term. The term of each Stock Option shall be ten (10) years from its date of grant, unless earlier terminated.
- c. Exercisability. Except as otherwise provided herein, each Stock Option shall be exercisable during its term only if such Stock Option has vested, and only after the first (1st) anniversary of its date of grant.
- d. Vesting. Each Stock Option shall have assigned to it by the Committee a vesting price (the “Vesting Price”) which will be used to provide for accelerated vesting so that such Stock Option will vest immediately if, on or before the close of business on the fourth (4th) anniversary of its date of grant, the Fair Market Value of the Common Stock shall have been equal to or greater than the Vesting Price with respect to such Stock Option for ten (10) trading days in any period of thirty (30) consecutive trading days. Any Stock Option that has not vested on or before the close of business on the fourth (4th) anniversary of its date of grant shall vest at the close of business on the business day

immediately preceding the eighth (8th) anniversary of its date of grant, if such Option has not previously terminated.

e. Method of Exercise. Subject to the provisions of this Section 5 of the Plan, Stock Options may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares of Stock subject to the Stock Option to be purchased.

The option price of Stock to be purchased upon exercise of any Option shall be paid in full:

- (1) in cash (by certified or bank check or such other instrument as the Company may accept),
- (2) in the discretion of the Committee, in the form of unrestricted Stock already owned by the Optionee for six (6) months or more and based on the Fair Market Value of the Stock on the date the Stock Option is exercised,
- (3) in any other form approved in the discretion of the Committee, or
- (4) by any combination thereof.

In the discretion of the Committee, payment for any shares subject to a Stock Option may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

No shares of Stock shall be issued until full payment therefor has been made. The Optionee shall have all of the rights of a stockholder of the Company holding the Stock that is subject to such Stock Option (including, if applicable, the right to vote the share and the right to receive dividends), only when the Optionee has given written notice of exercise, has paid in full for such shares and, if requested, has given the representation described in Section 9a of the Plan.

f. Non-transferability of Stock Options. No Stock Option shall be transferable by the Optionee other than:

- (1) pursuant to a beneficiary designation satisfactory to the Committee, or
- (2) by will or by the laws of descent and distribution. All Stock Options shall be exercisable, during the Optionee's lifetime, only by the Optionee or by the guardian or legal representative of the Optionee, it being understood that the terms

“holder” and “Optionee” include the guardian and legal representative of the Optionee named in the option agreement and any person to whom an option is transferred by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. The Committee may establish such procedures as it deems appropriate for an Optionee to designate a beneficiary to whom any amounts payable in the event of the Optionee’s death are to be paid or by whom any rights of the Optionee, after the Optionee’s death, may be exercised.

g. Termination by Death, Disability, Retirement or by the Company Without Cause. If the Optionee’s employment terminates by reason of death, Disability or Retirement, or if such employment is terminated by the Company without Cause, in each case prior to the vesting of a Stock Option held by the Optionee, the following provisions shall apply:

(1) if termination occurs by death or Disability, or by the Company without Cause, such Stock Options shall be exercisable only within ninety (90) days of such termination, and only if such Stock Options are then vested; and

(2) if termination occurs by Retirement or other “voluntary quit,” such Stock Options shall terminate immediately.

h. Termination by the Company for Cause. If the Optionee’s employment is terminated by the Company for Cause prior to the vesting of a Stock Option, such Stock Options shall terminate immediately.

i. Termination After Vesting. If the Optionee’s employment is terminated for any reason after a Stock Option has vested, such Stock Options shall be exercisable only within ninety (90) days of such termination,

j. Change in Control Cash Out. Notwithstanding any other provision of the Plan, upon the occurrence of a Change of Control all outstanding Stock Options shall immediately vest and become fully exercisable, and during the ninety (90) day period from and after such Change in Control (the “Exercise Period”), the Optionee shall have the right, in lieu of the payment of the exercise price for the shares of Stock being purchased under the Stock Option and by giving notice to the Company, to elect (within the Exercise Period) to surrender all or part of the Stock Option to the Company and to receive cash, within ninety (90) days of such notice, in an amount equal to the amount by which the Change in Control Price per share of Stock on the date of such election shall exceed the exercise price per share of Stock under the Stock Option (the “Spread”), multiplied by the number of shares of Stock granted under the Stock Option as to which the right granted under this Section 5j of the Plan shall have been exercised.

6. CHANGE IN CONTROL PROVISIONS.

a. Impact of Event. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control, any Stock Options outstanding as of the date such Change

in Control is determined to have occurred, and not then vested and exercisable, shall become vested and exercisable to the full extent of the original grant, provided that such accelerated vesting shall occur only if the Optionee is an active full-time employee of the Company or any of its Affiliates as of such date.

b. Definition of Change in Control. For purposes of the Plan, a "Change in Control" shall mean the happening of any of the following events:

- (i) the acquisition (other than by the Company or by an employee benefit plan or related trust sponsored or maintained by the Company), directly or indirectly, in one or more transactions, by any person or by any group of persons, within the meaning of Section 13(d) or 14(d) of the Exchange Act of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of twenty-five percent or more of either the outstanding shares of common stock or the combined voting power of the Company's outstanding voting securities entitled to vote generally, if the acquisition was not previously approved by the existing directors;
- (ii) the acquisition (other than by the Company or by an employee benefit plan or related trust sponsored or maintained by the Company), directly or indirectly, in one or more transactions, by any such person or by any group of persons of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of fifty percent or more of either the outstanding shares of common stock or the combined voting power of the Company's outstanding voting securities entitled to vote generally, whether or not the acquisition was approved by the existing directors, other than an acquisition that complies with clause (x) and (y) of paragraph (iii) below;
- (iii) consummation of a reorganization, merger or consolidation of the Company or the sale or other disposition of all or substantially all of the Company's assets unless, immediately following such event, (x) all or substantially all of the stockholders of the Company immediately prior to such event own, directly or indirectly, seventy-five percent or more of the then outstanding voting securities entitled to vote generally of the resulting corporation (including without limitation, a corporation which as a result of such event owns the Company or all or substantially all of the Company's assets either directly or their ownership of the Company's outstanding voting securities entitled to vote generally immediately prior to such event and (y) the securities of the surviving or resulting corporation received or retained by the stockholders of the Company is publicly traded;
- (iv) approval by the stockholders of the complete liquidation or dissolution of the Company; or
- (v) a greater than one-third change in the composition of the Board of Directors within 24 months if not approved by a majority of the pre-existing directors.

c. Change in Control Price. For purposes of the Plan, "Change in Control Price" means the higher of:

(1) the highest reported sales price, regular way, of a share of Stock in any transaction reported on the New York Stock Exchange Composite Tape or other national securities exchange on which such shares are listed or on Nasdaq, as applicable, during the ninety (90) day period prior to and including the date of a Change in Control, and or

(2) if the Change in Control is the result of a tender or exchange offer or a Business Combination, the highest price per share of Stock paid in such tender or exchange offer or Business Combination; provided, however, that in the case of a Stock Option which:

(a) is held by an Optionee who is an officer of the Company and is subject to Section 16(b) of the Exchange Act, and

(b) was granted within two hundred and forty (240) days of the Change in Control, then the Change in Control Price for such Stock Option shall be the Fair Market Value of the Stock on the date such Stock Option is exercised or canceled. To the extent that the consideration paid in any such transaction described above consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in the sole discretion of the Board.

7. TERM, AMENDMENT AND TERMINATION.

The Plan will terminate on December 11, 2011. Stock Options outstanding as of December 11, 2011 shall not be affected or impaired by the termination of the Plan.

The Committee shall have authority to amend the Plan without the approval of the Company's stockholders to take into account changes in law and tax and accounting rules, including Rule 16b-3 and Section 162(m) of the Code; provided that no amendment shall be made without the Optionee's consent which would impair the rights of an Optionee under a Stock Option theretofore granted.

8. UNFUNDED STATUS OF PLAN.

It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Stock or make payments; provided, however, that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

9. GENERAL PROVISIONS.

a. The Committee may require each person purchasing shares pursuant to a Stock Option to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company shall not be required to issue or deliver any certificate or certificates for shares of Stock under the Plan prior to fulfillment of all of the following conditions:

(1) the listing or approval for listing

(2) any registration or other qualification

(3) the obtaining of any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

b. Nothing contained in the Plan shall prevent the Company or any of its Affiliates from adopting other or additional compensation arrangements for any Optionee.

c. The adoption of the Plan shall not confer upon any Optionee any right to continued employment, nor shall it interfere in any way with the right of the Company or any of its Affiliates to terminate the employment of any Optionee with or without cause at any time whatsoever absent a written employment contract to the contrary.

d. No later than the date as of which an amount first becomes includable in the gross income of the Optionee for federal income tax purposes with respect to any Stock Option under the Plan, and prior to the delivery of any shares of Stock to any Optionee, the Optionee shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state, local or foreign taxes of any kind required by law to be withheld by the Company with respect to such amount. In the discretion of the Committee, withholding obligations may be settled with Stock in an amount having a Fair Market Value not exceeding the minimum withholding tax payable by the Optionee with respect to the income recognized, including Stock that is subject to the Stock Option that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and any of its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Optionee. The Committee shall establish such procedures as it deems appropriate, including the making of irrevocable elections, for the settlement of withholding obligations with Stock.

e. In the case of a grant of a Stock Option to any employee of a Company Affiliate, the Company, may, if the Committee so directs, issue or transfer the shares of Stock covered by the Stock Option to the Affiliate, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Affiliate will transfer the shares of Stock to that Optionee in accordance with the terms of the Stock Option specified by the Committee pursuant to the provisions of the Plan.

f. The Plan and all Stock Options made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of law.

10. EFFECTIVE DATE OF PLAN.

Subject to approval by the stockholders of the Company, the Plan shall be effective on December 11, 2001.

ABM INDUSTRIES INCORPORATED
2002 PRICE-VESTED PERFORMANCE STOCK OPTION PLAN
STOCK OPTION AGREEMENT

THIS AGREEMENT (the "Agreement") dated as of _____ day of _____, 200_, is entered into by and between ABM Industries Incorporated, a Delaware corporation (the "Company"), and _____ (the "Optionee").

WITNESSETH

In consideration of the mutual promises and covenants made herein and the mutual benefits to be derived here from, the parties hereto agree as follows:

1. Grant of Options.

Subject to the provisions of this Agreement and the Plan, the Company hereby grants to the Optionee the right and option to purchase _____ shares of the Company's common stock, par value \$0.01 per share (the "Common Stock") at an exercise price of \$____.____ (the "Option").

2. Exercisability of Options.

- a. The Option may be exercised only to the extent it is vested.
- b. The vested portion of the Option may be exercised, in whole or in part, at the times and in the manner set forth in the Plan; provided, however, that such vested portion shall not be exercised:
 - (1) before the first (1st) anniversary of the Option's date of grant,
 - (2) at any one time for fewer than 100 shares, or such number of shares as to which such Option is then exercisable, if such number of shares is less than 100, and
 - (3) on or after the tenth (10th) anniversary of the Option's date of grant.

3. Vesting of Options.

- a. Subject to the limitations contained in this Agreement and the Plan, unless the vesting of the Option is accelerated as set below, the Option shall vest in full on the close of business on the eight (8th) anniversary of its date of grant.
-

b. During the four-year period commencing on its date of grant, the vesting of the Option shall accelerate at such time as the Fair Market Value of the Common Stock shall have been equal to or greater than the assigned Vesting Price for ten (10) trading days in any period of thirty (30) consecutive trading days. For purposes of this paragraph, the "Vesting Price" means the following:

(1) \$___for _____shares of Common Stock subject to the Option.

(2) \$___for _____shares of Common Stock subject to the Option.

(3) \$___for _____shares of Common Stock subject to the Option.

(4) \$___for _____shares of Common Stock subject to the Option.

4. No Right to Employment.

Nothing in this Agreement or the Plan shall confer upon the Optionee any right to continue in the employ of the Company or any of its Affiliates, or interfere in any way with the right of the Company or any such Affiliate to terminate such employment with or without cause at any time whatsoever absent a written employment contract to the contrary. In addition, nothing in this Agreement shall obligate the Company or any of its Affiliates, their respective shareholders, board of directors, officers or employees to continue any relationship that the Optionee might have as a member of the board of directors or consultant for the Company or an Affiliate.

5. Effect of Certain Changes.

If any change is made to the Common Stock subject to the Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, or other transaction not involving the receipt of consideration by the Company) the Committee shall appropriately adjust the number of shares subject to the Options, the exercise price per share and the Vesting Price. The Committee's determination shall be final, binding and conclusive.

6. Taxes and Withholding.

a. No later than the date of exercise of any portion of the Option, and prior to the delivery of any shares of Common Stock to any Optionee, the Optionee shall pay to the Company or make arrangements satisfactory to the Committee regarding payment of any and all federal, state or local taxes of any kind required by law to be withheld upon such exercise. To the extent permitted and required by law, the Company shall have the right

to deduct from any payment of any kind otherwise due to the Optionee, any and all federal, state and local taxes that may result from the exercise of the Option.

- b. Optionee agrees that, in the event any governmental taxing authority claims that any unpaid taxes, interest or penalties are due and owing in connection with the Optionee's exercise of any Stock Option granted under the Plan, the Optionee will be solely responsible to defend and/or pay any such claim. The Optionee further agrees to indemnify and hold the Company harmless from defending and/or paying any such claim, including reasonable attorney's fees, in the event that any governmental taxing authority seeks payment of any and all such unpaid taxes, interest or penalties from the Company.

8. Notices.

Any notice to be given under the terms of this Agreement shall be in writing and delivered to the Company at 160 Pacific Avenue, Suite 222, San Francisco, CA 94111, Attention: General Counsel, and to the Optionee at the address set forth on the last page of this Agreement or at such other address as either party may hereafter designate in writing to the other.

9. Effect of Agreement.

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor(s) of the Company.

10. Laws Applicable to Construction.

The law of the State of California shall govern all questions, concerning the construction, validity and interpretation of the Agreement, without regard to such state's conflict of laws rules.

11. Interpretation.

The Option is subject to the all the provisions of the Plan, the provisions of which are hereby made a part of the Option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of a conflict between the provisions of the Option and those of the Plan, the provisions of the Plan shall control. In the event of any ambiguity in this Agreement, any term which is not defined in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern.

12. Headings.

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

13. Amendment.

This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by a duly authorized officer and the Optionee has hereunto set his or her hand.

for ABM INDUSTRIES INCORPORATED:

Henrik C. Slipsager
President & CEO

for OPTIONEE:

ABM INDUSTRIES INCORPORATED

SERVICE AWARD BENEFIT PLAN

As amended and restated as of January 11, 2005

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ABM INDUSTRIES INCORPORATED

SERVICE AWARD BENEFIT PLAN

ARTICLE 1

NAME, EFFECTIVE DATE, PURPOSE AND CONSTRUCTION

1.1 Plan Name

The Plan set forth in this document shall be designated the ABM Industries Incorporated Service Award Benefit Plan.

1.2 Effective Date

The Effective Date of this Plan was November 1, 1989. This document reflects amendments and changes made through January 1, 1991.

1.3 Purpose

The Plan is intended to qualify as a severance pay plan described in Department of Labor Regulations 2510.3-1 (a) (2) and 2510.3-2 (b) and is intended to be treated as a employee welfare plan under ERISA. The Plan is intended to provide benefits to terminating employees based upon their loyal and dedicated service to the Company and its Affiliates.

1.4 Construction

The following miscellaneous provisions shall apply in the construction of this Plan document:

(a) State Jurisdiction

All matters respecting the validity, effect, interpretation and administration of this Plan shall be determined in accordance with the laws of the State of California except where preempted by ERISA or other federal statutes.

(b) Gender

Wherever appropriate, words used in the singular may include the plural or the plural may be read as the singular, the masculine may include the feminine, and the neuter may include both the masculine and the feminine.

(c) Application of References to Law

All references to sections of ERISA, or the Internal Revenue Code, other federal or state statutes, any regulations or rulings thereunder, shall be deemed to refer to such sections as they may subsequently be modified, amended, replaced or amplified by any federal statutes, regulations or rulings of similar application and import enacted by the Government of the United States, any duly authorized agency of the United States Government, any State Government or duly authorized agency thereunder.

(d) Enforceable Provisions Remain Effective

If any provision of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions of this Plan shall continue to be fully effective.

(e) Headings

Headings are inserted for reference only and constitute no part of the construction of this Plan.

1.5 Employment Relationship Not Affected

Nothing in this Plan document shall be deemed a contract between the Employer and any Employee, nor shall the rights or obligations of the Employer or any Employee to continue or terminate employment at any time be affected hereby.

ARTICLE 2

DEFINITIONS

- 2.1 "Account" means the aggregate of all records maintained by the Committee for purposes of determining a Participant's or Beneficiary's benefits under the Plan.
- 2.2 "Affiliated Employer" means any corporation which is so designated by the Board, which may include any corporation or business determined to be affiliated under Code Section 414 or any other corporation or business which is affiliated to some degree with the Employer.
- 2.3 "Award Date" means October 31, 1990, each succeeding October 31 and any other date elected by the Board at its discretion. Effective January 1, 1991, "Award Date" shall mean December 31, 1991 and each succeeding December 31.
- 2.4 "Beneficiary" means any person designated by a Participant.
- 2.5 "Board" shall mean the Board of Directors of the Employer.
- 2.6 "Code" means the Internal Revenue code of 1986, as amended (and regulations issued thereunder).
- 2.7 "Committee" means the Administrative Committee designated under Article 9.
- 2.8 "Compensation" for any calendar year means all amounts paid to the Employee and reported as wages on the Employee's form W-2 for the year for services rendered for the Employer or Affiliated Employers during the calendar year, and all amounts which an Employee elected to have the Employer or Affiliated Employer contribute on his behalf to the ABM 401(k) and Profit Sharing Plan or the ABM Deferred Compensation Plan for the calendar year. Compensation in excess of \$175,000 shall not be considered in the calculation of benefits; provided, however, the \$175,000 limit shall not replace any limit in place for any year prior to 1996 under this Plan.
- 2.9 "Date of Eligibility" shall mean (1) for Eligible Employees hired after October 31, 1989, the date on which the Employee first performs any service for the Employer, (2) for Eligible Employees employed on or before October 31, 1989, November 1, 1989. Effective January 1, 1992, "Date of Eligibility" shall mean the January 1 following the date on which the Employee has Compensation in excess of \$50,000, or such other dollar amount as the Committee may from time to time announce.
- 2.10 "Date of Hire" shall mean the date on which the Employee becomes an employee of the Employer or an Affiliated Employer within the meaning of Code Section 3121(d).
-

- 2.11 “Disability” shall mean the permanent incapacity of a Participant, by reason of physical or mental illness, to perform his usual duties for the Employer, resulting in termination of his service with the Employer or any Affiliated Employer. Disability shall be determined by the Committee in a uniform and nondiscriminatory manner after consideration of such evidence as it may require, which shall include a report of such physician or physicians as it may designate.
- 2.12 “Eligible Employee” shall have the meaning as defined in Article 3.
- 2.13 “Eligible Participant” shall mean:
- (a) An Eligible Employee who was employed continuously throughout the Fiscal Year, or
 - (b) an Eligible Employee who terminated employment during the Fiscal Year due to death, disability or after having reached his Normal Retirement Date.
- 2.14 “Employee” means any person considered under the rules of common law or appropriate statute to be employed by the Employer or an Affiliated Employer, except:
- (a) Employees whose wages are determined by collective bargaining agreements,
 - (b) Employee Employees who are receiving pension contributions under a union retirement plan, and
 - (c) Contract workers of the Employer or an Affiliated Employer who are employed to perform principally manual work, including but not limited to elevator operator, janitor, security worker, guard, window washer, stationary engineer, painter, warehouseman, driver, parking attendant, mechanic, electrician, laundry worker or service technician.
- 2.15 “Employer” means ABM Industries Incorporated, a Delaware corporation, and such of its successors or assigns as may expressly adopt this Plan and agree in writing to continue this Plan.
- 2.16 “Entry Date” means November 1, 1989, and each succeeding November 1. Effective January 1, 1991, “Entry Date” means January 1 and each succeeding January 1.
- 2.17 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.
- 2.18 “Fiscal Year” means the accounting year of the Plan, which is the 12-month period ending October 31. Effective January 1, 1991, “Fiscal year” means the 12-month period ending December 31.
- 2.19 “Normal Retirement Date” means the date of the Participant’s 62nd birthday.
- 2.20 “Participant” means any Employee who has entered the Plan and been credited with Service Award Benefits but has not yet had such benefits distributed.
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2.21 "Plan" means the arrangement created by this document.

2.22 "Plan Administrator" means the Administrative Committee, discussed in Article 9.

2.23 "Restricted Employee" shall mean all officers, managers and sales persons of the Employer or an Affiliated Employer.

2.24 "Service Award Benefit" means the benefit calculated under Section 4.2.

ARTICLE 3

ELIGIBILITY, PARTICIPATION AND BENEFICIARY DESIGNATION

3.1 Definitions

- (a) “Eligible Employee” means any Employee of the Employer or an Affiliated Employer whose Compensation is \$50,000 or greater in any calendar year. The \$50,000 dollar amount may be adjusted from time to time as the Plan Administrator may deem necessary. The foregoing notwithstanding, an Employee shall not be an Eligible Employee during any Fiscal Year the Employee is also eligible to receive contributions under or make 401(k) contributions to the ABM 401(k) and Profit Sharing Plan.
- (b) There shall be no additional Eligible Employees designated after December 31, 2001.

3.2 Participation

(a) Initial Participants

Employees who are Eligible Employees as of October 31, 1989 shall become Participants as of November 1, 1989.

(b) Newly Hired Employees

Employees who are hired after October 31, 1989, shall become Participants as of the first November 1, or such earlier date, after certification by the Committee that the Employee is an Eligible Employee. Employees hired after January 1, 1991 shall become Participants as of the first January 1, or such earlier date, after certification by the Committee that the Employee is an Eligible Employee.

(c) Other Employees

Other Employees shall become Participants as of the first November 1, or such earlier date, after certification by the Committee that the Employee is an Eligible Employee. Effective January 1, 1991, the November 1 participation date in this Article shall be changed to January 1.

(d) Rehired Employees

A rehired Employee shall be treated as an Employee hired after October 31, 1989, unless the Employee was a Participant in the Plan. Section 2.16 of the Plan notwithstanding, former Plan Participants shall renew their participation in the Plan as of the July 1 or January 1 coinciding with or next following their date of rehire provided they are otherwise eligible for the Plan.

3.3 Beneficiary Designation

(a) Designation Procedure

Each Eligible Employee, upon becoming a Participant shall designate a Beneficiary or Beneficiaries to receive benefits under the Plan after his death. A Participant may change his beneficiary designation at any time. Each beneficiary designation shall be in a form prescribed by the Committee and will be effective

only when filed with the Committee during the Participant's lifetime. Each beneficiary designation filed with the Committee will cancel all previously filed Beneficiary designations.

(b) Lack of Designation

In the absence of a valid designation, the Participant's benefits under the Plan shall be distributed to the Participant's surviving spouse, or if there is no surviving spouse to the Participant's estate.

3.4 Committee Determines Eligibility

Compliance with the eligibility requirements shall be determined by the Committee, which shall also inform each Eligible Employee of his becoming a Participant. The Committee shall provide each participant with a summary plan description in compliance with ERISA and regulations thereunder.

ARTICLE 4

BENEFITS

4.1 Credits for Service Award Benefits

- (a) On each Award Date, commencing October 31, 1990, the Board shall Credit the Account of each Eligible Participant with 7 days, to be used in the calculation of Benefits under Article 4.2. For the short Fiscal Year beginning October 1, 1991 and ending December 31, 1991, the Board shall determine the number of days to be credited to each Eligible Participant, if any.
- (b) In addition to (a) above, on each Award Date, commencing October 31, 1990, the Board may, in its sole discretion, designate an additional number of days to be credited to the Account of each Eligible Participant.
- (c) If an employee reenters the Plan on July 1 of any year, the Employee/Participant shall be to 1/2 the number of days awarded under (a) and (b) above to other Employees who participated for the entire year.

4.2 Calculation of Service Award Benefit

Upon termination of employment, the Committee shall determine the benefit payable to the Participant. The benefit shall be equal to the number of days credited to the Account of the eligible Employee multiplied by the average annual Compensation received in the three full calendar years of full-time employment preceding the year of termination converted to a daily rate of pay. For purposes of this calculation, a year shall consist of 260 days.

4.3 Limitation on Benefits

In no event shall the benefits payable under this Plan combined with the benefits under the severance pay plan of the Employer, as described in Chapter 3, III, (b) of the ABMI Personnel Policy and Procedure Manual, as it may be amended or revised from time to time, exceed two times the Compensation received by the Participant in the twelve month period preceding the Participant's termination from employment.

ARTICLE 5

FORFEITURES OF BENEFITS

5.1 Forfeiture for Short Service

A Participant who terminates employment prior to completing 5 full years of service, measured from the Employee's Date of Hire, for the Employer or an Affiliated Employer shall forfeit all benefits under this Plan. A Participant will be credited with one year of service for each 12 month period of continuous employment with the Employer or an Affiliated Employer.

5.2 Exceptions

(a) Death

Notwithstanding Article 5.1 above, a Participant's benefits under this Plan shall not be forfeitable if the termination of employment is due to the death of the Participant.

(b) Disability

Notwithstanding Article 5.1 above, a Participant's benefits under this Plan shall not be forfeitable upon a finding by the Committee that the Participant's termination of employment is due to Disability defined in Article 2.11.

(c) Normal Retirement

Notwithstanding Article 5.1 above, a Participant's benefits under this Plan shall not be forfeited if the Participant's termination occurs after the Participant's Normal Retirement Date under this Plan.

(d) Notwithstanding Article 5.1 above, if a Participant's employment is terminated by action of the Employer as part of the divestiture of Amtech Elevator Services, the Participant's Account under the Plan shall become fully vested on the closing of the divestiture transaction.

5.3 Unallocatable Participants

If all or any portion of a Participant's benefits become payable under this Plan, and the Committee after a reasonable search cannot locate the Participant or his Beneficiary (if such Beneficiary is entitled to payment) the Account shall be Forfeited as of the end of the third Fiscal Year following the Participant's termination from employment.

5.4 Forfeiture for Cause

A Participant who is terminated from employment because of theft, defalcation, or embezzlement from the Employer, an Affiliated Employer, or a customer or client of either the Employer or an Affiliated Employer, shall forfeit all benefits under this Plan.

ARTICLE 6

PARTICIPANTS ACCOUNTS

6.1 Service Award Account

The Committee shall maintain an accounting of the number of days and weeks, or portions thereof, awarded to each Participant along with a record of the Compensation received by the Participant for the current calendar year and the two preceding calendar years.

6.2 Statement of Accounts

At least annually, the Committee will provide the Participant with a statement of the status of the Participant's Account and the record of Compensation in that Account. In the event of any error, the Participant is entitled to request the Committee to correct either the number of days or weeks credited, or the Compensation credited.

ARTICLE 7

DISTRIBUTION OF BENEFITS

7.1 General

Benefits under the Plan are paid solely from the assets of the Employer. This Plan document grants the Participants no greater right to the assets of the Employer and Affiliated Employers than that enjoyed by any unsecured creditor of the Employer and Affiliated employers.

7.2 Administrative Rules

(a) Authority

Distributions to Participants shall be made only in accordance with the directions of the Committee, which shall be governed by the terms of this Plan documents.

(b) Claims

A Participant's Beneficiary has the right to file a claim for benefits as set forth in Article 9.7.

7.3 Timing and Amount of Distributions

(a) Restricted Employees

A Participant who is a Restricted Employee shall receive his benefits in two payments from the Plan. The first payment, equal to 1/2 of the total benefit due, will be made in the eleventh month following the Participant's termination from employment. The second payment, equal to 1/2 of the total benefit due, will be made no later than the last day of the 23rd month following the Participant's termination from employment. In the event the Employer or Affiliated Employer sells, closes or otherwise disposes of a subsidiary, division or other operating unit which is engaged in a type or line of business in which the Employer or an Affiliated Employer no longer wishes to engage, the Committee shall direct that the Accounts of Restricted Employees shall be payable in one lump sum as soon as administratively possible after the close of the transaction, provided that such payments will not violate any provision of the Code.

(b) Other Participants

A participant, who is not a Restricted Employee, shall receive his benefits in two payments from the Plan. The first payment, equal to 1/2 of the total benefits, will be paid as soon as administratively possible following the termination of employment by the Participant. The second payment, equal to 1/2 of the total benefits, will be paid in the thirteenth month following the Participant's termination from employment.

(c) Exceptions

The Committee, in its sole discretion, may waive the rules in (a) and (b) in the event of death or Disability of the Participant, or if the Participant, whether a Restricted Employee or not, retires after attaining his Normal Retirement Date. Notwithstanding the foregoing, if the benefit is \$5000 or less, the Committee may

make a single lump sum payment to the Participant as soon as administratively feasible.

ARTICLE 8

FIDUCIARY RESPONSIBILITY

8.1 Named Fiduciary

The authority to control and manage the operation and administration of the Plan shall be allocated between the Employer, the Affiliated Employer and the Committee, all of whom are named fiduciaries under ERISA.

8.2 Fiduciary Standards

Each fiduciary shall discharge its duties with respect to the Plan solely in the interest of the Participants and Beneficiaries as follows:

- (1) For the exclusive purpose of providing benefits to Participants and their Beneficiaries;
- (2) With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
- (3) In accordance with the Plan document.

8.3 Fiduciaries Liable for Breach of Duty

A fiduciary shall be liable, as provided in ERISA, for any breach of his fiduciary responsibilities. In addition, a fiduciary under this Plan shall be liable for a breach of fiduciary responsibility of another fiduciary under this Plan as provided under ERISA Section 405.

8.4 Fiduciary May Employ Agents

Any person or group of persons may serve in more than one fiduciary capacity with regard to the Plan. A fiduciary, with the consent of the Employer, may employ one or more persons to render advice and assistance with regard to any function such fiduciary has under the Plan. The expenses of such persons shall be paid by the Employer.

8.5 Authority Outlined

(a) Employer Authority

The Employer has the authority to amend and terminate the Plan, and to appoint and remove members of the Committee.

(b) Committee Authority

The Committee has the authority to:

- (1) Maintain the records of Accounts of the Participants;
 - (2) Furnish and correct errors in statements of Accounts;
 - (3) Establish the standards for determining Disability under the Plan;
 - (4) Construe the Plan document and questions thereunder; and
 - (5) Employ advisors and assistants.
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8.6 Fiduciaries Not to Engage in Prohibited Transactions

A fiduciary shall not cause the Plan to engage in a transaction if he knows or should know that such transaction constitutes a prohibited transaction under ERISA Section 406 or code Section 4975, unless such transaction is exempted under ERISA Section 408 or Code Section 4975.

ARTICLE 9

ADMINISTRATIVE COMMITTEE

9.1 Appointment of Administrative Committee

The Compensation Committee of the Board of Directors of Employer shall appoint an Administrative Committee to manage and administer this Plan in accordance with the provisions hereof, each member to serve for such term as the Compensation Committee of the Board of Directors of Employer may designate or until a successor member has been appointed or until removed by the Compensation Committee of the Board of Directors of Employer. Members shall serve without compensation for committee services. All reasonable expenses of the Committee shall be paid by the Employer.

9.2 Committee Operating Rules

The Committee shall act by agreement of a majority of its members, either by vote at a meeting or in writing without a meeting. By such action, the Committee may authorize one or more members to execute documents on its behalf. In the event of a deadlock or other situation which prevents agreement of a majority of the Committee members, the matter shall be decided by the Employer.

9.3 Duties of Plan Administrator

The Committee is the Plan Administrator under ERISA and shall have the duty and authority to comply with the reporting and disclosure requirements of ERISA which are specifically required of the Plan Administrator.

9.4 Duties of the Committee

The Committee shall keep on file a copy of this Plan, including any subsequent amendments and the latest annual report required under Title I of ERISA for examination by Participants during the business hours.

9.5 Committee Powers

The Committee has the power and duty to do all things necessary or convenient to effect the intent and purpose of this Plan, whether or not such powers and duties are specifically set forth herein. Not in limitation but in amplification of the foregoing, the Committee shall have the power to construe the Plan document and to determine all questions hereunder. Decisions of the Committee made in good faith upon any matters within the scope or its authority shall be final and binding on the Employer, the Affiliated Employers, the Participants, their Beneficiaries and all others. The Committee shall at all times act in a uniform and nondiscriminatory manner in making and carrying out its decisions, and may from time to time prescribe and modify uniform rules of interpretation and administration.

9.6 Committee May Retain Advisors

With the approval of the Employer, the Committee may from time to time or on a continuing basis, retain such agents and advisors including, specifically, attorneys, accountants, actuaries, consultants and administrative assistants, as it considers necessary to assist it in the proper performance of its duties. The expenses of such agents or advisors shall be paid by the Employer.

9.7 Claims Procedure

(a) Claims Must Be Submitted Within 60 Days

The Committee shall determine Participants' and Beneficiaries' rights and benefits under the Plan. In the event of a dispute over benefits, a Participant or Beneficiary may file a written claim for benefits with the Committee, provided that such claim is filed within 60 days of the date the Participant or Beneficiary receives notification of the Committee's determination.

(b) Requirements for Notice of Denial

If a claim is wholly or partially denied, the Committee shall provide the claimant, setting forth:

- (i) The specific reason for the denial;
- (ii) Specific references to the pertinent provisions on which the denial is based;
- (iii) A description of any additional material or information necessary for the claimant to perfect the claim with an explanation of why such material or information is necessary; and
- (iv) Appropriate information as to the steps to be taken if the claimant wishes to submit his or her claim for review.

The notice of denial shall be given within a reasonable time period but not later than 90 days of the date the claim is filed, unless special circumstances require an extension of time for processing the claim. If such extension is required, written notice shall be furnished to the claimant within 90 days of the date the claim was filed stating the special circumstances requiring an extension of time and the date by which a decision on the claim can be expected, which shall be no more than 180 days from the date the claim was filed. If no notice of denial is provided as herein described, the claimant may appeal the claim as though the claim had been denied.

(c) Claimant's Rights if Claim Denied

The claimant and/or his representative may appeal the denied claim and may;

- (i) Request a review upon written request to the Committee;
- (ii) Review pertinent documents; and
- (iii) Submit issues and comments in writing; provided that such appeal is made within 60 days of the date the claimant received notification of the denied claim.

(d) Time Limit on Review of Denied Claim

Upon receipt of a request for review, the committee shall provide written notification of its decision to the claimant stating the specific reasons and referencing specific Plan provisions on which its decision is based, within a reasonable time period but not later than 60 days after receiving the request,

unless special circumstances require an extension for processing the review. If such an extension is required, the Committee shall notify the claimant of such special circumstances and of the date, no later than 120 days after the original date the review was requested, on which the Committee will notify the claimant of its decision.

(e) No Legal Recourse Until Claims Procedure Exhausted.

In the event of any dispute over benefits under this Plan, all remedies available to the disputing individual under this Article 9.7 must be exhausted before legal recourse of any type is sought.

9.8 Committee Indemnification

To the fullest extent permitted by law, the Employer agrees to indemnify, to defend, and hold harmless the members of the Committee, individually and collectively, against any liability whatsoever for any (1) action taken or omitted by them in good faith in connection with this Plan or their duties hereunder, and (2) expenses or losses for which they may become liable as a result of any such actions or non-actions, unless resultant from their own willful misconduct. The Employer may purchase insurance for the Committee to cover any of their potential liabilities with regard to the Plan.

ARTICLE 10

AMENDMENT AND TERMINATION

10.1 Employer May Amend Plan

The Compensation Committee of the Board of Directors of Employer or to the extent provided below, the Administrative Committee, may at any time modify or amend any or all of the provisions of the Plan. The Administrative Committee may amend the Plan to bring the Plan into compliance with applicable law or, to make such other changes as the Administrative Committee deems desirable, provided that such changes do not materially increase the cost of the Plan to Employer or take the Plan out of compliance with applicable law; and provided further that the Committee may not admit new participants to the Plan or amend this Article 10.

10.2 Employer May Terminate Plan

The Employer has established the Plan with the bona fide intention and expectation that the Plan will continue indefinitely, but the Employer shall be under no obligation to maintain the Plan for any given length of time and the Compensation Committee of the Board of Directors of Employer may, in its sole discretion, terminate the Plan at any time without any liability, except as to the payment of benefits earned under this Plan prior to the date this Plan is terminated.

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made ____, 2005 between **ABM INDUSTRIES INCORPORATED**, a Delaware corporation, (“Corporation”), and ____ (“Director”).

RECITALS

- A. Director, a member of the Board of Directors of Corporation, performs valuable services for Corporation.
- B. The By-laws of Corporation (the “By-laws”) provide for the indemnification of the directors, officers, agents and employees of Corporation under the authority of Section 145 of the Delaware Corporations Code, as amended (the “Code”).
- C. The By-laws and the Code are non-exclusive and permit contracts between Corporation and directors with respect to indemnification.

NOW, THEREFORE, in consideration of Director’s continued service as a director, Corporation and Director agree:

1. **Indemnity of Director.** Corporation will hold harmless and indemnify Director to the fullest extent authorized or permitted by the By-laws and by the Code, as may be amended from time to time.
 2. **Additional Indemnity.** Corporation will hold harmless and indemnify Director against any and all expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of Corporation) to which Director is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Director is, was or at any time becomes a director, officer, employee or agent of Corporation, or is or was serving or at any time serves at the request of Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.
 3. **Specific Indemnity.** Without limiting or affecting in any way the generality of the indemnity provided in Sections 1 and 2 of this Agreement, Corporation shall hold harmless and indemnify Director
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against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement; including but not limited to:

- (a) in excess of any insurance coverages;
- (b) representing deductible amounts under insurance coverages;
- (c) in any claim or claims brought by or on behalf of any firm, corporation or individual that owns beneficially or directly, five per cent (5%) or more of the common shares outstanding;
- (d) in any claim or claims alleging libel or slander;
- (e) in any claim or claims for the return by Director of any remuneration paid to him/her without the previous approval of the stockholders of the Corporation;
- (f) in any claim or claims based upon or attributable to Director having gained any personal profit or advantage to which he was not legally entitled;
- (g) in any action or suit by or in the right of the corporation.

4. **Limitations on Indemnity.** However, notwithstanding the provisions of Sections 1, 2 and 3 of this Agreement, no indemnity pursuant to this Agreement shall be made by Corporation;

- (a) in respect of any amounts as to which Director shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Director is fairly and reasonably entitled to indemnity for such amounts which the Court of Chancery or such other court shall deem proper;
- (b) on account of any suit in which judgment is rendered against Director for an accounting of profits made from the purchase or sale by Director of securities of Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or dissimilar provisions of any federal or state or statutory law;
- (c) if a final decision by a Court having jurisdiction in the matter shall determine that indemnification is not lawful;

- (d) on account of any action, suit or proceeding commenced by the Director in his individual right against Corporation or against any officer, director or stockholder of Corporation unless authorized in the specific case by a majority of disinterested members of the Board of Directors.
5. **Standard of Conduct.** In meeting the applicable good faith standard of conduct for indemnification, Director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared to presented by any of the following:
- (a) Officers or employees of the Corporation.
 - (b) Counsel, independent accountants, investment bankers, financial advisers, or other persons as to matters which Director believes to be within such person's professional or expert competence.
 - (c) A committee of the Board upon which Direct or does not serve, as to matters within its designated authority, which committee the Director believes merits confidence, so long as, in any such case, Director acts, after reasonable inquiry when the need therefore is indicated by the circumstances and acts without knowledge that would cause such reliance to be unwarranted.
6. **Contribution.** If indemnification is not paid to Director, then in respect of any threatened, pending or completed action, suit or proceeding in which Corporation is jointly liable with Director (or would be if joined in such action, suit or proceeding), Corporation shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Director in such proportion as is appropriate to reflect (i) the relative benefits received by Corporation on the one hand and Director on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of Corporation on the one hand and of Director on the other in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of Corporation on the one hand and of Director on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 5 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

7. **Continuation of Obligations.** All agreements and obligations of Corporation contained in this Agreement shall continue during the period Director is a director, officer, employee or agent of Corporation (or is or was serving at the request of Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and notwithstanding any change of control of Corporation, shall continue thereafter so long as Director shall be subject to any possible claim, suit or proceeding, whether civil, criminal or investigative. "Change of control" means (1) merger, reorganization, or sale of assets of the Corporation, (2) a majority of the existing members of the Board of Directors, shall resign, retire, die not be elected, or be removed, or (3) a transfer of fifty per cent (50%) or more of the voting stock of the Corporation.

8. **Advancement of Expenses.**

- (a) Promptly after notice of any claim, action, suit or proceeding, Director will, if a claim for indemnity or advance of expenses is to be made against Corporation, so notify the Corporation in writing. Failure to notify Corporation will not relieve Corporation from its obligations to indemnify Director under this Agreement, the By-laws or the Code.
- (b) Corporation shall advance to Director, from time to time, prior to any disposition of any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding within ten (10) days after receiving copies of invoices presented to Director for such expenses.
- (c) Notwithstanding the foregoing, Corporation shall not advance expenses to Director (i) in any action, suit or proceeding by Director as a plaintiff in his individual right unless specifically approved by a majority of disinterested members of the Board of Directors or (ii) in an action, suit or proceeding brought by Corporation and approved by a majority of the Board of Directors which alleges breach of the Director's duty of loyalty to the Corporation or its stockholders, (iii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iv) under Section 174 of the Code or (v) any transaction from which the Director derived an improper personal benefit.

9. **Undertaking.** Director will reimburse Corporation for all expenses paid by Corporation in defending any civil or criminal action, suit or proceeding against Director in the event and only to the extent it shall ultimately be determined that the Director is not entitled, under the provisions of the Code, the By-laws, this Agreement or otherwise, to be indemnified by Corporation for such expenses.

10. **Procedure.**

- (a) Director shall request indemnification or contribution by a written claim ("Claim") delivered to the Corporation on the manner set forth in Section 11 of this Agreement. The Claim shall set forth the circumstances and state the amount which is requested. Within thirty (30) days of delivery of the Claim, the Claim shall be paid unless, with respect to a claim for indemnity, the Board of Directors shall determine by a majority vote of quorum consisting of Directors who are not parties to the action, suit or proceeding, or, if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested Directors so directly independent legal counsel in a written opinion, that indemnification is not proper because, in respect of the matters for which indemnification is requested, the Director did not act in good faith and in a manner he/she reasonable believed to be in or not opposed to the best interests of the Corporation and, in a criminal case, he/she did not have reasonable cause to believe his/her conduct was unlawful.
- (b) If a Claim for indemnity is not specifically disapproved in writing within thirty (30) days of delivery of the Claim by the Director, then the Claim shall be deemed to have been approved.
- (c) If Director's claim is not paid in full within thirty (30) days after the Claim has been delivered to the Corporation, Director may at any time thereafter bring suit against the Corporation in the Court of Chancery of Delaware to recover the unpaid amount of the Claim and, if successful in whole or in part, the Director shall also be entitled to be paid the costs and expenses, including attorneys' fees, of prosecuting the Claim.
- (d) If Director's Claim is not paid in full within thirty (30) days after the Claim has been delivered to the Corporation, Director shall receive interest on the unpaid amount claimed at twelve per cent (12%) per year in the event it is ultimately determined that he/she is entitled to be indemnified, or that the Corporation must contribute to a judgment.

11. **Notice.** Any Claim, notice or other communication in connection with indemnity of this Agreement shall be deemed to be delivered and received if in writing, addressed as provided below, and if either (i) actually delivered personally, or (ii) three (3) business days shall have elapsed after the same shall have been deposited in the United States Mail, postage prepaid, and registered or certified, return receipt requested:

To Corporation:

ABM Industries Incorporated
160 Pacific Avenue, Suite 222
San Francisco, CA 94111
Attention: General Counsel

To Director:

and in any case at such other address as the addressee shall have specified by written notice. All periods of notice shall be measured from the date of delivery.

12. **Insurance.** The Corporation agrees to maintain a policy or policies of D & O liability insurance having at least \$5,000,000 policy limits in which Director is a named insured, and which covers liabilities whether or not Director may be indemnified by the Corporation, provided, however, that the Board of Directors by vote of a majority of the entire Board may determine in good faith that D & O liability insurance is unavailable on commercially reasonable terms.
13. **Enforcement.** In the event Director is required to bring any action to enforce rights or to collect monies due under this Agreement, and is successful in such action, Corporation shall reimburse Director for all Director's fees and expenses, including attorneys' fees, in bringing and pursuing such action.
14. **Separability.** Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof.
15. **Savings Clause.** If any term, clause, phrase, section or any position of any section of this Agreement or of the By-laws shall be invalidated on any ground by any court, then the Corporation shall nevertheless indemnify Director as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any

action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Agreement, by By-laws, or the Code, that shall not have been invalidated.

16. **Interpretation.** If there shall be any inconsistency between this Agreement and the B y-laws, or if there shall be any ambiguity in this Agreement or in the By-laws, then the inconsistency or ambiguity shall be resolved in a manner which will require the indemnity of Director to the fullest extent allowed by law.
17. **Binding Effect.** This Agreement shall be binding upon Director and upon Corporation, its successors and assigns, and shall inure to the benefit of Director, his/her heirs, personal representatives and assigns and to the benefit of Corporation, its successors and assigns.
18. **Amendment and Termination.** No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

ABM
Executive Retiree
Healthcare and Dental Plan

Objective: To provide post-employment access to ABM group healthcare and dental plans to certain former ABM Executive Group* employees and their eligible dependents.

Plan: The healthcare and dental plans offered to those eligible will be the same or similar to those primary healthcare plans offered to active, staff / management employees.

Eligibility: Former members of the “ABM Executive Group” (as defined below) who were recipients of healthcare benefits from any ABM sponsored group healthcare plan on October 31, 2004 and thereafter, who at separation from active employment (a) were at least 55 years of age, (b) had at least 10 years of combined service with ABM Industries or any one of its subsidiaries, including prior service with an acquired business, and (c) had not yet reached their 75th birthday.

Premium: Each Plan participant will pay the full monthly premium for that coverage type elected, by the first day of the coverage month. There shall be no contribution to your premium by the Company.

Coverage: The former Executive may choose healthcare with or without dental coverage. Coverage will commence immediately following separation from active employment with ABM or upon the termination of coverage in an ABM healthcare plan. Participation must be continuous. The coverage offered will be secondary coverage in the case of Medicare-eligible participants.

Termination of Coverage: Coverage for the former Executive and all covered dependents will terminate at the end of the month following the earlier of (a) ten (10) years following Executive’s termination of active employment, (b) the Executive’s 75th birthday, (c) the death of the former employee, or (d) the failure to pay premium within 30 days following the due date.

* The “ABM Executive Group” shall be defined to include all officers of ABM Industries, Inc (the “Company”), all Company subsidiary Presidents, Executive Vice Presidents and Senior Vice Presidents, and all Regional Vice Presidents of the Company’s Janitorial subsidiaries.

Administration of the Plan:

- Premium payment must be remitted monthly by check to the ABM Industries' Employee Benefits Department, to be received by the 1st day of the coverage month.
- The Company, from time to time, may adjust participant's premium levels as necessary, change the provisions of the plan and change the carrier(s) and network providers.
- Dependent eligibility will be determined on the same basis on which dependent eligibility is determined within the Executive's state of residence in the then current ABM healthcare plan for all other active employees.
- Dependents of the former Executive will not be permitted to participate in the Plan unless the Executive is also participating.
- Dental coverage cannot be elected without healthcare coverage.
- Coverage must be continuous. Participants cannot opt out and back into the plan.

Notice: The Company reserves the right to modify, amend or terminate this Plan at any time.

-
- * The "ABM Executive Group" shall be defined to include all officers of ABM Industries, Inc (the "Company"), all Company subsidiary Presidents, Executive Vice Presidents and Senior Vice Presidents, and all Regional Vice Presidents of the Company's Janitorial subsidiaries.

EXHIBIT 10.23

CORPORATE EXECUTIVE EMPLOYMENT AGREEMENT

THIS CORPORATE EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") is made effective as of April 1, 2004, by and between **W.T. (Terry) Petty** ("Executive") and **ABM Industries Incorporated** ("Company") for itself and on behalf of its subsidiary corporations as applicable herein.

WHEREAS, Company is engaged in the building maintenance and related service businesses, and

WHEREAS, Executive is experienced in the administration, finance, marketing, and/or operation of such services, and

WHEREAS, Company has invested significant time and money to develop proprietary trade secrets and other confidential business information, as well as invaluable goodwill among its customers, sales prospects and employees, and

WHEREAS, Executive wishes to, or has been and desires to remain employed by Company, and to utilize such proprietary trade secrets, other confidential business information and goodwill, and

WHEREAS, Company has disclosed or will disclose to Executive such proprietary trade secrets and other confidential business information which Executive will utilize in the performance of this Agreement;

NOW THEREFORE, Executive and Company agree as follows:

- A. EMPLOYMENT:** Company hereby agrees to employ Executive, and Executive hereby accepts such employment, on the terms and conditions set forth in this Agreement.
- B. TITLE:** Executive's title shall be Executive Vice President and Chief Operating Officer of Company, subject to modification as determined by the Company in its sole discretion.
- C. DUTIES & RESPONSIBILITIES:** Executive shall be expected to assume and perform such executive or managerial duties and responsibilities as are assigned from time-to-time by the Company's Chief Executive Officer or his or her designee, to whom Executive shall report and be accountable.
- D. TERM OF AGREEMENT:** Employment hereunder shall be deemed effective as of April 1, 2004, for a term of two years and seven months ending October 31, 2006 ("Initial Term"), unless sooner terminated pursuant to Paragraph O hereof, or later extended pursuant to Paragraph N hereof ("Extended Term").
- E. PRINCIPAL OFFICE:** During the Initial Term and any Extended Term, as applicable, of this Agreement, Executive shall be based at a Company office located in San Francisco in the state of California ("State of Employment"), or such other location as shall be mutually agreed upon by Company and Executive. Executive expressly agrees as a condition of his continued employment by Company, to relocate his principal residence to the San Francisco Bay area on or before August 1, 2004.
- F. COMPENSATION:** Company agrees to compensate Executive, and Executive agrees to accept as compensation in full, for Executive's assumption and performance of duties and responsibilities pursuant to this Agreement:
 - 1. **SALARY:** A salary paid in equal installments of no less frequently than semi-monthly at the annual rate set forth in Paragraph X.1 hereof.
 - 2. **BONUS:** A bonus or other incentive or contingent compensation, if any, pursuant to Paragraph X.2 hereof.

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3. **FRINGE BENEFITS:** Executive shall receive the then current fringe benefits generally provided by Company to all of its Executives. Such benefits may include but not be limited to the use of a Company-leased car or a car allowance, group health benefits, long-term disability benefits, group life insurance, sick leave and vacation. Each of these fringe benefits is subject to the applicable Company policy at all times. Executive expressly agrees that should he or she terminate employment with Company for the purpose of being re-employed by a Company affiliate, he or she shall "carry-over" any previously accrued but unused vacation balance to the books of the affiliate.

Company reserves the right to add, increase, reduce or eliminate any fringe benefit at any time, but no such benefit or benefits shall be reduced or eliminated as to Executive unless generally reduced or eliminated as to comparable executives within the Company.

4. **LIMIT:** To the extent that any compensation to be paid to Executive under this Agreement would be non-deductible by the Company as a result of the \$1 million compensation limit provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), then such compensation shall not be paid out to Executive at that time but shall instead be deferred and paid without interest to Executive (subject to applicable withholding and only to the extent that payment of such deferred amount is fully deductible under Code Section 162(m)) in the first month of the taxable year following the taxable year of deferral. If the subsequent payment of the deferral is itself subject to further deferral pursuant to this Paragraph F.4, then such further deferred amount shall instead be paid in the first month of the next following taxable year.

G. PAYMENT OR REIMBURSEMENT OF BUSINESS EXPENSES: Company shall pay directly or reimburse Executive for reasonable business expenses of Company incurred by Executive in connection with Company business, and approved in writing by the person(s) to whom Executive reports pursuant to Paragraph C hereof, upon presentation to such person(s) by Executive within sixty (60) days after incurring such expense of an itemized request for payment including the date, nature, recipient, purpose and amount of each such expense, accompanied by receipts for all such expenses in accordance with Company policy.

H. BUSINESS CONDUCT: Executive shall comply with all applicable laws pertaining to the performance of this Agreement, and with all lawful and ethical rules, regulations, policies, codes of conduct, procedures and instructions of Company, including but not limited to the following:

1. **GOOD FAITH:** Executive shall not act in any way contrary to the best interest of Company.

Executive agrees that if he or she is approached by any person to discuss a possible acquisition or other transaction that could result in a change of control of the Company, Executive will immediately advise the Company's General Counsel and Chair of the Nominating, Governance and Succession Committee of the Board of Directors.

2. **BEST EFFORTS:** During all full-time employment hereunder, Executive shall devote full working time and attention to Company. Notwithstanding any other agreement to the contrary, Executive shall not at any time be directly or indirectly employed by, own, operate, assist or otherwise be involved, invested or associated in any business that is similar or competitive to any business of Company; except that Executive may own up to five percent (5%) of such publicly-held business(es), provided that Executive: (a) shall give Company notice(s) of any such ownership exceeding two percent (2%), in accordance with Paragraph W hereof, and (b) shall not at any time be directly or indirectly employed by or operate, assist, or otherwise be involved or associated with any such business(es).

3. **VERACITY:** Executive shall make no claims or promises to any employee, supplier, contractor, customer or sales prospect of Company that are unauthorized by Company or are in any way untrue.

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4. **DRIVER'S LICENSE:** Executive shall have a driver's permit issued by Company and shall carry a valid driver's license issued by his or her state of domicile or the State of Employment hereunder whenever Executive is driving any motor vehicle in connection with Company business. Executive agrees to immediately notify Company in writing if Executive's driver's license is lost, expired, restricted, suspended or revoked for any reason whatsoever.
5. **CODE OF CONDUCT:** Executive agrees to fully comply with and annually execute a certification of compliance with the Company's Code of Business Conduct and Ethics.

I. NO CONFLICT: Executive represents to Company that Executive is not bound by any contract with a previous employer or with any other business that might prevent Executive from entering into this Agreement. Executive further represents that he or she is not bound by any other contracts or covenants that in any way restrict or limit Executive's activities in relation to his or her employment with Company that have not been fully disclosed to Company prior to the signing of this Agreement.

J. COMPANY PROPERTY: Company shall, from time to time, entrust to the care, custody and control of Executive certain of Company's property, such as motor vehicles, equipment, supplies, passwords and documents. Such documents may include, but shall not be limited to customer lists, financial statements, cost data, price lists, invoices, forms, electronic files and media, mailing lists, contracts, reports, manuals, personnel files or directories, correspondence, business cards, copies or notes made from Company documents and documents compiled or prepared by Executive for Executive's use in connection with Company business. Executive specifically acknowledges that all such items, including passwords and documents, are the property of Company, notwithstanding their preparation, care, custody, control or possession by Executive at any time(s) whatsoever.

K. GOODWILL & PROPRIETARY INFORMATION: In connection with Executive's employment hereunder:

1. Executive agrees to utilize and further Company's goodwill ("Goodwill") among its customers, sales prospects and employees, and acknowledges that Company may disclose to Executive and Executive may disclose to Company, proprietary trade secrets and other confidential information not in the public domain ("Proprietary Information") including but not limited to specific customer data such as: (a) the identity of Company's customers and sales prospects, (b) the nature, extent, frequency, methodology, cost, price and profit associated with its services and products purchased from Company, (c) any particular needs or preferences regarding its service or supply requirements, (d) the names, office hours, telephone numbers and street addresses of its purchasing agents or other buyers, (e) its billing procedures, (f) its credit limits and payment practices, and (g) its organization structure.
2. Executive agrees that such Proprietary Information and Goodwill have unique value to Company, are not generally known or readily available to Company's competitors, and could only be developed by others after investing significant time and money. Company would not make such Proprietary Information and Goodwill available to Executive unless Company is assured that all such Proprietary Information and Goodwill will be held in trust and confidence by Executive. Executive hereby acknowledges that to use this Proprietary Information and Goodwill except for the benefit of Company would be a breach of such trust and confidence and in violation of Executive's common law Duty of Loyalty to the Company.

L. RESTRICTIVE COVENANTS: In recognition of Paragraph K, above, Executive hereby agrees that during the Initial Term and the Extended Term, if any, of this Agreement, and thereafter as specifically agreed herein:

1. Except in the proper performance of this Agreement, Executive shall at no time directly or indirectly solicit or otherwise encourage or arrange for any employee to terminate employment with Company while employed by the Company and for a period of one (1) year following Executive's termination of employment.

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2. Except in the proper performance of this Agreement, Executive shall not directly or indirectly disclose or deliver to any other person or business, any Proprietary Information obtained directly or indirectly by Executive from, or for, Company.
3. Executive agrees that at all times after the termination of this Agreement, Executive shall not seek, solicit, divert, take away, obtain or accept the patronage of any customer or sales prospect of Company through the direct or indirect use of any Proprietary Information of Company, or by any other unfair or unlawful business practice.
4. Executive agrees that for a reasonable time after the termination of this Agreement, which Executive and Company hereby agree to be one (1) year, Executive shall not directly or indirectly, for Executive or for any other person or business, seek, solicit, divert, take away, obtain or accept any customer account or sales prospect with which Executive had direct business involvement on behalf of Company within the one (1) year period prior to termination of this Agreement.
5. Nothing in this Agreement shall be binding upon the parties to the extent it is void or unenforceable for any reason in the State of Employment, including, without limitation, as a result of any law regulating competition or proscribing unlawful business practices.

M. MODIFICATION OF EMPLOYMENT: At any time during the then current Initial or Extended Term, as applicable, of this Agreement, a majority of the Board of Directors of Company shall have the absolute right, with or without cause and without terminating this Agreement or Executive's employment hereunder, to modify the nature of Executive's employment for the remainder of the then current Initial or Extended Term, as applicable, of this Agreement, from that of a full-time employee to that of a part-time employee ("Modification Period"). The Modification Period shall commence immediately upon Company giving Executive written notice of such change.

1. Upon commencement of the Modification Period: (a) Executive shall immediately resign as a full-time employee of Company and as an officer and/or director of Company and of any Company subsidiaries, as applicable, (b) Executive shall promptly return all Company property in Executive's possession to Company, including but not limited to any motor vehicles, equipment, supplies and documents set forth in Paragraph J hereof, and (c) Company shall pay Executive when due all previously earned and vested but as yet unpaid, salary, prorated Target Bonus as determined pursuant to Paragraph X.2. or other contingent compensation, reimbursement of business expenses and fringe benefits.
2. During the Modification Period: (a) Company shall continue to pay Executive's monthly salary pursuant to Paragraph F.1 hereof, and to the extent available under the Company's group insurance policies, continue to provide Executive with the same group health and life insurance (subject to Executive continuing to pay the employee portion of any such premium) to which Executive would be entitled as a full-time employee, with the understanding and agreement that such monthly salary and group insurance, if available, shall constitute the full extent of Company's obligation to compensate Executive, (b) Executive shall not be eligible or entitled to receive or participate in any bonus or fringe benefits other than the aforementioned group insurance, if available, (c) in the alternative, Executive may exercise rights under COBRA to obtain medical insurance coverage as may be available to Executive, (d) Executive shall be deemed a part-time employee and not a full-time employee of Company, (e) Executive shall provide Company with such occasional executive or managerial services as reasonably requested by the person(s) to whom Executive reports pursuant to Paragraph C hereof, except that failure to render such services by reason of any physical or mental illness or disability other than Total Disability or death as set forth in Paragraph O.2 hereof, or unavailability because of absence from the State of Employment hereunder, shall not affect Executive's right to receive such salary and (f) Company shall pay directly or reimburse Executive in accordance with the provisions of Paragraph G hereof for

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reasonable business expenses of Company incurred by Executive in connection with such services requested by the person(s) to whom Executive reports pursuant to Paragraph C hereof.

3. The Modification Period shall continue until the earlier of: (a) Total Disability or death as set forth in Paragraph O.2 hereof, (b) termination of this Agreement by Company for “just cause” as hereinafter defined, (c) Executive accepting employment or receiving any other compensation from operating, assisting or otherwise being involved, invested or associated with any business that is similar to or competitive with any business in which Company is engaged on the commencement date of the Modification Period, or (d) expiration of the then current Term of this Agreement.

N. EXTENSION OF EMPLOYMENT:

1. Absent at least ninety (90) days written Notice of Termination of Employment or Notice of Non-Renewal from Company to Executive prior to expiration of the then current Initial or Extended Term, as applicable, of this Agreement, employment hereunder shall continue for an Extended Term (or another Extended Term, as applicable) of one year, by which Executive and Company intend that all terms and conditions of this Agreement shall remain in full force and effect for another twelve (12) months, except that the base salary specified in Paragraph X.1.a may be increased as set forth in Paragraph X.1.b during the Extended Term.
2. In the event that Notice of Non-Renewal is given ninety (90) days prior to the expiration of the then Initial or Extended Term, as applicable, of this Agreement, employment shall continue on an “at will” basis following the expiration of such Initial or Extended Term. In such event, Company shall have the right to change the terms and conditions of Executive’s employment, including but not limited to Executive’s position and/or compensation.

O. TERMINATION OF EMPLOYMENT:

1.
 - a. Termination Upon Expiration Of Term. Subject to at least ninety (90) days prior written Notice of Termination of Employment, Executive’s employment shall terminate, with or without cause, at the expiration of the then current Initial or Extended Term. Company has the option, without terminating this Agreement, of placing Executive on a leave of absence at the full compensation set forth in Paragraph F hereof, for any or all of such notice period.
 - b. Termination For Cause. Except as provided in Paragraph O.1.a, the Company shall have the right to terminate Executive’s employment hereunder at any time during the then current Initial or Extended Term, as applicable, of this Agreement, without notice subject only to a good faith determination by a majority of the Board of Directors of Company of “just cause.” “Just cause” includes but is not limited to any (i) theft or dishonesty (ii) more than one instance of neglect or failure to perform employment duties, (iii) more than one instance of inability or unwillingness to perform employment duties, (iv) insubordination, (v) abuse of alcohol or other drugs or substances affecting Executive’s performance of his or her employment duties, (vi) material and willful breach of this Agreement; (vii) other misconduct, unethical or unlawful activity, or for (vii) a conviction of or plea of “guilty” or “no contest” to a felony under the laws of the United States or any state thereof.
 - c. Voluntary Termination By Executive. At any time during the then current Initial or Extended Term, as applicable, of this Agreement and with or without cause, Executive may terminate employment hereunder by giving Company ninety (90) days prior written notice.
2. Employment hereunder shall automatically terminate upon the total disability (“Total Disability”) or death of Executive. Total Disability shall be deemed to occur on the ninetieth (90th) consecutive or non-consecutive calendar day within any twelve (12) month period that Executive is unable to

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perform the duties set forth in Paragraph C hereof because of any physical or mental illness or disability. Company shall pay when due to Executive or, upon death, Executive's designated beneficiary or estate, as applicable, all prorated salary, prorated Target Bonus as determined pursuant to Paragraph X.2. or other contingent compensation, reimbursement of business expenses and fringe benefits which would have otherwise been payable to Executive under this Agreement, through the end of the month in which Total Disability or death occurs.

3. Upon termination of employment hereunder, Executive shall immediately resign as an employee of Company and as an officer and/or director of Company and of any Company subsidiaries, as applicable. Executive shall promptly return and release all Company property in Executive's possession to Company, including but not limited to, any motor vehicles, equipment, supplies, passwords and documents set forth in Paragraph J hereof. Company shall pay Executive, when due, all previously earned and vested but as yet unpaid, salary, prorated Target Bonus, as determined pursuant to Paragraph X.2. or other contingent compensation, reimbursement of business expenses and fringe benefits.

P. GOVERNING LAW: This Agreement shall be interpreted and enforced in accordance with the laws of the State of Employment hereunder.

Q. ARBITRATION CLAUSE:

1. Except for the interpretation and enforcement of injunctive relief pursuant to Paragraph R hereof (which shall be subject to litigation in any court having proper jurisdiction), any claim or dispute related to or arising from this Agreement (whether based in contract or tort, in law or equity) including, but not limited to, claims or disputes between Executive and Company or its directors, officers, employees and agents regarding Executive's employment or termination of employment hereunder, or any other business of Company, shall be resolved by a neutral arbitrator agreed upon by both parties, through mandatory, final, binding arbitration in accordance with the procedural and discovery rules of the American Arbitration Association.
2. The cost of such arbitration shall be borne by the Company. Any such arbitration must be requested in writing within one (1) year from the date the party initiating the arbitration knew or should have known about the claim or dispute, or all claims arising from that dispute are forever waived. Any such arbitration (or court proceeding as applicable hereunder) shall be held in the city and/or county of employment hereunder. Judgment upon the award rendered through such arbitration may be entered and enforced in any court having proper jurisdiction.

R. REMEDIES & DAMAGES:

1. The parties agree that, in the event of a material breach or threatened material breach of Paragraphs K and/or L hereof, the damage or imminent damage to the value of Company's business shall be impractical and/or impossible to estimate or ascertain, and therefore any remedy at law or in damages shall be inadequate. Accordingly, the parties hereto agree that Company shall be entitled to the immediate issuance of a restraining order or an injunction against Executive in the event of such breach or threatened breach, in addition to any other relief available to Company pursuant to this Agreement or under law.
2. Executive agrees that damages resulting from any such breach which involves any customer of Company shall be the actual damages according to proof, as determined by an arbitrator pursuant to Paragraph Q, above.
3. To the full extent permitted under the laws of the State of Employment hereunder, Executive authorizes Company to withhold from any severance payments otherwise due to Executive and from any other funds (other than wages) held for Executive's benefit by Company, any damages or

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losses sustained by Company as a result of any material breach or other material violation of this Agreement by Executive, pending arbitration between the parties as provided for herein.

S. NO WAIVER: Failure by either party to enforce any term or condition of this Agreement at any time shall not preclude that party from enforcing that provision, or any other provision of this Agreement, at any later time.

T. SEVERABILITY: The provisions of this Agreement are severable. If any arbitrator (or court as applicable hereunder) rules that any portion of this Agreement is invalid or unenforceable, the arbitrator's or court's ruling shall not affect the validity and enforceability of other provisions of this Agreement. It is the intent of the parties that if any provision of this Agreement is ruled to be overly broad, the arbitrator or court shall interpret such provision with as much permissible breadth as is allowable under law rather than to consider such provision void.

U. SURVIVAL: All terms and conditions of this Agreement which by reasonable implication are meant to survive the termination of this Agreement, including but not limited to the Restrictive Covenants and Arbitration Clause herein, shall remain in full force and effect after the termination of this Agreement.

V. REPRESENTATIONS: Executive represents and agrees that he or she has carefully read and fully understands all of the provisions of this Agreement, that he or she is voluntarily entering into this Agreement and has been given an opportunity to review all aspects of this Agreement with an attorney, if he or she chooses to do so.

W. NOTICES:

1. Any notice required or permitted to be given pursuant to this Agreement shall be in writing and delivered in person, or sent prepaid by certified mail, bonded messenger or overnight express, to the party named at the address set forth below or at such other address as either party may hereafter designate in writing to the other party:

Executive: **W.T. (Terry) Petty**
 11110 Cripplegate Road
 Potomac, MD 20854

Company: **ABM Industries Incorporated**
 160 Pacific Avenue, Suite 222
 San Francisco, CA 94111
 Attention: Chief Executive Officer

Copy: **ABM Industries Incorporated**
 160 Pacific Avenue, Suite 222
 San Francisco, CA 94111
 Attention: Chief Employment Counsel

2. Any such Notice shall be assumed to have been received when delivered in person, or forty-eight (48) hours after being sent in the manner specified above.

X. SPECIAL PROVISIONS:

1. **BASE SALARY:**
 - a. Four Hundred Fifty Thousand Dollars (\$450,000) per year effective April 1, 2004 through October 31, 2004 at the monthly rate of \$37,500 payable semi-monthly.

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- b. Effective November 1, 2004 and at the beginning of each Fiscal Year thereafter, Executive shall be eligible, at the sole discretion of the Company, to receive a merit increase based on Executive's job performance.
 - c. At the sole discretion of the Board of Directors of the Company (the "Board"), the Company may grant a salary adjustment at any time for reasons deemed appropriate by the Board, including but not limited to a change in Executive's duties resulting in a material increase in responsibility.
2. BONUS: Subject to pro-rata in the event of modification or termination of employment hereunder and further subject to the requirement set forth under Subparagraph b.v., below, Executive shall be entitled to participate in the Company's incentive compensation plan which provides for a performance-based bonus ("Bonus") contingent on the achievement of corporate objectives for each Fiscal Year, or partial Fiscal Year, of employment hereunder during the Initial term, and during the Extended Term, if any, of this Agreement, as follows:
- a. Executive shall be entitled to a guaranteed bonus in the amount of \$131,250 for the remaining period of Company's Fiscal Year, from April 1, 2004 through October 31, 2004. Such bonus shall be paid as soon as administratively feasible, but no later than seventy-five (75) days after the end of the Company's Fiscal Year.
 - b. A target bonus for the Fiscal Year beginning November 1, 2004 and each subsequent Fiscal Year thereafter ("Target Bonus") shall be established equal to 50% of the Executive's Base Salary for the Fiscal Year. Executive's Target Bonus shall be further subject to a Performance Bonus Modifier adjustment of 0% to 150% of Target Bonus to determine Executive's Actual Bonus. Such adjustment shall be based on the Performance Criteria for each such Fiscal Year, as recommended by the person(s) to whom Executive reports and reviewed and approved by the Committee. A draft of the Performance Criteria for the Fiscal Year beginning November 1, 2004 is attached as Exhibit I. Performance Criteria for each year will be finalized and delivered to Executive within 30 days after the beginning of each Fiscal Year.
 - i. At any time the Committee reserves the right to further adjust the Performance Criteria in the event of a Significant Transaction (as defined below) during a Fiscal Year and/or for any unanticipated and material events that are beyond the control of the Company, including but not limited to acts of god, nature, war or terrorism, or changes in the rules for financial reporting set forth by the Financial Accounting Standards Board, the Securities and Exchange Commission, and/or the New York Stock Exchange or for any other reason which the Committee determines, in good faith, to be appropriate. For purposes of this Agreement, the term "Significant Transaction" shall mean the Company's acquisition or disposition of a business or assets which the Company is required to report under Item 2 of the SEC Form 8-K.
 - ii. The Company shall pay Executive the Actual Bonus for the Fiscal Year following completion of the audit of the Company's financial statements and approval by the Committee, but no later than seventy-five (75) days after the end of each Fiscal Year. The Company in its sole discretion may pay any Actual Bonus or prorated Target Bonus earlier. In the event of Modification or Termination of employment hereunder, the Company shall pay Executive the prorated portion of the Target Bonus based on the fraction of the Fiscal Year that has been completed prior to the date of Modification or Termination.
 - iii. Absent bad faith or material error, the conclusions of the Committee with respect to the Performance Criteria or the Actual Bonus, shall be final and binding upon Executive and Company.

Corp Exec Officer

INITIALS: EXECUTIVE WTP COMPANY DMD

- iv. Executive's maximum Actual Bonus for each Fiscal Year shall be one hundred percent (100%) of the Base Salary as determined pursuant to this Agreement. In the event of modification or termination of employment hereunder, Executive's prorated Target Bonus shall not exceed such percent of prorated Base Salary.
- v. Notwithstanding the foregoing, no Bonus for any Fiscal Year of the Company shall be payable unless the Company's EPS for the Fiscal Year then ending is equal to or greater than eighty percent (80%) of the Company's EPS for the previous Fiscal Year of the Company, in each case excluding gains and losses from sales of discontinued operations and any income included in the Company's receipt of insurance proceeds or other compensation or damages due to the Company's loss of property, business or profits as a result of the destruction of the World Trade Center on September 11, 2001.
- c. Nothing contained in this Agreement shall entitle Executive to receive a bonus or other incentive or contingent compensation from Company based on any sales or profits made by Company after termination of the Initial or Extended Term of this Agreement or of employment hereunder.
- d. Notwithstanding any other provision hereof, the Committee may, prior to the beginning of any Fiscal Year, approve and notify the Executive of a modification to the Target Bonus or the Performance Bonus Modifier (either higher or lower), based on such performance and financial measures and other factors as the Committee shall determine in its sole discretion. The Committee's decision in this regard shall be deemed final and binding on Executive regardless of the amount of Target or Actual Bonus otherwise calculated pursuant to the foregoing provisions. In addition, the Committee reserves the option at any time to grant a discretionary incentive bonus, which shall not be subject to the maximum Bonus provisions described in paragraph X.2.b.iv. above.

Y. SCOPE OF CERTAIN PROVISIONS: All references to Company in Paragraphs H, J, K, L, O.3 and R in this Agreement shall include Company, and its subsidiary corporations and other Company affiliates.

Z. ENTIRE AGREEMENT: Unless otherwise specified herein, this Agreement and Executive's Offer Letter dated March 8, 2004 set forth every contract, understanding and arrangement as to the employment relationship between Executive and Company, and may only be changed by a written amendment signed by both Executive and Company.

1. The parties intend that this Agreement speak for itself, and that no evidence with respect to its terms and conditions other than this Agreement itself may be introduced in any arbitration or judicial proceeding to interpret or enforce this Agreement.
2. It is specifically understood and accepted that this Agreement and the above-referenced Offer Letter supersede all oral and written employment agreements between Executive and Company prior to the date hereof, as well as all conflicting provisions of Company's Guidelines for Corporate Approval and its Human Resources Manual, including but not limited to the termination, discipline and discharge provisions contained therein.
3. This Agreement may not be amended except in a writing signed by the Executive and Chief Executive Officer and approved by the Company's Board of Directors.

FULL KNOWLEDGE & UNDERSTANDING: Executive and Company hereby acknowledge that they have carefully read and fully understand all terms and conditions of this Agreement, that they have been given an opportunity to review all aspects of this Agreement with an attorney if they so choose, and that they are voluntarily entering into this Agreement with full knowledge of the benefits and burdens, and the risks and rewards, contained herein.

Corp Exec Officer

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IN WITNESS WHEREOF, Executive and an officer and Director of the Company have executed this Agreement as of the date set forth above:

Executive: Signature: /s/ W. T. Petty

Date: 4/1/04

Company: **ABM Industries Incorporated**

Date: 5/3/04

Signature: /s/ Henrik C. Slipsager

Title: CEO

Signature: /s/ Donna M. Dell

Title: Sr. V.P. of Human Resources

Corp Exec Officer

INITIALS: EXECUTIVE WTP COMPANY DMD

Name of Executive: W.T. (Terry) Petty

**2004 EXECUTIVE PERFORMANCE BONUS MODIFIERS
RATINGS AND CALCULATION SHEET
ABM EXECUTIVE OFFICERS**

Circle one rating in each category	Unsatisfactory		Needs Improvement		Meets Requirements		Exceeds Requirements		Superior Performance
	1	2	3	4	5	6	7	8	9
COMPANY OBJECTIVES									
I. FINANCIAL RESULTS AND BUDGETING									
II. INTERNAL CONTROLS AND PROCEDURES									
III. DIVISIONAL OPERATIONS PERSONAL OBJECTIVES									
IV. LEADERSHIP									
V. MANAGEMENT SUCCESSION PLANNING									
TOTAL RATING SCORE:	0								

42 — 45 points = 150% of Target Bonus
 39 — 41 points = 140% of Target Bonus
 36 — 38 points = 130% of Target Bonus
 33 — 35 points = 120% of Target Bonus
 30 — 32 points = 110% of Target Bonus
 27 — 29 points = 100% of Target Bonus
 24 — 26 points = 90% of Target Bonus
 21 — 23 points = 80% of Target Bonus
 19 — 20 points = 70% of Target Bonus
 17 — 18 points = 60% of Target Bonus
 15 — 16 points = 50% of Target Bonus
 >15 points = 0% of Target Bonus

 Reviewer's Signature

Corp Exec Officer

INITIALS: EXECUTIVE WTP COMPANY DMD

EXHIBIT 10.24

CORPORATE EXECUTIVE EMPLOYMENT AGREEMENT

THIS CORPORATE EXECUTIVE EMPLOYMENT AGREEMENT (“Agreement”) is made effective as of November 1, 2004, by and between **(Executive)** (“Executive”) and **ABM Industries Incorporated** (“Company”) for itself and on behalf of its subsidiary corporations as applicable herein.

WHEREAS, Company is engaged in the building maintenance and related service businesses, and

WHEREAS, Executive is experienced in the administration, finance, marketing, and/or operation of such services, and

WHEREAS, Company has invested significant time and money to develop proprietary trade secrets and other confidential business information, as well as invaluable goodwill among its customers, sales prospects and employees, and

WHEREAS, Executive wishes to, or has been and desires to remain employed by Company, and to utilize such proprietary trade secrets, other confidential business information and goodwill, and

WHEREAS, Company has disclosed or will disclose to Executive such proprietary trade secrets and other confidential business information which Executive will utilize in the performance of this Agreement;

NOW THEREFORE, Executive and Company agree as follows:

A. EMPLOYMENT: Company hereby agrees to employ Executive, and Executive hereby accepts such employment, on the terms and conditions set forth in this Agreement.

B. TITLE: Executive’s title shall be **(Title)**, subject to modification as determined by the Company’s Board of Directors.

C. DUTIES & RESPONSIBILITIES: Executive shall be expected to assume and perform such executive or managerial duties and responsibilities as are assigned from time-to-time by the Company’s **(Title)** or his or her designee, to whom Executive shall report and be accountable.

D. TERM OF AGREEMENT: Employment hereunder shall be deemed effective as of November 1, 2004, for a term of two years (“Initial Term”), unless sooner terminated pursuant to Paragraph O hereof, or later extended pursuant to Paragraph N hereof (“Extended Term”).

F. PRINCIPAL OFFICE: During the Initial Term and any Extended Term, as applicable, of this Agreement, Executive shall be based at a Company office located in **(City)** in the state of **(State)** a (“State of Employment”), or such other location as shall be mutually agreed upon by Company and Executive.

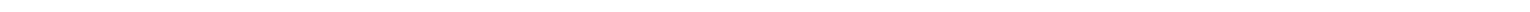
F. COMPENSATION: Company agrees to compensate Executive, and Executive agrees to accept as compensation in full, for Executive’s assumption and performance of duties and responsibilities pursuant to this Agreement:

1. **SALARY:** A salary paid in equal installments of no less frequently than semi-monthly at the annual rate set forth in Paragraph X.1 hereof.

2. **BONUS:** A bonus or other incentive or contingent compensation, if any, pursuant to Paragraph X.2 hereof.

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____



3. **FRINGE BENEFITS:** Executive shall receive the then current fringe benefits generally provided by Company to all of its Executives. Such benefits may include but not be limited to the use of a Company-leased car or a car allowance, group health benefits, long-term disability benefits, group life insurance, sick leave and vacation. Each of these fringe benefits is subject to the applicable Company policy at all times. Executive expressly agrees that should he or she terminate employment with Company for the purpose of being re-employed by a Company affiliate, he or she shall "carry-over" any previously accrued but unused vacation balance to the books of the affiliate.

Company reserves the right to add, increase, reduce or eliminate any fringe benefit at any time, but no such benefit or benefits shall be reduced or eliminated as to Executive unless generally reduced or eliminated as to comparable executives within the Company.

G. PAYMENT OR REIMBURSEMENT OF BUSINESS EXPENSES: Company shall pay directly or reimburse Executive for reasonable business expenses of Company incurred by Executive in connection with Company business, and approved in writing by the person(s) to whom Executive reports pursuant to Paragraph C hereof, upon presentation to such person(s) by Executive within sixty (60) days after incurring such expense of an itemized request for payment including the date, nature, recipient, purpose and amount of each such expense, accompanied by receipts for all such expenses in accordance with Company policy.

H. BUSINESS CONDUCT: Executive shall comply with all applicable laws pertaining to the performance of this Agreement, and with all lawful and ethical rules, regulations, policies, codes of conduct, procedures and instructions of Company, including but not limited to the following:

1. **GOOD FAITH:** Executive shall not act in any way contrary to the best interest of Company. Executive agrees that if he or she is approached by any person to discuss a possible acquisition or other transaction that could result in a change of control of the Company, Executive will immediately advise the Company's General Counsel and Chair of the Nominating, Governance and Succession Committee of the Board of Directors.
2. **BEST EFFORTS:** During all full-time employment hereunder, Executive shall devote full working time and attention to Company. Notwithstanding any other agreement to the contrary, Executive shall not at any time be directly or indirectly employed by, own, operate, assist or otherwise be involved, invested or associated in any business that is similar or competitive to any business of Company; except that Executive may own up to five percent (5%) of such publicly-held business(es), provided that Executive: (a) shall give Company notice(s) of any such ownership exceeding two percent (2%), in accordance with Paragraph W hereof, and (b) shall not at any time be directly or indirectly employed by or operate, assist, or otherwise be involved or associated with any such business(es).
3. **VERACITY:** Executive shall make no claims or promises to any employee, supplier, contractor, customer or sales prospect of Company that are unauthorized by Company or are in any way untrue.
4. **DRIVER'S LICENSE:** Executive shall have a driver's permit issued by Company and shall carry a valid driver's license issued by his or her state of domicile or the State of Employment hereunder whenever Executive is driving any motor vehicle in connection with Company business. Executive agrees to immediately notify Company in writing if Executive's driver's license is lost, expired, restricted, suspended or revoked for any reason whatsoever.
5. **CODE OF CONDUCT:** Executive agrees to fully comply with and annually execute a certification of compliance with the Company's Code of Business Conduct and Ethics.

I. NO CONFLICT: Executive represents to Company that Executive is not bound by any contract with a previous employer or with any other business that might prevent Executive from entering into this

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____

Agreement. Executive further represents that he or she is not bound by any other contracts or covenants that in any way restrict or limit Executive's activities in relation to his or her employment with Company that have not been fully disclosed to Company prior to the signing of this Agreement.

J. COMPANY PROPERTY: Company shall, from time to time, entrust to the care, custody and control of Executive certain of Company's property, such as motor vehicles, equipment, supplies, passwords and documents. Such documents may include, but shall not be limited to customer lists, financial statements, cost data, price lists, invoices, forms, electronic files and media, mailing lists, contracts, reports, manuals, personnel files or directories, correspondence, business cards, copies or notes made from Company documents and documents compiled or prepared by Executive for Executive's use in connection with Company business. Executive specifically acknowledges that all such items, including passwords and documents, are the property of Company, notwithstanding their preparation, care, custody, control or possession by Executive at any time(s) whatsoever.

K. GOODWILL & PROPRIETARY INFORMATION: In connection with Executive's employment hereunder:

1. Executive agrees to utilize and further Company's goodwill ("Goodwill") among its customers, sales prospects and employees, and acknowledges that Company may disclose to Executive and Executive may disclose to Company, proprietary trade secrets and other confidential information not in the public domain ("Proprietary Information") including but not limited to specific customer data such as: (a) the identity of Company's customers and sales prospects, (b) the nature, extent, frequency, methodology, cost, price and profit associated with its services and products purchased from Company, (c) any particular needs or preferences regarding its service or supply requirements, (d) the names, office hours, telephone numbers and street addresses of its purchasing agents or other buyers, (e) its billing procedures, (f) its credit limits and payment practices, and (g) its organization structure.
2. Executive agrees that such Proprietary Information and Goodwill have unique value to Company, are not generally known or readily available to Company's competitors, and could only be developed by others after investing significant time and money. Company would not make such Proprietary Information and Goodwill available to Executive unless Company is assured that all such Proprietary Information and Goodwill will be held in trust and confidence by Executive. Executive hereby acknowledges that to use this Proprietary Information and Goodwill except for the benefit of Company would be a breach of such trust and confidence and in violation of Executive's common law Duty of Loyalty to the Company.

L. RESTRICTIVE COVENANTS: In recognition of Paragraph K, above, Executive hereby agrees that during the Initial Term and the Extended Term, if any, of this Agreement, and thereafter as specifically agreed herein:

1. Except in the proper performance of this Agreement, Executive shall at no time directly or indirectly solicit or otherwise encourage or arrange for any employee to terminate employment with Company while employed by the Company and for a period of one (1) year following Executive's termination of employment.
2. Except in the proper performance of this Agreement, Executive shall not directly or indirectly disclose or deliver to any other person or business, any Proprietary Information obtained directly or indirectly by Executive from, or for, Company.
3. Executive agrees that at all times after the termination of this Agreement, Executive shall not seek, solicit, divert, take away, obtain or accept the patronage of any customer or sales prospect of Company through the direct or indirect use of any Proprietary Information of Company, or by any other unfair or unlawful business practice.

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____

- 4. Executive agrees that for a reasonable time after the termination of this Agreement, which Executive and Company hereby agree to be one (1) year, Executive shall not directly or indirectly, for Executive or for any other person or business, seek, solicit, divert, take away, obtain or accept any customer account or sales prospect with which Executive had direct business involvement on behalf of Company within the one (1) year period prior to termination of this Agreement.
- 5. Nothing in this Agreement shall be binding upon the parties to the extent it is void or unenforceable for any reason in the State of Employment, including, without limitation, as a result of any law regulating competition or proscribing unlawful business practices.

M. MODIFICATION OF EMPLOYMENT: At any time during the then current Initial or Extended Term, as applicable, of this Agreement, a majority of the Board of Directors of Company shall have the absolute right, with or without cause and without terminating this Agreement or Executive’s employment hereunder, to modify the nature of Executive’s employment for the remainder of the then current Initial or Extended Term, as applicable, of this Agreement, from that of a full-time employee to that of a part-time employee (“Modification Period”). The Modification Period shall commence immediately upon Company giving Executive written notice of such change.

- 1. Upon commencement of the Modification Period: (a) Executive shall immediately resign as a full-time employee of Company and as an officer and/or director of Company and of any Company subsidiaries, as applicable, (b) Executive shall promptly return all Company property in Executive’s possession to Company, including but not limited to any motor vehicles, equipment, supplies and documents set forth in Paragraph J hereof, and (c) Company shall pay Executive when due all previously earned and vested but as yet unpaid, salary, prorated Target Bonus as determined pursuant to Paragraph X.2 or other contingent compensation, reimbursement of business expenses and fringe benefits.
- 2. During the Modification Period: (a) Company shall continue to pay Executive’s monthly salary pursuant to Paragraph F.1 hereof, and to the extent available under the Company’s group insurance policies, continue to provide Executive with the same group health and life insurance (subject to Executive continuing to pay the employee portion of any such premium) to which Executive would be entitled as a full-time employee, with the understanding and agreement that such monthly salary and group insurance, if available, shall constitute the full extent of Company’s obligation to compensate Executive, (b) Executive shall not be eligible or entitled to receive or participate in any bonus or fringe benefits other than the aforementioned group insurance, if available, (c) in the alternative, Executive may exercise rights under COBRA to obtain medical insurance coverage as may be available to Executive, (d) Executive shall be deemed a part-time employee and not a full-time employee of Company, (e) Executive shall provide Company with such occasional executive or managerial services as reasonably requested by the person(s) to whom Executive reports pursuant to Paragraph C hereof, except that failure to render such services by reason of any physical or mental illness or disability other than Total Disability or death as set forth in Paragraph O.2 hereof, or unavailability because of absence from the State of Employment hereunder, shall not affect Executive’s right to receive such salary and (f) Company shall pay directly or reimburse Executive in accordance with the provisions of Paragraph G hereof for reasonable business expenses of Company incurred by Executive in connection with such services requested by the person(s) to whom Executive reports pursuant to Paragraph C hereof.
- 3. The Modification Period shall continue until the earlier of: (a) Total Disability or death as set forth in Paragraph O.2 hereof, (b) termination of this Agreement by Company for “just cause” as hereinafter defined, (c) Executive accepting employment or receiving any other compensation from operating, assisting or otherwise being involved, invested or associated with any business that is similar to or competitive with any business in which Company is engaged on the commencement date of the Modification Period, or (d) expiration of the then current Term of this Agreement.

N. EXTENSION OF EMPLOYMENT:

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____



1. Absent at least ninety (90) days written Notice of Termination of Employment or Notice of Non-Renewal from Company to Executive prior to expiration of the then current Initial or Extended Term, as applicable, of this Agreement, employment hereunder shall continue for an Extended Term (or another Extended Term, as applicable) of one year, by which Executive and Company intend that all terms and conditions of this Agreement shall remain in full force and effect for another twelve (12) months, except that the base salary specified in Paragraph X.1.a may be increased as set forth in Paragraph X.1.b during the Extended Term.
2. In the event that Notice of Non-Renewal is given ninety (90) days prior to the expiration of the then Initial or Extended Term, as applicable, of this Agreement, employment shall continue on an "at will" basis following the expiration of such Initial or Extended Term. In such event, Company shall have the right to change the terms and conditions of Executive's employment, including but not limited to Executive's position and/or compensation.

O. TERMINATION OF EMPLOYMENT:

1.
 - a. Termination Upon Expiration Of Term. Subject to at least ninety (90) days prior written Notice of Termination of Employment, Executive's employment shall terminate, with or without cause, at the expiration of the then current Initial or Extended Term. Company has the option, without terminating this Agreement, of placing Executive on a leave of absence at the full compensation set forth in Paragraph F hereof, for any or all of such notice period.
 - b. Termination For Cause. Except as provided in Paragraph O.1.a, the Company shall have the right to terminate Executive's employment hereunder at any time during the then current Initial or Extended Term, as applicable, of this Agreement, without notice subject only to a good faith determination by a majority of the Board of Directors of Company of "just cause." "Just cause" includes but is not limited to any (i) theft or dishonesty (ii) more than one instance of neglect or failure to perform employment duties, (iii) more than one instance of inability or unwillingness to perform employment duties, (iv) insubordination, (v) abuse of alcohol or other drugs or substances affecting Executive's performance of his or her employment duties, (vi) material and willful breach of this Agreement; (vii) other misconduct, unethical or unlawful activity, or for (vii) a conviction of or plea of "guilty" or "no contest" to a felony under the laws of the United States or any state thereof.
 - c. Voluntary Termination By Executive. At any time during the then current Initial or Extended Term, as applicable, of this Agreement and with or without cause, Executive may terminate employment hereunder by giving Company ninety (90) days prior written notice.
2. Employment hereunder shall automatically terminate upon the total disability ("Total Disability") or death of Executive. Total Disability shall be deemed to occur on the ninetieth (90th) consecutive or non-consecutive calendar day within any twelve (12) month period that Executive is unable to perform the duties set forth in Paragraph C hereof because of any physical or mental illness or disability. Company shall pay when due to Executive or, upon death, Executive's designated beneficiary or estate, as applicable, all prorated salary, prorated Target Bonus as determined pursuant to Paragraph X.2 or other contingent compensation, reimbursement of business expenses and fringe benefits which would have otherwise been payable to Executive under this Agreement, through the end of the month in which Total Disability or death occurs.
3. Upon termination of employment hereunder, Executive shall immediately resign as an employee of Company and as an officer and/or director of Company and of any Company subsidiaries, as applicable. Executive shall promptly return and release all Company property in Executive's possession to Company, including but not limited to, any motor vehicles, equipment, supplies,

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____

passwords and documents set forth in Paragraph J hereof. Company shall pay Executive, when due, all previously earned and vested but as yet unpaid, salary, prorated Target Bonus, as determined pursuant to Paragraph X.2 or other contingent compensation, reimbursement of business expenses and fringe benefits.

P. GOVERNING LAW: This Agreement shall be interpreted and enforced in accordance with the laws of the State of Employment hereunder.

Q. ARBITRATION CLAUSE:

1. Except for the interpretation and enforcement of injunctive relief pursuant to Paragraph R hereof (which shall be subject to litigation in any court having proper jurisdiction), any claim or dispute related to or arising from this Agreement (whether based in contract or tort, in law or equity) including, but not limited to, claims or disputes between Executive and Company or its directors, officers, employees and agents regarding Executive’s employment or termination of employment hereunder, or any other business of Company, shall be resolved by a neutral arbitrator agreed upon by both parties, through mandatory, final, binding arbitration in accordance with the procedural and discovery rules of the American Arbitration Association.
2. The cost of such arbitration shall be borne by the Company. Any such arbitration must be requested in writing within one (1) year from the date the party initiating the arbitration knew or should have known about the claim or dispute, or all claims arising from that dispute are forever waived. Any such arbitration (or court proceeding as applicable hereunder) shall be held in the city and/or county of employment hereunder. Judgment upon the award rendered through such arbitration may be entered and enforced in any court having proper jurisdiction.

R. REMEDIES & DAMAGES:

1. The parties agree that, in the event of a material breach or threatened material breach of Paragraphs K and/or L hereof, the damage or imminent damage to the value of Company’s business shall be impractical and/or impossible to estimate or ascertain, and therefore any remedy at law or in damages shall be inadequate. Accordingly, the parties hereto agree that Company shall be entitled to the immediate issuance of a restraining order or an injunction against Executive in the event of such breach or threatened breach, in addition to any other relief available to Company pursuant to this Agreement or under law.
2. Executive agrees that damages resulting from any such breach which involves any customer of Company shall be the actual damages according to proof, as determined by an arbitrator pursuant to Paragraph Q, above.
3. To the full extent permitted under the laws of the State of Employment hereunder, Executive authorizes Company to withhold from any severance payments otherwise due to Executive and from any other funds (other than wages) held for Executive’s benefit by Company, any damages or losses sustained by Company as a result of any material breach or other material violation of this Agreement by Executive, pending arbitration between the parties as provided for herein.

S. NO WAIVER: Failure by either party to enforce any term or condition of this Agreement at any time shall not preclude that party from enforcing that provision, or any other provision of this Agreement, at any later time.

T. SEVERABILITY: The provisions of this Agreement are severable. If any arbitrator (or court as applicable hereunder) rules that any portion of this Agreement is invalid or unenforceable, the arbitrator’s or court’s ruling shall not affect the validity and enforceability of other provisions of this Agreement. It is the intent of the parties that if any provision of this Agreement is ruled to be overly broad, the arbitrator or court shall

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____



interpret such provision with as much permissible breadth as is allowable under law rather than to consider such provision void.

U. SURVIVAL: All terms and conditions of this Agreement which by reasonable implication are meant to survive the termination of this Agreement, including but not limited to the Restrictive Covenants and Arbitration Clause herein, shall remain in full force and effect after the termination of this Agreement.

V. REPRESENTATIONS: Executive represents and agrees that he or she has carefully read and fully understands all of the provisions of this Agreement, that he or she is voluntarily entering into this Agreement and has been given an opportunity to review all aspects of this Agreement with an attorney, if he or she chooses to do so.

W. NOTICES:

1. Any notice required or permitted to be given pursuant to this Agreement shall be in writing and delivered in person, or sent prepaid by certified mail, bonded messenger or overnight express, to the party named at the address set forth below or at such other address as either party may hereafter designate in writing to the other party:

Executive:	(Executive name) (Home address) (City, State ZIP)
Company:	ABM Industries Incorporated 160 Pacific Avenue, Suite 222 San Francisco, CA 94111 Attention: Chief Executive Officer

Copy:	ABM Industries Incorporated 160 Pacific Avenue, Suite 222 San Francisco, CA 94111 Attention: Chief Employment Counsel
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2. Any such Notice shall be assumed to have been received when delivered in person, or forty-eight (48) hours after being sent in the manner specified above.

X. SPECIAL PROVISIONS:

1. BASE SALARY:
 - a. **(Salary amount, spelled out)** Dollars **(\$000,000)** per year effective November 1, 2004 through October 31, 2005 at the monthly rate of **\$00,000** payable semi-monthly.
 - b. Effective November 1, 2004 and at the beginning of each Fiscal Year thereafter, Executive shall be eligible, at the sole discretion of the Company, to receive a merit increase based on Executive's job performance.
 - c. At the sole discretion of the Company's Board of Directors (the "Approving Authority") the Company may, at any time, grant a compensation adjustment for reasons deemed appropriate, including but not limited to a change in Executive's duties resulting in a material increase in responsibility.
2. BONUS: Subject to proration in the event of modification or termination of employment hereunder, Executive shall be entitled to participate in the Company's incentive compensation plan which

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____

provides for a performance-based bonus (“Bonus”) contingent on the achievement of personal and Corporate objectives for each Fiscal Year, or partial Fiscal Year, of employment hereunder during the Initial Term, and during the Extended Term, if any, of this Agreement, as follows:

- a. A target bonus for this Fiscal Year shall be established equal to **(percentage)**% of the Executive’s actual base salary as established at the beginning of the Fiscal Year for each Fiscal Year (the “Target Bonus”). Executive’s Target Bonus shall be further subject to an Executive Performance Bonus Modifier adjustment of 0% to 150% of the Target Bonus to determine Executive’s Actual Bonus. Such adjustment shall be based on Performance Criteria contained in the annual Executive Performance Bonus Modifier Recommendation Calculation Worksheet (see copy attached as Exhibit I) as recommended by the person(s) to whom Executive reports and reviewed and approved by the Approving Authority designated in subparagraph X.1.c., above.
 - i. At any time the Approving Authority or its designee reserves the right to further adjust the Performance Criteria in the event of a Significant Transaction (as defined below) during a Fiscal Year and/or for any unanticipated and material events that are beyond the control of the Company, including but not limited to acts of god, nature, war or terrorism, or changes in the rules for financial reporting set forth by the Financial Accounting Standards Board, the Securities and Exchange Commission, and/or the New York Stock Exchange or for any other reason which the Approving Authority determines, in good faith, to be appropriate. For purposes of this Agreement, the term “Significant Transaction” shall mean the acquisition or disposition of a business or assets which ABM Industries Incorporated is required to report under Item 2 of the SEC Form 8-K.
 - ii. The Company shall pay Executive the Actual Bonus for the Fiscal Year following completion of the audit of the ABM Industries Incorporated financial statements and approval by the Approving Authority, but no later than seventy-five (75) days after the end of each Fiscal Year. The Company in its sole discretion may pay any prorated Target Bonus earlier. In the event of modification or termination of employment hereunder, the Company shall pay Executive the prorated portion of the Target Bonus based on the fraction of the Fiscal Year that has been completed prior to the date of Modification or Termination.
 - iii. Absent bad faith or material error, the conclusions of the Approving Authority or its designee with respect to the Performance Criteria or Actual Bonus shall be final and binding on Executive and Company.
- b. Nothing contained in this Agreement shall entitle Executive to receive a bonus or other incentive or contingent compensation from Company based on any sales or profits made by Company after termination of the Initial or Extended Term of this Agreement or of employment hereunder.
- c. Notwithstanding any other provision hereof, the Approving Authority designated in subparagraph X.1.c., above, may, prior to the beginning of any Fiscal Year, approve and notify the Executive of a modification to the Target Bonus percentage determined hereunder (either higher or lower), based on such performance and financial measures and other factors as it shall determine in its sole discretion. Any decision in this regard shall be deemed final and binding on Executive regardless of the amount of Target or Actual Bonus otherwise calculated pursuant to the foregoing provisions. In addition, the Approving Authority reserves the option at any time to grant a discretionary incentive bonus, which shall not be subject to the maximum Bonus provisions described in Paragraph X.2.a., above.

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____

Y. SCOPE OF CERTAIN PROVISIONS: All references to Company in Paragraphs H, J, K, L, O.3, R and Z in this Agreement shall include ABM Industries Incorporated and its subsidiary corporations and other affiliates.

Z. ENTIRE AGREEMENT: Unless otherwise specified herein, this Agreement sets forth every contract, understanding and arrangement as to the employment relationship between Executive and Company, and may only be changed by a written amendment signed by both Executive and Company.

1. The parties intend that this Agreement speak for itself, and that no evidence with respect to its terms and conditions other than this Agreement itself may be introduced in any arbitration or judicial proceeding to interpret or enforce this Agreement.
2. It is specifically understood and accepted that this Agreement supersedes all oral and written employment agreements between Executive and Company prior to the date hereof, as well as all conflicting provisions of Company's Guidelines for Corporate Approval and its Human Resources Manual, including but not limited to the termination, discipline and discharge provisions contained therein.
3. This Agreement may not be amended except in a writing signed by the Executive and Chief Executive Officer and approved by the Company's Board of Directors.

FULL KNOWLEDGE & UNDERSTANDING: Executive and Company hereby acknowledge that they have carefully read and fully understand all terms and conditions of this Agreement, that they have been given an opportunity to review all aspects of this Agreement with an attorney if they so choose, and that they are voluntarily entering into this Agreement with full knowledge of the benefits and burdens, and the risks and rewards, contained herein.

IN WITNESS WHEREOF, Executive and an Officer and Director of the Company have executed this Agreement as of the date set forth above:

Executive:	Signature:	_____
	Date:	_____
Company:	ABM Industries Incorporated	
	Date:	_____
	Signature:	_____
	Title:	_____
	Signature:	_____
	Title:	_____

Corp Exec Officer

INITIALS: EXECUTIVE _____ COMPANY _____



Name of Executive: _____

**2005 EXECUTIVE PERFORMANCE BONUS MODIFIER RECOMMENDATION
CALCULATION WORKSHEET
CORPORATE OFFICERS**

Circle one rating in each category	Unsatisfactory		Needs Improvement		Meets Requirements		Exceeds Requirements		Superior Performance	Outstanding
I. FINANCIAL PERFORMANCE Represents 50% of Target Bonus (Category rating requires actual earnings minimum of 80% of budget*)	5	7	9	12	15	18	21	24	27	30
CATEGORY I RATING SCORE:	0									
II. OTHER CATEGORIES										
GENERAL MANAGEMENT Employee/Labor Relations Staff Development Recruitment, Retention, Motivation Financial Management Teamwork	1	2	3	4	5	6	7	8	9	10
CUSTOMER RELATIONS/ MARKET DEVELOPMENT	1	2	3	4	5	6	7	8	9	10
COMPLIANCE & ADMINISTRATION	1	2	3	4	5	6	7	8	9	10
CATEGORY II RATING SCORE:	0									

* See 2005 Executive Performance Bonus Indicators

Reviewer's Signature

Completed forms must be forwarded to the ABM Management Committee for review and ABM Industries' President and Chief Executive Officer for approval.

**2005 EXECUTIVE PERFORMANCE BONUS INDICATORS
ABM CORPORATE EXECUTIVE OFFICERS**

I. FINANCIAL PERFORMANCE: Represents 50% of Target Bonus

(Actual earnings [as published in the Company's Form 10-K as filed with the Securities and Exchange Commission] must exceed 80% of the 2005 budget, as approved by the ABM Board of Directors and adjusted for acquisitions, for Executive to receive a Financial Performance Bonus.)

Develops, obtains approval for, and effectively communicates realistic and GAAP compliant financial budgets and forecasts consistent with the approved Company and business unit strategy. Develops and ensures compliance with internal financial controls. Ensures that key financial goals are aggressively pursued. Contributes directly to the achievement of financial goals for the Company and one's area(s) of responsibility. Ensures, to the extent possible, that performance of the Company and one's area(s) of responsibility meets or exceeds budget in all key financial categories, including revenue, expense, and capital management. Effectively manages costs and, where appropriate, vendors and receivables.

Indicators: Timely development and approval of realistic financial goals and plans; understanding and acceptance of financial goals throughout the organization and one's direct span of control; existence of and compliance with effective internal financial controls. Company and business unit performance against budget.

II. OTHER CATEGORIES: Represents 50% of Target Bonus

STRATEGIC LEADERSHIP

Contributes materially to the development, approval, implementation and ongoing evolution of a sound business strategy for the Company and/or one's area(s) of responsibility. Researches concepts and presents new ideas designed to optimize growth, profitability and shareholder value. Effectively communicates the approved strategy both internally and externally, as appropriate, and provides guidance to ensure that the approved strategy is carried out.

Indicators: Agreement among management and approval by the Board of Directors of a defined business strategy; effective translation and communication of the approved strategy to one's area of responsibility and other internal and external constituents, as appropriate; proactive revision of strategy to reflect changing situations; depth of knowledge of one's market, competitors, and trends.

EMPLOYEE LEADERSHIP

1. Employee Relations

Maintains sound relationships with superiors, peers, subordinates and, as appropriate, the Board of Directors. Commands respect and trust while being considered fair and open in dealings with others.

Indicators: Employee complaints; perception among supervisors, peers, subordinates and the Board of Directors.

2. Staff Development

Actively contributes to the development of staff under one's span of control. Provides guidance to subordinates on key issues and makes time to help others. Establishes and communicates goals and expectations. Provides open and honest feedback. Identifies and develops potential successors to key roles.

Indicators: Proactive individual goal-setting and ongoing review process; demonstrated development/improvement of subordinates; effective succession planning.

3. Recruitment, Retention and Motivation

Generates enthusiasm among superiors, subordinates and peers. Directly contributes to creating a performance oriented culture. Identifies and distinguishes top performers. Retains key employees and assists in identifying and recruiting top external talent as needed.

Indicators: Employee retention; positive morale; success in recruiting new talent.

4. Teamwork

Practices open, effective and inclusive communication within one's own span of control and across the Company. Actively seeks ways to build links across the Company with the objective of capitalizing on and sharing "best practices."

Indicators: Development and implementation of procedures and processes that promote the application of "best practices" across the Company and within one's span of control. Perception as a "team player."

COMPLIANCE AND ADMINISTRATION

Ensures compliance with all external regulations and internal guidelines and policies associated with Safety, Employee/Labor Relations and other areas pertaining to the Company's various businesses. Ensures management policies and reports effectively address key issues. Provides for open channels of communication to ensure that appropriate individuals, both internally and externally, are notified in a timely manner in the event of compliance or other related issues. Achieves certification of Internal Controls for Sarbanes-Oxley Section 404.

Indicators: Volume and severity of labor/employee relations or other compliance issues; effective handling of such issues as they arise; timely and proper reporting of such issues.

EXHIBIT 21.1

SUBSIDIARIES OF REGISTRANT
as of October 31, 2004

Name	State of Incorporation	Percentage of Voting Securities Owned by Immediate Parent
ABM Industries Incorporated	Delaware	Registrant
(*) ABM Amtech Incorporated	California	100%
ABM Co. of Boston	California	100%
ABM Engineering Services Company	California	100%
ABM Facility Services Company	California	100%
ABM Family Fund Corporation	California	n/a
ABM Global Facility Services	California	100%
International Technology Facility Services, LLC	California	50%
ABM Industries Charitable Foundation	California	n/a
ABM Janitorial Northeast, Inc.	California	100%
ABM Janitorial Services — Northern California	California	100%
ABM Janitorial Services Co., Ltd.	Brit. Columbia	100%
ABM Lakeside, Inc.	California	100%
ABM Mid-Atlantic, Inc.	California	100%
ABM Payroll Service, Inc.	California	100%
ABM Security Services, Inc.	California	100%
ABM Supply Company	California	100%
ABMI Investment Co. ***	California	100%
American Building Maintenance Co.	California	100%
American Building Maintenance Co. of Georgia	California	100%
American Building Maintenance Co. of Hawaii**	California	100%
Allied Maintenance Services, Inc.	Hawaii	100%
American Building Maintenance Co. of Illinois	California	100%
American Building Maintenance Co. of Kentucky	California	100%
American Building Maintenance Co. of New York	California	100%
American Building Maintenance Co. of New York — Manhattan	California	100%
American Building Maintenance Co. of Utah**	California	100%
American Building Maintenance Co. — West	California	100%
American Public Services	California	100%
American Commercial Security Services of New York, Inc.	California	100%
American Security and Investigative Services, Inc.	California	100%
ABMI Security Services, Inc.	California	100%
American Commercial Security Services, Inc.	California	100%
Ampco — M	California	99%
Ampco System Parking	California	100%
Amtech Energy Services**	California	100%
Amtech Lighting & Electrical Services	California	100%
Amtech Lighting Services	California	100%
Amtech Lighting Services of the Midwest	California	100%
Amtech Reliable Elevator Company of Texas**	Texas	100%
Beehive Parking, Inc.**	Utah	100%
Bonded Maintenance Company	Texas	100%
Bradford Building Services, Inc.	California	100%
Canadian Building Maintenance Company, Ltd.	Brit. Columbia	100%
Supreme Building Maintenance, Ltd.	Brit. Columbia	100%
CommAir Mechanical Services	California	100%
Commercial Air Conditioning of Northern California, Inc.	California	100%
Commercial Property Services, Inc.	California	100%
Pansini Oakland Associates ***	California	90%
Servall Services, Inc.	Texas	100%
SSA Security, Inc.	California	100%
Elite Security, Inc.	California	100%
System Parking, Inc.	California	100%
Towel and Linen Service, inc.**	California	100%

(*) Subsidiary relationship to registrant or to subsidiary parents shown by progressive indentation.

** Inactive companies

*** A Limited Partnership

CONSENT OF THE INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of Directors
ABM Industries Incorporated:

We consent to incorporation by reference in the following Registration Statements on Form S-8 of ABM Industries Incorporated of our report dated December 7, 2004, relating to the consolidated balance sheets of ABM Industries Incorporated and subsidiaries as of October 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended October 31, 2004, and related financial statement Schedule II, which report appears in the October 31, 2004, annual report on Form 10-K of ABM Industries Incorporated.

Our report refers to the Company restating its consolidated financial statements as of October 31, 2003 and for each of the years in the two-year period ended October 31, 2003.

<u>Registration No.</u>	<u>Form</u>	<u>Plan</u>
333-78423	S-8	"Age-Vested" Career Stock Option Plan
333-78421	S-8	"Time-Vested" Incentive Stock Option Plan
333-48857	S-8	Long-Term Senior Executive Stock Option Plan
333-85390	S-8	2002 Price-Vested Performance Stock Option Plan
333-116487	S-8	2004 Employee Stock Purchase Plan

/s/ KPMG LLP

KPMG LLP

San Francisco, California

January 14, 2005

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)**

I, Henrik C. Slipsager, certify that:

1. I have reviewed this annual report on Form 10-K of ABM Industries Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 14, 2005

/s/ Henrik C. Slipsager
Henrik C. Slipsager
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)**

I, George B. Sundby, certify that:

1. I have reviewed this annual report on Form 10-K of ABM Industries Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 14, 2005

/s/ George B. Sundby

George B. Sundby
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATIONS PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(b) OR 15d-14(b) AND
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of ABM Industries Incorporated (the "Company") on Form 10-K for the year ended October 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Henrik C. Slipsager, Chief Executive Officer of the Company, and George B. Sundby, Chief Financial Officer of the Company, each certifies for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 14, 2005

/s/ Henrik C. Slipsager
Henrik C. Slipsager
Chief Executive Officer
(Principal Executive Officer)

January 14, 2005

/s/ George B. Sundby
George B. Sundby
Chief Financial Officer
(Principal Financial Officer)