# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D. C. 20549**

# FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **January 31, 2003**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file Number **1-8929**

# ABM INDUSTRIES INCORPORATED

(Exact name of registrant as specified in its charter)

| **Delaware** | **94-1369354** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**160 Pacific Avenue, Suite 222, San Francisco, California 94111**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **415/733-4000**

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 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 [x] No [ ]

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

Number of shares of common stock outstanding as of February 28, 2003: 48,939,828.

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**ABM Industries Incorporated**

**Form 10-Q**
**For the three months ended January 31, 2003**

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
(In thousands except share amounts)

| | January 31, 2003 | October 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 11,152 | $ 19,427 |
| Trade accounts receivable, net | 319,225 | 318,376 |
| Inventories | 29,465 | 30,055 |
| Deferred income taxes | 29,460 | 30,002 |
| Prepaid expenses and other current assets | 42,785 | 39,925 |
| Total current assets | 432,087 | 437,785 |
| **Investments and long-term receivables** | 14,394 | 14,952 |
| **Property, plant and equipment, at cost** | | |
| Land and buildings | 5,118 | 5,114 |
| Transportation equipment | 14,296 | 14,245 |
| Machinery and other equipment | 75,400 | 73,001 |
| Leasehold improvements | 14,640 | 14,428 |
| | 109,454 | 106,788 |
| Less accumulated depreciation and amortization | (72,959) | (70,522) |
| Property, plant and equipment, net | 36,495 | 36,266 |
| **Goodwill** | 181,216 | 167,916 |
| **Deferred income taxes** | 34,860 | 33,542 |
| **Other assets** | 18,421 | 14,478 |
| Total assets | $717,473 | $704,939 |

(Continued)

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
(In thousands except share amounts)

| | January 31, 2003 | October 31, 2002 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Trade accounts payable | $ 48,725 | $ 51,585 |
| Income taxes payable | 8,947 | 6,579 |
| Accrued liabilities | | |
| Compensation | 58,977 | 62,412 |
| Taxes – other than income | 17,997 | 13,923 |
| Insurance claims | 51,105 | 50,969 |
| Other | 57,018 | 41,622 |
| Total current liabilities | 242,769 | 227,090 |
| **Retirement plans** | 23,670 | 23,791 |
| **Insurance claims** | 69,021 | 67,388 |
| Total liabilities | 335,460 | 318,269 |
| **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; 50,840,000 and 50,397,000 shares issued at January 31, 2003 and October 31, 2002, respectively | 508 | 504 |
| Additional paid-in capital | 156,073 | 151,135 |
| Accumulated other comprehensive loss | (789) | (789) |
| Retained earnings | 259,150 | 259,452 |
| Cost of treasury stock (2,000,000 and 1,400,000 shares at January 31, 2003 and October 31, 2002, respectively) | (32,929) | (23,632) |
| Total stockholders' equity | 382,013 | 386,670 |
| Total liabilities and stockholders' equity | $717,473 | $704,939 |

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

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE THREE MONTHS ENDED JANUARY 31, 2003 AND 2002**
(In thousands except per share amounts)

| | 2003 | 2002 |
|---|---|---|
| **Revenues** | | |
| Sales and other income | $580,626 | $527,552 |
| **Expenses** | | |
| Operating expenses and cost of goods sold | 526,383 | 474,783 |
| Selling, general and administrative | 47,606 | 39,616 |
| Interest | 125 | 265 |
| Total expenses | 574,114 | 514,664 |
| Income before income taxes | 6,512 | 12,888 |
| Income taxes | 2,174 | 4,897 |
| **Net income** | $ 4,338 | $ 7,991 |
| **Net income per common share** | | |
| Basic | $ 0.09 | $ 0.16 |
| Diluted | $ 0.09 | $ 0.16 |
| **Average common and common equivalent shares** | | |
| Basic | 49,053 | 48,966 |
| Diluted | 49,972 | 50,678 |
| **Dividends paid per common share** | $ 0.095 | $ 0.090 |

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

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED JANUARY 31, 2003 AND 2002**
(In thousands)

| | 2003 | 2002 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from customers | $ 577,066 | $ 541,251 |
| Other operating cash receipts | 819 | 1,044 |
| Interest received | 360 | 176 |
| Cash paid to suppliers and employees | (560,193) | (529,559) |
| Interest paid | (39) | (296) |
| Income taxes paid | (199) | (155) |
| Net cash provided by operating activities | 17,814 | 12,461 |
| **Cash flows from investing activities:** | | |
| Additions to property, plant and equipment | (2,670) | (2,181) |
| Proceeds from sale of assets | 211 | 346 |
| Decrease (increase) in investments and long-term receivables | 558 | (515) |
| Purchase of businesses | (14,810) | (3,226) |
| Net cash used in investing activities | (16,711) | (5,576) |
| **Cash flows from financing activities:** | | |
| Common stock issued | 4,559 | 3,987 |
| Common stock purchases | (9,297) | — |
| Dividends paid | (4,640) | (4,415) |
| Increase in bank overdraft | — | 8,986 |
| Repayments of long-term borrowings | — | (10,877) |
| Net cash used in financing activities | (9,378) | (2,319) |
| Net (decrease) increase in cash and cash equivalents | (8,275) | 4,566 |
| Cash and cash equivalents beginning of period | 19,427 | 3,052 |
| **Cash and cash equivalents end of period** | $ 11,152 | $ 7,618 |

(Continued)

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED JANUARY 31, 2003 AND 2002**
(In thousands)

| | 2003 | 2002 |
|---|---|---|
| **Reconciliation of net income to net cash provided by operating activities:** | | |
| Net income | $ 4,338 | $ 7,991 |
| Adjustments: | | |
| Depreciation and intangible amortization | 3,620 | 3,834 |
| Provision for bad debts | 1,534 | 551 |
| Gain on sale of assets | (28) | (68) |
| (Increase) decrease in deferred income taxes | (776) | 223 |
| (Increase) decrease in trade accounts receivable | (2,353) | 14,985 |
| Decrease (increase) in inventories | 590 | (1,603) |
| Increase in prepaid expenses and other current assets | (2,161) | (1,549) |
| (Increase) decrease in other assets | (4,005) | 534 |
| Increase in income taxes payable | 2,751 | 4,520 |
| (Decrease) increase in retirement plans accrual | (121) | 329 |
| Increase in insurance claims liability | 1,769 | 1,552 |
| Increase (decrease) in trade accounts payable and other accrued liabilities | 12,656 | (18,838) |
| Total adjustments to net income | 13,476 | 4,470 |
| **Net cash provided by operating activities** | $17,814 | $ 12,461 |
| **Supplemental data:** | | |
| 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. General

In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments which are necessary to present fairly ABM Industries Incorporated and subsidiaries (the Company) financial position as of January 31, 2003 and the results of operations and cash flows for the three months then ended. These adjustments are of a normal, recurring nature.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Form 10-K for the fiscal year ended October 31, 2002, as filed with the Securities and Exchange Commission.

### 2. Stock-Based Compensation – Adoption of Statement of Financial Accounting Standards No. 148

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure.” SFAS No. 148 amends SFAS No. 123, “Accounting for Stock-Based Compensation” to provide for alternative methods of transition to SFAS No. 123 and amends disclosure provisions. The Statement is 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 Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees” but has adopted the disclosure provisions of SFAS 148 effective November 1, 2002. APB Opinion No. 25 generally 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. No stock-based employee compensation cost is reflected in net income for the quarters ended January 31, 2003 and 2002 as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. 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 employee options granted, modified, or settled after October 31, 1995 using the retroactive restatement method (in thousands except per share amounts):

| | Three months ended January 31, 2003 | 2002 |
|---|---|---|
| Net income, as reported | $4,338 | $7,991 |
| Add : Stock-based employee compensation cost, net of tax effects, included in net income | — | — |
| Deduct : Stock-based employee compensation cost, net of tax effects, that would have been included in net income if the fair value method had been applied | 1,079 | 1,022 |
| Net income, pro forma | $3,259 | $6,969 |
| Net income per common share - basic, as reported | $ 0.09 | $ 0.16 |
| Net income per common share - basic, pro forma | $ 0.07 | $ 0.14 |
| Net income per common share - diluted, as reported | $ 0.09 | $ 0.16 |
| Net income per common share - diluted, pro forma | $ 0.07 | $ 0.14 |

**3. Treasury Stock**

On September 16, 2001, the Company's Board of Directors authorized the purchase of up to 2,000,000 shares of the Company's outstanding stock at any time through December 31, 2001. On December 17, 2001, the Board of Directors extended this authorization until December 31, 2002. On December 10, 2002, the Board of Directors extended this authorization through January 31, 2003. As of October 31, 2002, the Company had purchased 1,400,000 shares at a cost of $23,632,000 (an average price per share of $16.88). In the three months ended January 31, 2003, the Company purchased the remaining 600,000 shares at a cost of $9,297,000 (an average price per share of $15.50).

On March 11, 2003, the Company's Board of Directors further authorized the purchase of up to 2,000,000 shares of the Company's outstanding stock at any time through December 31, 2003.

**4. Revenue Presentation - Adoption of Emerging Issues Task Force Issue No. 01-14**

In January 2002, the Emerging Issues Task Force (EITF) released Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," which the Company adopted in fiscal 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. Amounts have been reclassified to conform to the presentation of these reimbursed expenses in all prior periods presented. Adoption of the pronouncement resulted in an increase in total revenues and total costs and expenses in equal amounts of $53,705,000 and $51,576,000 for the three months ended January 31, 2003 and 2002, respectively. This presentation change had no impact on operating profits or net income.

## 5. Goodwill and Other Intangibles

The changes in the carrying amount of goodwill (in thousands) for the three months ended January 31, 2003 are as follows (acquisitions are discussed in Note 9):

| Segment | Balance as of October 31, 2002 | Acquisitions | Earnout Payments | Balance as of January 31, 2003 |
|---|---|---|---|---|
| Janitorial | $108,698 | $12,650 | $425 | $121,773 |
| Parking | 27,271 | — | 163 | 27,434 |
| Engineering | 2,174 | — | — | 2,174 |
| Security | 7,213 | — | 45 | 7,258 |
| Lighting | 16,701 | — | 17 | 16,718 |
| Elevator | 3,907 | — | — | 3,907 |
| Other | 1,952 | — | — | 1,952 |
| | $167,916 | $12,650 | $650 | $181,216 |

As of January 31, 2003 and October 31, 2002, all intangible assets other than goodwill, consisting principally of contract rights with a net book value of $4,030,000 and $4,059,000, respectively, were included in other assets and are being amortized over the contract periods. Amortization expense for intangible assets other than goodwill was $262,000 and $263,000 for the three months ended January 31, 2003 and 2002, respectively. The remaining amortization period for intangible assets other than goodwill ranges from 11 months to 14 years. The weighted average remaining life is 8 years.

## 6. 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. The calculation of net income per common share is as follows (in thousands except per share amounts):

| | Three months ended January 31, 2003 | 2002 |
|---|---|---|
| Net income available to common stockholders | $ 4,338 | $ 7,991 |
| Average common shares outstanding - basic | 49,053 | 48,966 |
| Effect of dilutive securities: | | |
| Stock options | 919 | 1,712 |
| Average common shares outstanding - diluted | 49,972 | 50,678 |
| Net income per common share - basic | $ 0.09 | $ 0.16 |
| Net income per common share - diluted | $ 0.09 | $ 0.16 |

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 January 31, 2003 and 2002, options to purchase common shares of 3,061,000 and 2,223,000 at a weighted average exercise price of $16.29 and $16.09, respectively, were excluded from the computation.

**7. Debt**

The Company has a $150,000,000 syndicated line of credit which will expire July 1, 2005. Under the terms of this unsecured revolving credit facility, no compensating balances are required and the interest rate is determined at the time of borrowing based on the London interbank offered rate (LIBOR) plus a spread of .875% to 1.25% or, for overnight borrowings, at the prime rate plus a spread of .00% to .25%. The spread for LIBOR and prime borrowings is based on the Company’s leverage ratio. The facility calls for a commitment fee payable quarterly, in arrears, of .175% based on the average, daily, unused portion. For purposes of this calculation, irrevocable standby letters of credit issued in conjunction with the Company’s self-insurance program and parking business plus cash borrowings are considered to be outstanding amounts. As of January 31, 2003, the total outstanding amount under this facility was $120,507,000 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 January 31, 2003.

**8. Comprehensive Income (Loss)**

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. Comprehensive income for the three months ended January 31, 2003 and 2002 approximated net income.

**9. Acquisitions**

All acquisitions have been accounted for using the purchase method of accounting. Operations of 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 over fair value of the net assets acquired is generally included in goodwill. Most purchase agreements provide for contingent payments based on the annual pretax income for subsequent periods ranging generally from two to five years. Any such future payments are generally capitalized as goodwill when paid. Cash paid for acquisitions, including down payments and contingent amounts based on subsequent earnings, was $14,810,000 and $3,226,000 in the three months ended January 31, 2003 and 2002, respectively. In addition, shares of common stock with a fair market value of $1,371,000 at the date of issuance were issued in the first quarter of 2002, which was the final payment under the contingent payment provisions of a 1997 acquisition.

On January 31, 2003, the Company acquired the commercial self-performing janitorial cleaning operations of Horizon National Commercial Services, LLC, a provider of janitorial services based in Red Bank, New Jersey. Assets acquired by the Company include key customer accounts in the eastern, mid-western and south central United States. The total acquisition cost was $14,679,000, which included the assumption of payroll related liabilities totaling $269,000. Of the total acquisition cost, $12,650,000 was allocated to goodwill and $2,029,000 to fixed and other assets. The purchase price allocation is subject to change within ninety days from the closing date.

The operating results generated from this acquisition will be included in the consolidated financial results of the Company effective February 1, 2003. Due to the relative size of this acquisition, pro forma information is not included in the accompanying consolidated financial statements.

During the three months ended January 31, 2003, contingent payments totaling $650,000 were made on earlier acquisitions as provided by the respective purchase agreements. All amounts paid were added to goodwill.

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**10. Segment Information**

Under SFAS No. 131 criteria, the Company has six reportable segments: Janitorial, Parking, Engineering, Security, Lighting, and Elevator. All other services are included in the “Other” segment. Corporate expenses are not allocated.

| | Three months ended January 31, 2003 | 2002 |
|---|---|---|
| | (In thousands) | |
| **Sales and Other Income:** | | |
| Janitorial | $330,852 | $286,800 |
| Parking | 94,415 | 89,486 |
| Engineering | 45,627 | 43,670 |
| Security | 37,789 | 32,163 |
| Lighting | 33,146 | 32,567 |
| Elevator | 28,182 | 26,493 |
| Other | 10,484 | 16,156 |
| Corporate | 131 | 217 |
| | $580,626 | $527,552 |
| **Operating Profit:** | | |
| Janitorial | $ 7,807 | $ 10,843 |
| Parking | 590 | 1,048 |
| Engineering | 2,030 | 2,321 |
| Security | 1,342 | 1,195 |
| Lighting | 680 | 1,909 |
| Elevator | 951 | 916 |
| Other | (123) | 698 |
| Corporate Expenses | (6,640) | (5,777) |
| **Operating Profit** | 6,637 | 13,153 |
| Interest Expense | (125) | (265) |
| Income Before Income Taxes | $ 6,512 | $ 12,888 |

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

**Financial Condition**

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. Management believes that funds from these sources will remain available and adequately serve the Company’s liquidity needs. The Company has a $150 million syndicated line of credit which will expire July 1, 2005. Under the terms of this unsecured revolving credit facility, no compensating balances are required and the interest rate is determined at the time of borrowing based on the London interbank offered rate (LIBOR) plus a spread of .875% to 1.25% or, for overnight borrowings, at the prime rate plus a spread of .00% to .25%. The spread for LIBOR and prime borrowings is based on the Company’s leverage ratio. As of January 31, 2003, the total amount outstanding under this facility was $120.5 million 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 January 31, 2003.

During the three months ended January 31, 2003 and 2002, operating activities generated net cash of $17.8 million and $12.5 million, respectively. Operating cash flows increased primarily due to higher revenues and greater collections in the first quarter of 2003, compared to the first quarter of 2002. Additionally, accrued liabilities were higher as of January 31, 2003 compared to October 31, 2002 mainly due to the timing of recurring expense payments.

Net cash used in investing activities was $16.7 million in the three months ended January 31, 2003, compared to $5.6 million in the same period of 2002. The increase is primarily due to the acquisition of the commercial self-performing janitorial cleaning operations from Horizon National Commercial Services in January 2003.

Net cash used in financing activities was $9.4 million in the three months ended January 31, 2003, compared to $2.3 million in the three months ended January 31, 2002. The change is principally due to the purchase of 0.6 million shares of the Company’s stock as discussed below.

On September 16, 2001, the Company’s Board of Directors authorized the purchase of up to 2.0 million shares of the Company’s outstanding stock at any time through December 31, 2001. On December 17, 2001, the Board of Directors extended this authorization until December 31, 2002. On December 10, 2002, the Board of Directors extended this authorization 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, the Company’s Board of Directors further authorized the purchase of up to 2.0 million shares of the Company’s outstanding stock at any time through December 31, 2003.

At January 31, 2003, working capital was $189.3 million, compared to $210.7 million at October 31, 2002. The $21.4 million decline is primarily due to higher accrued liabilities as of January 31, 2003 compared to October 31, 2002 mainly due to the timing of recurring expense payments. The largest component of working capital consists of trade accounts receivable that totaled $319.2 million at January 31, 2003, compared to $318.4 million at October 31, 2002. These amounts were net of allowances for doubtful accounts of $6.2 million and $6.6 million at January 31, 2003 and October 31, 2002, respectively. As of January 31, 2003, accounts receivable that were over 90 days past due had decreased slightly to $41.4 million (13.0% of the total outstanding) from $41.6 million (13.1% of the total outstanding) at October 31, 2002, primarily due to increased collection efforts.

The Company self-insures certain insurable risks such as general liability, automobile property damage and workers' compensation. Commercial umbrella policies are obtained to provide for $150 million of coverage above the self-insured retention limits (i.e., deductible). As of November 1, 2002, substantially all of the self-insured retentions increased from $0.5 million to $1.0 million per occurrence due to general insurance market conditions. Despite the increased retention, the price of the 2003 umbrella policies is significantly higher than 2002 and this higher price has been factored into the self-insurance rates charged by the Company to its divisions in 2003. The Company annually retains an outside actuary to review the adequacy of its self-insurance claim reserves.

**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 this tragic incident. As previously reported by the Company, the World Trade Center complex in New York was the Company's largest single job-site with annual sales of approximately $75 million (3% of ABM's consolidated sales for 2001). The Company has been working with its insurance carrier, Zurich Insurance, in providing claim information regarding the lost business income and, as described further below, has substantially settled the property portion of the claim. 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 million. Based on a review of the policy and consultation with legal counsel and other specialists, the Company believes that its business interruption claim does not fall under the $10 million sub-limit on contingent business interruption. Zurich's filing does not impact any other aspects of the claim. As of October 31, 2002, Zurich paid two partial settlements totaling $13.3 million, of which $10 million is for business interruption and $3.3 million for property damage. The Company realized a pretax gain of $10 million in 2002 on the proceeds received. There have been no additional settlements or legal developments in the three months ended January 31, 2003.

Under the guidance published by the Emerging Issues Task Force of the Financial Accounting Standards Board "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 Statement of Financial Accounting Standards 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.

### Contractual Obligations and Commercial Commitments

The Company is contractually obligated to make future payments under non-cancelable operating lease agreements. As of January 31, 2003, future contractual payments are as follows:

| (In thousands) | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1 - 3 years | 4 - 5 years | After 5 years |
| Operating Leases | $190,346 | $47,872 | $56,345 | $30,106 | $56,023 |

Additionally, the Company has the following commercial commitments:

| (In thousands) | Amounts of Commitment Expiration Per Period | | | | |
|---|---|---|---|---|---|
| Commercial Commitments | Total Amounts Committed | Less than 1 year | 1 - 3 years | 4 - 5 years | After 5 years |
| Standby Letters of Credit | $ 120,507 | $ 120,507 | — | — | — |
| Financial Responsibility Bonds | 1,883 | 1,883 | — | — | — |
| Total | $ 122,390 | $ 122,390 | — | — | — |

### Acquisitions

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 first quarter of 2003 are discussed in Note 9 to the consolidated financial statements.

### Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements of the Company. All information in the discussion and references to the years and quarters are based on the Company's fiscal year and first quarter which ended on October 31 and January 31, respectively.

**Three Months Ended January 31, 2003 vs. Three Months Ended January 31, 2002**

Net income for the first quarter of 2003 was $4.3 million ($0.09 per diluted share), a decrease of $3.7 million or 45.7% from the net income of $8.0 million ($0.16 per diluted share) for the first quarter of 2002. Declines in operating profits from the Janitorial segment, primarily the Northeast region, Lighting, Parking and Engineering segments as well as higher Corporate expenses accounted for the decrease in net income. The pretax operating loss from the Northeast region for the first quarter of 2003 was $4.6 million, compared to $0.4 million of operating profit for the same period last year. Operating profits for Lighting were $0.7 million and $1.9 million for the first quarter of 2003 and 2002, respectively. Partially offsetting the declines were operating profits totaling $2.8 million from acquisitions that did not impact results until after January 31, 2002, namely: Lakeside Building Maintenance, Triumph Security Corporation, Triumph Cleaning Corporation and Foulke Associates, Inc.

Sales and other income (hereinafter called sales) for the first quarter of 2003 of $580.6 million increased by $53.0 million or 10.1% from $527.6 million for the first quarter of 2002. The increase is primarily due to $50.0 million in sales from acquisitions that did not impact results until after January 31, 2002. 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.

As a percentage of sales, operating expenses and cost of goods sold were 90.7% for the first quarter of 2003, compared to 90.0% for the first quarter of 2002. Consequently, as a percentage of sales, the Company’s gross profit (sales minus operating expenses and cost of goods sold) of 9.3% in the first quarter of 2003 was lower than the gross profit of 10.0% for the first quarter of 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, higher labor costs in Lighting, decline in sales from higher margin business due to increased vacancies, and higher reimbursements for out-of-pocket expenses from existing managed parking lot clients for which Parking had no margin benefit. Additionally, operating expenses for the first quarter of 2003 included higher insurance costs which could not be fully absorbed through increased pricing.

Selling, general and administrative expenses for the first quarter of 2003 were $47.6 million compared to $39.6 million for the corresponding three months of 2002. The increase in selling, general and administrative expenses was due primarily to $3.3

million of selling, general and administrative expenses related to acquisitions that did not impact results until after the first quarter of 2002. The Northeast region of Janitorial contributed $1.0 million to the increase primarily as a result of higher legal expenses and costs associated with implementing management changes in the region. Additionally, the first quarter of 2003 reflects a $1.0 million increase in bad debt expense as well as higher employer contributions to the Company's 401(k) plan which was enhanced effective January 1, 2002. Furthermore, corporate expenses for the first quarter of 2003 included higher directors and officers' insurance costs and professional fees. As a percentage of sales, selling, general and administrative expenses increased to 8.2% for the three months ended January 31, 2003 from 7.5% for the same period in 2002.

Interest expense, which includes loan amortization and commitment fees for the revolving credit facility, was $0.1 million for the first quarter of 2003 compared to $0.3 million for the same period in 2002. The decrease was primarily due to lower borrowings and interest rates during the first quarter of 2003, compared to the same period in 2002.

The effective federal and state income tax rate was 33.4% for the first quarter of 2003, compared to 38.0% for the first quarter of 2002. The lower effective tax rate was mostly due to the impact of a lower estimated state tax rate and a higher proportional benefit from the same level of estimated federal tax credits applied to a lower level of pretax income.

**Segment Information**

The results of operations from the Company's segments for the three months ended January 31, 2003, compared to the same period in 2002, are more fully described below. The sales and operating profits of the segments are set forth in Note 10 to the consolidated financial statements.

Sales for Janitorial were $44.1 million or 15.4% higher in the first quarter of 2003 than the same quarter of 2002, primarily due to the $43.1 million contribution from Lakeside Building Maintenance acquired in July 2002. The remainder of the increase was attributable to new business, partially offset by declines in sales from higher margin contracts due to increased vacancies. Operating profits in the first quarter of 2003 were $3.0 million or 28.0% lower than the same period in 2002 primarily due to the $5.0 million decline in operating profits in the Northeast region, which was partially offset by $2.6 million of operating profit from Lakeside Building Maintenance. Additionally, operating expenses included higher insurance costs which could not be fully absorbed through increased pricing.

The Northeast region of Janitorial, especially New York City, was primarily impacted by higher labor costs, delays in planned terminations of unprofitable contracts and bad weather in the first quarter of 2003. Further, first quarter 2002 results for New York City operations benefited from the extra clean-up work performed following the September 11 attacks. While such additional work has substantially diminished, higher labor costs continued in the first quarter of 2003 as displaced senior workers from the World Trade Center related accounts replaced less senior lower wage employees assigned to existing jobs. Additionally, the region’s operating profits for the first quarter of 2003 included higher unused sick leave payments, legal fees related to a lawsuit in connection with the collection of outstanding amounts from a large former customer, and costs associated with implementing management changes in this region.

Parking sales increased by $4.9 million or 5.5%, while its operating profits decreased by $0.5 million or 43.7% during the first quarter of 2003 compared to the first quarter of 2002 primarily due to increased insurance costs which could not be fully absorbed through increased pricing. Of the $4.9 million sales increase, $2.1 million represented higher reimbursements for out-of-pocket expenses from existing managed parking lot clients for which Parking had no margin benefit. The remainder of the sales increase was generated by net new business that commenced after January 31, 2002, partially offset by the decline in sales from the hi-tech areas of San Francisco and Seattle where the economic downturn resulted in high office building vacancies. Although the new contracts generated higher sales, due to competitive pressures, they were priced at lower margins which further contributed to the reduced operating profits.

Sales for Engineering increased $2.0 million or 4.5% from the first quarter of 2002 to the first quarter of 2003 due to new business. Operating profits decreased by $0.3 million or 12.5% from the first quarter of 2002 to the first quarter of 2003, primarily due to a settlement with a competitor firm on a bid-related issue and consulting costs associated with a study to assist Engineering to expand into new markets and broaden the scope of its services.

Security sales increased $5.6 million or 17.5% primarily due to the sales contributed by the acquisitions of Triumph Security on January 26, 2002 and Foulke Security on February 28, 2002 totaling $6.6 million. Partially offsetting the sales from acquisitions was the decrease in tag sales, or sales in addition to the contractual fees, in the first quarter of 2003 compared to the first quarter of 2002, which experienced unusually high tag sales due to heightened security after the September 11 terrorist attack. Operating profits increased by only $0.1 million or 12.3% despite the significant increase in sales due to higher labor and insurance costs.

Lighting sales increased $0.6 million or 1.8% during the first quarter of 2003 compared to the first quarter of 2002, with a $1.2 million or 64.4% decrease in operating profits primarily due to higher labor costs in the Northeast and North Central regions. Sales were about flat as contracts lost were replaced by contracts with much lower margins further contributing to the reduced operating profits. A number of newer national contracts in fact operated at a loss as a result of aggressive pricing which did not take into account higher labor costs demanded by covering a wider geographic area of service. These contracts are currently being reviewed for a price adjustment negotiation or a thirty-day cancellation. The Northeast and North Central regions changed the management of several branches and incurred higher labor-related costs due to training and double management during the transition. Decline in operating profits was partially offset by a $0.3 million gain recognized in the first quarter of 2003 related to the early termination of a contract.

Sales for Elevator increased by $1.7 million or 6.4% in the first quarter of 2003 compared to the same period in 2002, and operating profits increased by $35,000 or 3.8% for the first quarter of 2003, compared to the corresponding quarter of 2002, primarily due to increased repair and modernization business. Partially offsetting the operating profits from new business was the labor cost for an extra work week in Elevator's accounting cycle for the first quarter of 2003.

Sales for the Other segment, which is comprised of CommAir Mechanical Services and ABM Facility Services, were down $5.7 million or 35.1% for the first quarter. The Other segment produced a loss of $0.1 million in the first quarter of 2003 compared to a profit of $0.7 million in the same period last year. The lower revenues and operating profits for the quarter were primarily due to fewer projects and ABM Facility Services' loss of the Consolidated Freightways account in September 2002 after it declared bankruptcy.

The increase in Corporate expenses amounted to $0.9 million in the first quarter of 2003 compared to the same period of 2002. The increase was due to higher premiums paid for directors and officers' liability insurance, as well as increased expenses related to the use of outside counsel while in the process of hiring a Corporate General Counsel.

**Recent Accounting Pronouncements**

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No.146 replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not expect this statement to have a material effect on the Company's results of operations or financial condition.

In November 2002, FASB issued Financial Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of 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 that guarantee. The initial recognition and measurement requirement of FIN 45 is effective for guarantees issued or modified after December 31, 2002 while the disclosure requirements are effective for interim and annual periods ending after December 15, 2002. At January 31, 2003, the Company has no guarantees to disclose under FIN 45.

**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, 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.

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, the Company has umbrella insurance 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 annually evaluate and estimate the range of the Company's claim costs and liabilities. The Company accrues the minimum amount of the actuarial range of exposure. Using the annual actuarial report, management develops annual insurance costs for each division, 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. If the number of claims incurred were to increase, or the severity of the claims were to increase, the Company may be required to record an additional expense for self-insurance liabilities.

*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 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 January 31, 2003, the net deferred tax asset was $64.3 million and no valuation allowance was recorded. Should future income be less than anticipated, the net deferred tax asset may not be recoverable.

*Contingencies and Litigation:* ABM and certain of its subsidiaries have been named defendants in certain litigation 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 may result in a loss.

**Environmental Matters**

The nature of the Company's operations, primarily services, would not ordinarily involve it in environmental contamination. However, 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, cash flows or its results of operations.

The Company is currently involved in five proceedings relating to environmental matters: one involving alleged potential soil and groundwater contamination at a Company facility in Florida; one involving alleged potential soil contamination at a former Company facility in Arizona; one involving alleged potential soil and groundwater contamination at a former dry-cleaning facility leased by the Company in Nevada; one involving alleged potential soil contamination at a former parking facility leased by the Company in Washington; and one involving alleged potential soil and groundwater contamination at a third party recycling center 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, cash flows, or results of operations. Three of the five proceedings are subject to ongoing settlement negotiations and a reserve of $0.5 million has been set aside for the potential liability. The liability related to the other two claims is neither probable nor estimable, hence no accruals have been made related to these matters.

**Safe Harbor Statement**

Cautionary Safe Harbor Disclosure for Forward Looking Statements under the Private Securities Litigation Reform Act of 1995: Because of the factors set forth below, as well as other variables affecting the Company's operating results, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. The statements contained herein which are not historical facts are forward-looking statements that are subject to meaningful risks and uncertainties, including but not limited to: (1) significant decreases in commercial real estate occupancy, resulting in reduced demand and pricing pressures on building maintenance and other facility services in the Company's major markets, (2) inability to pass through cost increases in a timely manner, or at all, or to reduce expenses when sales decline, (3) loss or bankruptcy of one or more of the Company's major customers, which could adversely affect the Company's ability to collect its accounts receivable or recover its deferred costs, (4) major collective bargaining issues that may cause loss of revenues or cost increases that non-union companies can use to their advantage in gaining market share, (5) significant shortfalls in adding additional customers in existing and new territories and markets, (6) a protracted slowdown in the Company's acquisition activities, (7) legislation or other governmental action that severely impacts one or more of the Company's lines of business, such as price controls that could restrict price increases, or the unrecovered cost of any universal employer-paid health insurance, as well as government investigations that adversely affect the Company, (8) reduction or revocation of the Company's line of credit, which would increase interest expense or the cost of capital, (9) cancellation or nonrenewal of the Company's primary insurance policies, as many customers contract out services based on the contractor's ability to provide adequate insurance coverage and limits, (10) catastrophic uninsured or underinsured claims against the Company, the inability of the Company's insurance carriers to pay otherwise insured claims, or inadequacy in the Company's reserve for self-insured claims, (11) inability to employ entry level personnel due to labor shortages, (12) resignation, termination, death or disability of one or more of the Company's key executives, which could adversely affect customer retention and day-to-day management of the Company, (13) inability to successfully integrate acquisitions into the Company, and (14) other material factors that are disclosed from time to time in the Company's public filings with the United States Securities and Exchange Commission, such as reports on Forms 8-K, 10-K and 10-Q.

**Item 3. 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. The operations of the Company are conducted primarily in the United States, and, as such, are not subject to material foreign currency exchange rate risk. The Company has no outstanding debt. Although the Company had over $11 million in cash and cash equivalents at January 31, 2003, market rate risk associated with falling interest rates in the United States is not material.

**Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* ABM's chief executive officer and ABM's chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this Form 10-Q, have concluded that as of the Evaluation Date the Company's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company including its consolidated subsidiaries would be made known to them by others within those entities.

(b) *Changes in internal controls.* There were no significant changes in the Company’s internal controls or, to the Company’s knowledge, in other factors that could significantly affect these controls subsequent to the Evaluation Date.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

| | | |
|---|---|---|
| Exhibit 10.78 | - - | Corporate Executive Employment Agreement with James P. McClure as of November 1, 2002 |
| Exhibit 99.1 | - - | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 99.2 | - - | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K: No reports on Form 8-K were filed during the quarter ended January 31, 2003.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | ABM Industries Incorporated |
| March 12, 2003 | /s/ George B. Sundby |
| | Senior Vice President and<br>Chief Financial Officer<br>Principal Financial Officer |
| March 12, 2003 | /s/ Maria Placida Y. de la Peña |
| | Vice President and Controller<br>Chief Accounting Officer |

## CERTIFICATIONS

I, Henrik C. Slipsager, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ABM Industries Incorporated;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 12, 2003

/s/ Henrik C. Slipsager

Henrik C. Slipsager
Chief Executive Officer
(Principal Executive Officer)

I, George B. Sundby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ABM Industries Incorporated;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 12, 2003

/s/ George B. Sundby

George B. Sundby
Chief Financial Officer
(Principal Financial Officer)

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## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
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# CORPORATE EXECUTIVE EMPLOYMENT AGREEMENT

THIS CORPORATE EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") is made as of November 1, 2002, by and between JAMES P. McClure ("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 of Company and President of the Company's janitorial services subsidiaries, subject to modification as mutually agreed upon by both Company and Executive.

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 Chief Executive Officer of the Company, 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, 2002, for a term of one year ("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.

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 ("Base Salary").

2. BONUS: A bonus or other incentive or contingent compensation, if any, pursuant to Paragraph X.2. hereof.

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

INITIALS: EXECUTIVE /s/JPMcC COMPANY /s/DMD

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 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 the 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) with the title set forth in 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 excess of Twenty-Five Dollars ($25) each.

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.

2. BEST EFFORTS: During all full-time employment hereunder, Executive shall devote full working time and attention to Company, and 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 any such publicly-held business(es), provided that Executive: (a) shall give Company notice(s) of such ownership 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 and carry a valid driver's license issued by his or her state of domicile or the State of Employment hereunder and a driver's permit issued by the Company 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.

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 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.

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, 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 all previously earned and vested but as yet unpaid, salary, prorated bonus 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) with the title set forth in 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) with the title set forth in 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 highest base salary specified in Paragraph X.1.a shall be increased annually as set forth in Paragraph X.1.b for each year of 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. 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. 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. 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 other dishonesty, (ii) neglect of or failure to perform employment duties, (iii) inability or unwillingness to perform employment duties, (iv) insubordination, (v) abuse of alcohol or other drugs or substances, (vi) breach of this Agreement; (vii) other misconduct, unethical or unlawful activity, or for (viii) 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. At any time during the then current Initial or Extended Term, as applicable, of this Agreement, 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, bonus 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, 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, bonus 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.

INITIALS: EXECUTIVE /s/JPMcC COMPANY /s/DMD

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 the actual amount of damages resulting from any material breach of any of the provisions of Paragraphs K and/or L hereof would be impractical or impossible to estimate or ascertain. It is therefore agreed that the damages resulting from any such breach which involves any customer of Company shall be liquidated damages, not a penalty, in an amount equal to four (4) times the lost monthly revenue to the Company based on the average monthly revenue which was payable by that customer to Company during the four (4) months immediately preceding such breach. This provision for liquidated damages is in addition to any other relief available to Company pursuant to this Agreement or under law.

3. To the full extent permitted under the laws of the State of Employment hereunder, Executive authorizes Company to withhold from Executive's compensation and from any other funds 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 interpret such provision with as much permissible breadth as is allowable under law rather than to consider such provision void.

INITIALS: EXECUTIVE /s/JPMcC COMPANY /s/DMD

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. CONSTRUCTION: This Agreement was negotiated in good faith by the parties hereto, who hereby agree to share the responsibility for any ambiguities, uncertainties or inconsistencies herein. Paragraph headings are used herein only for ease of reference, and shall not in any way affect the interpretation or enforcement of this Agreement.

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: | JAMES P. McClure<br>78 Van Tassel Lane<br>Orinda, CA 94563 |
| COMPANY: | ABM INDUSTRIES INCORPORATED<br>160 Pacific Avenue, Suite 222<br>San Francisco, CA 94111<br>Attention: President & CEO |
| COPY: | ABM INDUSTRIES INCORPORATED<br>160 Pacific Avenue, Suite 222<br>San Francisco, CA 94111<br>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. SALARY:

a. Four Hundred Twenty Two Thousand, Four Hundred Fifteen Dollars ($422,415) per year effective November 1, 2002 through October 31, 2003 at the monthly rate of $35,201.25 payable semi-monthly.

b. For any Extended Term hereafter, the Salary in Paragraph X.1.a. will be adjusted upward to reflect the percentage increase change in the WorldatWork (TM)/(formerly, the American Compensation Association) Total Salary Increase Budget Survey for the Western Region ("ACA Index") with a six percent (6%) maximum increase. The adjustment, if any, shall be based upon the projected ACA Index as published for the current year, immediately preceding the effective date of the proposed increase hereunder. Notwithstanding the foregoing, there shall be no annual increase in Salary for such year unless the Company's net earnings per share ("EPS"), excluding WTC Related Gain (as defined below) for the fiscal year of the Company, commencing November 1 and ending October 31 ("Fiscal Year"), then ending are equal to or greater than the Company's EPS for the previous Fiscal Year.

INITIALS: EXECUTIVE /s/JPMcC COMPANY /s/DMD

2. BONUS: Subject to proration in the event of modification or termination of employment hereunder and further subject to the potential prospective re-set provisions set forth in Subparagraph c, below ("Reset"), Executive shall be paid a bonus ("Bonus") based on the profit ("Profit") 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. Subject to the maximum bonus payable under subparagraph c., such Bonus for each Fiscal Year shall be 0.23747% of the Company's Profit on a pro-rata basis.

b. Profit for purposes of determining such Bonus, shall be defined as the consolidated income (in accordance with generally accepted accounting principles) before income taxes of the Company, excluding: (i) gains or losses on sales or exchanges of real property or on sales or exchanges of all or substantially all of the stock or assets of a subsidiary corporation or any other business unit of Company, (ii) gains or losses on the discontinuation of any business unit of Company, and (iii) WTC Related Gain. At any time the Board of Directors of the Company (the "Board") reserves the right to further adjust Profit for purposes of determining a Bonus 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 Board determines, in good faith, to be appropriate.

Notwithstanding the foregoing, Profit for purposes of determining the Bonus in any Fiscal Year during the Initial or Extended Term of this Agreement, shall include WTC Related Gain and WTC Related Carry-Over Gain in an aggregate amount not to exceed a maximum of $10 million per Fiscal Year. For purposes of this Agreement, the term "WTC Related Gain" shall mean the total amount of all items of income included in the Company's audited consolidated financial statements for any Fiscal Year that result from 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. Also, for purposes of this Agreement, the term "WTC Related Carry-Over Gain" shall mean the aggregate amount of WTC Related Gain not previously taken into account in determining a Bonus for a prior Fiscal Year. Finally, 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.

c. Subject to proration in the event of modification or termination of employment under this Agreement, and further subject to a Reset in the event Executive's Bonus for Fiscal Year 2002 has been limited as hereinafter provided, Executive's maximum Bonus for each Fiscal Year shall be fifty percent (50%) of the Base Salary for that year set forth in this Agreement. If, however, in Fiscal Year 2002 the Bonus which might have been earned by Executive for that year exceeds said fifty percent (50%) maximum, Executive's Base Salary and Bonus percentage for Fiscal Year 2003 shall be Reset as follows: (i) notwithstanding the six percent (6%) maximum set forth in paragraph X.1.b. of the Agreement, the Executive's Salary shall be adjusted to equal seventy-five percent (75%) of the prior Fiscal Year's combined Salary and Bonus, plus an amount equal to the increase, if any, set forth in Paragraph X.1.b of the Agreement based upon said ACA Index; and (ii) the Bonus percentage set forth in Subparagraph a (above) shall be adjusted by multiplying the prior Fiscal Year's combined Salary and Bonus by twenty-five percent (25%), and dividing that product by the actual Profit earned in the prior Fiscal Year.

d. The Chief Financial Officer of the Company shall calculate the Profit and Bonus for purposes of this Agreement. Company shall pay Executive the Bonus for the Fiscal Year following completion of the audit of the Company's financial statements, but no later than seventy-five (75) days after the end of each Fiscal Year. The Company in its sole discretion may pay any Bonus earlier. The Bonus for any partial Fiscal Year shall be prorated for the fraction of the Fiscal Year for which such Bonus is payable. Absent bad faith or material error, any calculations of the Chief Financial Officer and any conclusions of the Board, with respect to the amounts of the Profit or Bonus, shall be final and binding upon Executive and Company.

e. 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 any WTC Related Gain.

f. 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 (including but not limited to any WTC Related Gain or WTC Related Carry-Over Gain realized) by Company after termination of the Initial or Extended Term of this Agreement or of employment hereunder.

g. Notwithstanding any other provision hereof, the Board may, prior to the beginning of any Fiscal Year, approve and notify the Executive of a modification to the Bonus percentage determined hereunder (either higher or lower), based on such performance and financial measures and other factors as the Board shall determine in its sole discretion. The Board's decision in this regard shall be deemed final and binding on Executive regardless of the amount of Bonus otherwise calculated pursuant to the foregoing provisions. In addition, the Board reserves the option at any time to grant a discretionary incentive bonus, which shall not be subject to the maximum Bonus or Reset provisions described in paragraph X.2.c. above.

h. Executive herein acknowledges receipt of Bonus for Fiscal Year 2001 and agrees that he or she is not entitled to any further bonus for that year, for any reason whatsoever.

3. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP") Following Executive's retirement, resignation and/or termination from employment with Company (but commencing no earlier than what is or would have been Executive's sixty-fifth (65th) birthday and concluding no later than ten (10) years thereafter), Company shall pay to Executive: 120 equal monthly installments each of 1/120th of the Supplemental Benefit accrued, pursuant to the terms of the Plan Document, provided herewith.

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 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

INITIALS: EXECUTIVE /s/JPMcC COMPANY /s/DMD

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 two (2) officers of the Company, 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 two (2) officers of the Company have executed this Agreement as of the date set forth above:

| | | |
|---|---|---|
| EXECUTIVE: | Signature: | /s/ James P. McClure |
| | Date: | 2/20/03 |
| COMPANY: | | ABM INDUSTRIES INCORPORATED |
| | Date: | 3/4/03 |
| | Signature: | /s/ Henrik C. Slipsager |
| | Title: | President and Chief Executive Officer |
| | Signature: | /s/ Donna M. Dell |
| | Title: | Senior Vice President of Human Resources and Chief Employment Counsel |

INITIALS: EXECUTIVE /s/JPMcC COMPANY /s/DMD

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTON 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ABM Industries Incorporated (the "Company") on Form 10-Q for the period ended January 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henrik C. Slipsager, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 12, 2003

/s/ Henrik C. Slipsager

Henrik C. Slipsager
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTON 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ABM Industries Incorporated (the "Company") on Form 10-Q for the period ended January 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George B. Sundby, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 12, 2003

/s/ George B. Sundby
George B. Sundby
Chief Financial Officer
(Principal Financial Officer)