

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 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**  
(State or other jurisdiction of  
incorporation or organization)

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

**160 Pacific Avenue, Suite 222, San Francisco, California**  
(Address of principal executive offices)

**94111**  
(Zip Code)

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

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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock outstanding as of August 31, 2003: 49,398,585.

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**ABM INDUSTRIES INCORPORATED**  
**FORM 10-Q**

**For the three months and nine months ended July 31, 2003**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)**

## ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

(In thousands except share amounts)	July 31, 2003	October 31, 2002
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 26,864	\$ 19,416
Trade accounts receivable, net	302,932	296,634
Inventories	22,919	24,471
Deferred income taxes	34,073	30,002
Prepaid expenses and other current assets	41,354	39,501
Assets held for sale	28,831	32,136
	<u>456,973</u>	<u>442,160</u>
Total current assets	456,973	442,160
<b>Investments and long-term receivables</b>	13,367	14,952
<b>Property, plant and equipment, at cost</b>		
Land and buildings	5,080	5,114
Transportation equipment	14,596	14,245
Machinery and other equipment	72,922	71,548
Leasehold improvements	13,971	14,336
	<u>106,569</u>	<u>105,243</u>
Less accumulated depreciation and amortization	(73,035)	(69,397)
	<u>33,534</u>	<u>35,846</u>
Property, plant and equipment, net	33,534	35,846
<b>Goodwill</b>	182,814	164,009
<b>Deferred income taxes</b>	34,587	33,542
<b>Other assets</b>	18,705	14,430
	<u>739,980</u>	<u>704,939</u>
Total assets	\$739,980	\$704,939

(Continued)

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
**CONSOLIDATED BALANCE SHEETS**  
(Continued)

(In thousands except share amounts)	July 31, 2003	October 31, 2002
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$ 45,358	\$ 48,995
Income taxes payable	7,443	6,579
Liabilities held for sale	7,869	7,403
Accrued liabilities:		
Compensation	61,538	58,814
Taxes — other than income	13,868	13,525
Insurance claims	54,828	50,969
Other	55,291	40,805
Total current liabilities	246,195	227,090
Retirement plans	24,449	23,791
Insurance claims	70,309	67,388
Total liabilities	340,953	318,269
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized; 51,487,000 and 50,397,000 shares issued at July 31, 2003 and October 31, 2002, respectively	515	504
Additional paid-in capital	163,329	151,135
Accumulated other comprehensive loss	(510)	(789)
Retained earnings	271,417	259,452
Cost of treasury stock (2,175,000 and 1,400,000 shares at July 31, 2003 and October 31, 2002, respectively)	(35,724)	(23,632)
Total stockholders' equity	399,027	386,670
Total liabilities and stockholders' equity	\$739,980	\$704,939

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

## ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share amounts)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
<b>Revenues</b>				
Sales and other income	\$569,093	\$514,260	\$1,684,074	\$1,512,935
Gain on insurance claim	—	5,725	—	10,025
Total revenues	569,093	519,985	1,684,074	1,522,960
<b>Expenses</b>				
Operating expenses and cost of goods sold	511,720	460,942	1,520,980	1,360,202
Selling, general and administrative	41,689	44,290	127,027	113,580
Interest	216	229	503	726
Total expenses	553,625	505,461	1,648,510	1,474,508
Income from continuing operations before income taxes	15,468	14,524	35,564	48,452
Income taxes	4,912	2,633	12,010	15,523
<b>Income from continuing operations</b>	10,556	11,891	23,554	32,929
<b>Income from discontinued operation, net of income taxes</b>	1,182	743	2,414	1,685
<b>Net income</b>	<b>\$ 11,738</b>	<b>\$ 12,634</b>	<b>\$ 25,968</b>	<b>\$ 34,614</b>
<b>Net Income per common share — Basic</b>				
From continuing operations	\$ 0.21	\$ 0.24	\$ 0.48	\$ 0.67
From discontinued operation	0.03	0.02	0.05	0.04
Net Income	\$ 0.24	\$ 0.26	\$ 0.53	\$ 0.71
<b>Net Income per common share — Diluted</b>				
From continuing operations	\$ 0.21	\$ 0.23	\$ 0.47	\$ 0.64
From discontinued operation	0.02	0.02	0.05	0.04
Net Income	\$ 0.23	\$ 0.25	\$ 0.52	\$ 0.68
<b>Average common and common equivalent shares</b>				
Basic	49,269	49,059	49,105	49,093
Diluted	50,244	51,179	50,031	51,117
<b>Dividends per common share</b>	<b>\$ 0.095</b>	<b>\$ 0.090</b>	<b>\$ 0.285</b>	<b>\$ 0.270</b>

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

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED JULY 31, 2003 AND 2002**

(In thousands)	2003	2002
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 1,669,627	\$ 1,527,630
Other operating cash receipts	2,806	8,525
Interest received	711	441
Cash paid to suppliers and employees	(1,614,658)	(1,462,026)
Interest paid	(420)	(856)
Income taxes paid	(15,284)	(16,400)
	<u>42,782</u>	<u>57,314</u>
Net cash flows from continuing operating activities	42,782	57,314
Net cash flows from discontinued operation	6,276	5,836
	<u>49,058</u>	<u>63,150</u>
<b>Cash flows from investing activities:</b>		
Net cash flows from discontinued operation	(95)	(101)
Additions to property, plant and equipment	(7,740)	(5,611)
Proceeds from sale of assets	607	1,025
Decrease in investments and long-term receivables	1,585	483
Purchase of businesses	(21,099)	(50,407)
	<u>(26,742)</u>	<u>(54,611)</u>
Net cash used in investing activities	(26,742)	(54,611)
<b>Cash flows from financing activities:</b>		
Common stock issued	11,227	13,656
Common stock purchases	(12,092)	(16,670)
Dividends paid	(14,003)	(13,283)
Increase in bank overdraft	—	4,281
Long-term borrowings	—	15,000
Repayments of long-term borrowings	—	(11,819)
	<u>(14,868)</u>	<u>(8,835)</u>
Net cash used in financing activities	(14,868)	(8,835)
Net increase (decrease) in cash and cash equivalents	7,448	(296)
Cash and cash equivalents beginning of period	19,416	3,041
	<u>\$ 26,864</u>	<u>\$ 2,745</u>
<b>Cash and cash equivalents end of period</b>	<b>\$ 26,864</b>	<b>\$ 2,745</b>

(Continued)

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED JULY 31, 2003 AND 2002**  
(Continued)

(In thousands)	2003	2002
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income	\$ 25,968	\$ 34,614
Less income from discontinued operation	(2,414)	(1,685)
Income from continuing operations	23,554	32,929
Adjustments:		
Depreciation and intangible amortization	11,085	11,276
Provision for bad debts	4,665	6,562
Gain on sale of assets	(77)	(184)
Increase in deferred income taxes	(5,116)	(739)
(Increase) decrease in trade accounts receivable	(10,914)	19,545
Decrease (increase) in inventories	1,566	(521)
Increase in prepaid expenses and other current assets	(1,134)	(2,854)
Increase in other assets	(4,919)	(2,051)
Increase (decrease) in income taxes payable	1,842	(138)
Increase in retirement plans accrual	658	746
Increase in insurance claims liability	6,780	3,542
Increase (decrease) in trade accounts payable and other accrued liabilities	14,792	(10,799)
Total adjustments	19,228	24,385
Net cash flows from continuing operating activities	42,782	57,314
Net cash flows from discontinued operation	6,276	5,836
<b>Net cash provided by operating activities</b>	<b>\$ 49,058</b>	<b>\$ 63,150</b>
<b>Supplemental data:</b>		
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 July 31, 2003, the results of operations for the three and nine months then ended, and cash flows for the nine months then ended. These adjustments are of a normal, recurring nature, except as otherwise noted.

The information included in this Form 10-Q should be read in conjunction with the management's discussion and analysis, 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.

The operations of the Company's Elevator Segment, Amtech Elevator Services, Inc., have been classified as discontinued operation in the accompanying consolidated financial statements and, accordingly, the Company has segregated the assets and liabilities of the discontinued operation in the accompanying consolidated balance sheets for all periods presented. In addition, the Company has segregated the Amtech operating results and cash flows in the accompanying consolidated statements of income. See Note 7.

**2. 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:

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(In thousands except per share amounts)	Three months ended July 31,		Nine months ended July 31,	
	2003	2002	2003	2002
Income from continuing operations, net of income taxes	\$10,556	\$11,891	\$23,554	\$32,929
Income from discontinued operation, net of income taxes	1,182	743	2,414	1,685
Net income available to common stockholders	\$11,738	\$12,634	\$25,968	\$34,614
Average common shares outstanding - Basic	49,269	49,059	49,105	49,093
Effect of dilutive securities:				
Stock options	975	2,120	926	2,024
Average common shares outstanding - Diluted	50,244	51,179	50,031	51,117
Net income per common share — Basic:				
From continuing operations	\$ 0.21	\$ 0.24	\$ 0.48	\$ 0.67
From discontinued operation	0.03	0.02	0.05	0.04
Net Income	\$ 0.24	\$ 0.26	\$ 0.53	\$ 0.71
Net income per common share — Diluted:				
From continuing operations	\$ 0.21	\$ 0.23	\$ 0.47	\$ 0.64
From discontinued operation	0.02	0.02	0.05	0.04
Net Income	\$ 0.23	\$ 0.25	\$ 0.52	\$ 0.68

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 July 31, 2003 and 2002, options to purchase common shares of 3.4 million and 0.4 million at a weighted average exercise price of \$16.14 and \$18.36, respectively, were excluded from the computation.

**3. Stock-Based Compensation – Adoption of Statement of Financial Accounting Standard 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. SFAS No. 148 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," and has adopted the disclosure provisions of SFAS No. 148 effective November 1, 2002. The Company's application of APB Opinion No. 25 generally does not result in

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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 three and nine months ended July 31, 2003 and 2002 as all options granted since October 31, 1995 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 July 31,		Nine months ended July 31,	
	2003	2002	2003	2002
Net income, as reported	\$11,738	\$12,634	\$25,968	\$34,614
Deduct: Stock-based employee compensation cost, net of tax effect, that would have been included in net income if the fair value method had been applied	1,023	915	3,156	2,989
Net income, pro forma	\$10,715	\$11,719	\$22,812	\$31,625
Net income per common share — basic				
as reported	\$ 0.24	\$ 0.26	\$ 0.53	\$ 0.71
pro forma	\$ 0.22	\$ 0.24	\$ 0.46	\$ 0.64
Net income per common share — diluted				
as reported	\$ 0.23	\$ 0.25	\$ 0.52	\$ 0.68
pro forma	\$ 0.21	\$ 0.23	\$ 0.46	\$ 0.62

**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

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revenues and total costs and expenses in equal amounts of \$55.1 million and \$51.3 million for the three months ended July 31, 2003 and 2002, respectively, and \$160.4 million and \$151.9 million for the nine months ended July 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 for the nine months ended July 31, 2003 are as follows (acquisitions are discussed in Note 6):

(In thousands)				
Segment	Balance as of October 31, 2002	Acquisitions	Earnouts	Balance as of July 31, 2003
Janitorial	\$ 108,698	12,147	3,644	\$ 124,489
Parking	27,271	1,653	452	29,376
Engineering	2,174	—	—	2,174
Security	7,213	—	454	7,667
Lighting	16,701	—	455	17,156
Other	1,952	—	—	1,952
Total	164,009	13,800	5,005	182,814

As of July 31, 2003 and October 31, 2002, all intangible assets other than goodwill, consisting principally of contract rights with a net book value of \$3.9 million and \$4.1 million, respectively, were included in other assets and are being amortized over the contract periods. Amortization expense for intangible assets other than goodwill was \$0.3 million for each of the three-month periods ended July 31, 2003 and 2002, and \$0.8 million for each of the nine-month periods ended July 31, 2003 and 2002. The remaining amortization period for intangible assets other than goodwill ranges from 1 to 14 years. The weighted average remaining life was 4 years at July 31, 2003.

## 6. 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 \$21.1 million and \$50.4 million in the nine months ended July 31, 2003 and 2002, respectively. In addition, shares of common stock with a fair market value of \$1.4 million at the date of issuance were issued in the first nine months of 2002, which was the final payment under the contingent payment provisions of a 1997 acquisition.

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On January 31, 2003, the Company acquired the commercial self-performed 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 adjusted acquisition cost was \$14.7 million, which included the assumption of payroll related liabilities totaling \$0.2 million. Of the total adjusted acquisition cost, \$13.0 million was allocated to goodwill and \$1.7 million to fixed and other assets at the time of acquisition.

On April 30, 2003, the Company acquired selected assets of Valet Parking Service, a provider of parking services based in Culver City, California. The total acquisition cost was \$1.6 million, most of which was allocated to goodwill, plus annual contingent payments of \$0.3 million for the three years subsequent to the acquisition date, if specified levels of variable gross profits from the acquired operations are maintained.

The operating results generated from these acquisitions are included in the consolidated financial results of the Company from the respective dates of acquisition. Due to the relative size of these acquisitions, pro forma information is not included in the consolidated financial statements.

During the nine months ended July 31, 2003, contingent payments totaling \$5.0 million were made on earlier acquisitions as provided by the respective purchase agreements. All amounts paid were added to goodwill.

### **7. Discontinued Operation**

On July 9, 2003, ABM Industries Incorporated entered into a Sale Agreement with Otis Elevator Company, a wholly owned subsidiary of United Technologies Corporation ("Otis"), to sell substantially all of the operating assets of Amtech Elevator Services, Inc. (a wholly owned subsidiary which represented the Company's Elevator Segment) to Otis. On August 15, 2003, the sale was completed. The operating assets sold included customer contracts, accounts receivable, facility leases and other assets, as well as a license to the name "Amtech Elevator Services." The consideration paid to the Company in connection with the sale was \$112 million in cash, subject to certain adjustments, and assumption of trade payables and accrued liabilities.

The assets and liabilities of the Elevator Segment have been segregated and classified as held for sale and the operating results and cash flows have been reported as discontinued operation in the accompanying consolidated financial statements. Income taxes have been allocated using the estimated combined federal and state tax rates applicable for each of the periods presented. The prior periods presented have been reclassified.

The operating results of the discontinued operation for the three and nine months ended July 31, 2003 and 2002 are as follows:

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(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Revenues	28,270	\$29,492	83,744	\$84,219
Income before income taxes	1,912	1,202	3,906	2,726
Income taxes	730	459	1,492	1,041
Net income	\$ 1,182	\$ 743	\$ 2,414	\$ 1,685

Assets and liabilities of the discontinued operation included in the accompanying consolidated balance sheet are as follows at July 31, 2003 and October 31, 2002:

(In thousands)	July 31, 2003	October 31, 2002
Trade accounts receivable, net	\$ 17,432	\$ 21,742
Inventories	6,648	5,584
Prepaid expenses and other current assets	434	435
Property, plant and equipment, net	362	420
Goodwill	3,907	3,907
Other assets	48	48
Total assets	28,831	32,136
Trade accounts payable	2,909	2,590
Accrued liabilities:		
Compensation	2,059	1,818
Taxes — other than income	337	398
Other	2,564	2,597
Total liabilities	7,869	7,403
Net assets	\$ 20,962	\$ 24,733

**8. Debt**

In April 2003, the Company increased the amount of its syndicated line of credit, which will expire July 1, 2005, to \$250 million. As amended, no compensating balances are required under the facility and the interest rate is determined at the time of borrowing based on the London interbank offered rate (LIBOR) plus a spread of .875% to 1.50% or, for overnight borrowings, at the prime rate plus a spread of .00% to .25% or, for overnight to one week, at the interbank offered rate (IBOR) plus a spread of .875% to 1.50%. The spread for LIBOR, PRIME and IBOR borrowings is based on the Company's leverage ratio. The facility calls for a commitment fee payable quarterly, in arrears, of .200%, as amended, based on the average, daily, unused portion. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with the Company's self-insurance program plus cash borrowings are considered to be outstanding amounts. As of July 31, 2003, the total outstanding amount under this facility was \$120.8 million in the form of standby letters of credit. The provisions of the credit facility require the

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Company to maintain certain financial ratios and limit outside borrowings. The Company was in compliance with all covenants as of July 31, 2003.

**9. 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 and nine months ended July 31, 2003 and 2002 approximated net income.

**10. Treasury Stock**

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, which authorization was later extended through January 31, 2003. As of October 31, 2002, the Company had purchased 1.4 million shares at a cost of \$23.6 million (an average price per share of \$16.88). In the three months ended January 31, 2003, the Company purchased the remaining 0.6 million shares at a cost of \$9.3 million (an average price per share of \$15.50).

On March 11, 2003, 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, 2003. In the three month ended July 31, 2003, the Company purchased 0.2 million shares at a cost of \$2.8 million (an average price per share of \$15.97).

**11. Segment Information**

Under SFAS No. 131 criteria, Janitorial, Parking, Engineering, Security, and Lighting are reportable segments. The Elevator segment was sold on August 15, 2003 and its operating results are reported separately under discontinued operation and are excluded from the table below (See Footnote 7). All other services are included in the "Other" segment. Corporate expenses are not allocated.

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(In thousands)	Three months ended July 31,		Nine months ended July 31,	
	2003	2002	2003	2002
<b>Sales and other income:</b>				
Janitorial	\$343,314	\$295,556	\$1,017,671	\$ 866,585
Parking	97,835	91,912	283,909	269,751
Engineering	44,492	43,273	134,064	129,610
Security	41,449	36,603	118,246	103,397
Lighting	30,657	31,868	97,380	96,506
Other	11,303	14,960	32,528	46,648
Corporate	43	88	276	438
	<u>\$569,093</u>	<u>\$514,260</u>	<u>\$1,684,074</u>	<u>\$1,512,935</u>
<b>Operating profit:</b>				
Janitorial	\$ 13,859	\$ 12,442	\$ 37,236	\$ 39,612
Parking	2,326	2,077	3,938	4,908
Engineering	2,631	2,626	7,247	7,286
Security	1,897	1,468	4,399	3,728
Lighting	1,373	1,880	3,866	5,884
Other	333	(2,159)	280	(1,387)
Corporate expense	(6,735)	(9,306)	(20,899)	(20,878)
	<u>15,684</u>	<u>9,028</u>	<u>36,067</u>	<u>39,153</u>
Gain on insurance claim	—	5,725	—	10,025
Interest expense	(216)	(229)	(503)	(726)
	<u>15,468</u>	<u>14,524</u>	<u>35,564</u>	<u>48,452</u>
Income from continuing operations before income taxes	\$ 15,468	\$ 14,524	\$ 35,564	\$ 48,452

**12. Contingencies**

In September 1999, a former employee filed a gender discrimination lawsuit against the Company. On May 19, 2003, a Washington state court jury awarded \$4 million in damages, plus plaintiff's costs, to the former employee. Upon entry of judgment, the Company will ask the Superior Court, State of Washington, County of Spokane, to set aside the jury verdict and to grant a new trial on some claims and dismiss other claims. The Company will appeal if the court denies these requests. There can be no assurance that the Company will prevail in this matter. The Company, however, believes that the award against the Company was excessive and that the verdict was inconsistent with the law and the evidence. Because the Company believes that the judgment will be reversed upon appeal, the Company has not recorded any liability in its financial statements associated with the judgment.

**13. Subsequent Events**

On August 15, 2003, ABM Industries Incorporated completed the sale of substantially all of the operating assets of Amtech Elevator Services, Inc. (a wholly owned subsidiary which represented the Company's Elevator segment) to Otis Elevator Company, a wholly owned subsidiary of United Technologies



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Corporation, pursuant to a Sale Agreement dated as of July 9, 2003. For additional information, see Note 7.

On August 29, 2003, the Company acquired substantially all of the assets and operations of H.G.O., Inc., d/b/a HGO Services, a provider of janitorial services based in King of Prussia, Pennsylvania. Assets acquired by the Company include key customer accounts in the greater Philadelphia metropolitan area, including locations in New Jersey and Delaware. The total acquisition cost was \$12.8 million, plus annual contingent payments of approximately \$1.1 million for the three years subsequent to the acquisition date if specified levels of customer accounts are retained, and additional annual contingent payments for the three years subsequent to the acquisition date if financial performance exceeds agreed-upon levels. Of the total initial acquisition cost, \$12.4 million was allocated to goodwill and \$.4 million to fixed and other assets at the time of acquisition. Contingent payments, if made, will be allocated to goodwill.

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

### **Reclassifications**

On August 15, 2003, ABM Industries Incorporated completed the sale of substantially all of the operating assets of Amtech Elevator Services, Inc. (a wholly owned subsidiary which represented the Company's Elevator segment) to Otis Elevator Company, a wholly owned subsidiary of United Technologies Corporation, pursuant to a Sale Agreement dated as of July 9, 2003. For additional information, see "Discontinued Operation."

The assets and liabilities of the Elevator segment have been classified as held for sale and the operating results and cash flows have been reported as discontinued operation in the accompanying consolidated financial statements. The prior periods presented have been reclassified.

### **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. On August 15, 2003, the Company received \$112 million in cash proceeds from the sale of substantially all the operating assets of its Elevator segment, Amtech Elevator Services, Inc. See "Discontinued Operation."

In April 2003, the Company increased the amount of its syndicated line of credit, which will expire July 1, 2005, to \$250 million. As amended, no compensating balances are required under the facility and the interest rate is determined at the time of borrowing based on the London interbank offered rate (LIBOR) plus a spread of .875% to 1.50% or, for overnight borrowings, at the prime rate plus a spread of .00% to .25% or, for overnight to one week, at the interbank offered rate (IBOR) plus a spread of .875% to 1.50%. The spread for LIBOR, PRIME and IBOR borrowings is based on the Company's leverage ratio. The facility calls for a commitment fee payable quarterly, in arrears, of .200%,

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as amended, based on the average, daily, unused portion. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with the Company's self-insurance program plus cash borrowings are considered to be outstanding amounts. As of July 31, 2003, the total outstanding amount under this facility was \$120.8 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 July 31, 2003.

During the nine months ended July 31, 2003 and 2002, operating activities generated net cash of \$49.1 million and \$63.2 million, respectively. Cash from operations decreased primarily due to greater collection of outstanding accounts receivable balances during the first nine months of 2002 compared to the same period of 2003, higher insurance premium payments during the current nine month period, and effect of the timing of other recurring expense payments. In addition, cash from operations for the nine months ended July 31, 2002 included the receipt of the initial payment of \$6.8 million from the September 11th insurance claim.

Net cash used in investing activities for the nine months ended July 31, 2003 was \$26.7 million compared to \$54.6 million for the same period last year. Net cash used for the purchase of business for the first nine months of 2003 was \$21.1 million, compared to \$50.4 million for the same period of 2002, of which \$36.9 million was used for the purchase of the operations of Lakeside Building Maintenance in July 2002.

Net cash used in financing activities was \$14.9 million in the nine months ended July 31, 2003, compared to \$8.8 million in the nine months ended July 31, 2002. The increase was primarily due to no borrowings in the first nine months of 2003 compared to a net borrowing of \$7.5 million (including bank overdraft) in the first nine months of 2002 as well as lower cash provided by common stock issuance. Partially offsetting the increase was the use of only \$12.1 million to purchase the Company's stock in the first nine months of 2003, compared to \$16.7 million in the same period last year.

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, which authorization was later extended through January 31, 2003. As of October 31, 2002, the Company had purchased 1.4 million shares at a cost of \$23.6 million (an average price per share of \$16.88). In the three months ended January 31, 2003, the Company purchased the remaining 0.6 million shares at a cost of \$9.3 million (an average price per share of \$15.50).

On March 11, 2003, 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, 2003. In the three month ended July 31, 2003, the Company purchased 0.2 million shares at a cost of \$2.8 million (an average price per share of \$15.97).

Working capital declined by \$4.3 million to \$210.8 million at July 31, 2003 from \$215.1 million at October 31, 2002. The largest component of working capital consists of trade accounts receivable that totaled \$302.9 million at July 31, 2003, compared to \$296.6 million at October 31, 2002. These amounts were net of allowances for doubtful accounts of \$6.4 million and \$5.5 million at July 31, 2003 and October 31, 2002, respectively. As of July 31, 2003, accounts receivable that were over 90 days past due had decreased \$4.9 million

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to \$31.8 million (10.5% of the total net outstanding) from \$36.7 million (12.4% of the total net outstanding) at October 31, 2002.

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. Effective April 14, 2003, the deductible for California workers' compensation insurance increased to \$2.0 million per occurrence due to general insurance market conditions. While the higher self-insured retention increases the Company's risk associated with workers' compensation liabilities, during the history of the Company's self-insurance program, few claims have exceeded \$1.0 million. Despite the higher 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 provided its insurance carrier, Zurich Insurance, claim information regarding the lost business income and, as described further below, substantially settled the property portion of the claim. As of October 31, 2002, Zurich paid two partial settlements totaling \$13.3 million, of which \$10 million was 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.

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. On June 2, 2003, the court ruled on certain summary judgment motions in favor of Zurich. Subsequent to the June ruling, additional rulings by the judge have limited the Company's recourse under the policy to the amounts paid plus additional amounts related to physical property of ABM located on the WTC premises and certain accounts receivable from customers that could not be collected. Based on a review of the policy and consultation with legal counsel and other specialists, the Company continues to believe that its business interruption claim does not fall under the \$10 million sub-limit on contingent business interruption and that Company's losses under its WTC contracts are eligible for additional business interruption coverage. Therefore, the Company will appeal the judge's rulings.

**Contractual Obligations and Commercial Commitments**

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

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(In thousands)	Payments Due By Period				
	Total	Less than 1 year	1 - 2 years	4 - 5 years	After 5 years
Contractual Obligations					
Operating Leases	\$196,882	\$44,477	\$58,883	\$33,242	\$60,280

Additionally, the Company has the following commercial commitments:

(In thousands)	Amounts of Commitment Expiration Per Period				
	Total	Less than 1 year	1 - 2 years	4 - 5 years	After 5 years
Commercial Commitments					
Standby Letters of Credit	\$120,757	\$120,757	—	—	—
Financial Responsibility Bonds	4,211	4,211	—	—	—
Total	\$124,968	\$124,968	—	—	—

### 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 nine months of 2003 are discussed in note 6 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 third quarter which ended on October 31 and July 31, respectively.

### Three Months Ended July 31, 2003 vs. Three Months Ended July 31, 2002

Income from continuing operations for the third quarter of 2003 was \$10.6 million (\$0.21 per diluted share) compared to \$11.9 million (\$0.23 per diluted share) for the third quarter of 2002. The decrease of \$1.3 million or 11.2% was primarily due to the inclusion of the following items in the results for the third quarter of 2002: pretax gain from insurance claim of \$5.7 million and \$2.6 million of income tax benefit, partially offset by \$7.2 million of pretax charges including \$3.1 million of costs associated with senior management changes, \$1.0 million write-down of work-in-progress and \$3.1 million higher bad debt provision for the third quarter of 2002 compared to the same period in 2003. Declines in operating profits from the Janitorial segment's Northeast and Northwest regions as well as from the Lighting segment were more than offset by operating profit improvements totaling \$2.9 million contributed by acquisitions that did not significantly impact results until after July 31, 2002, primarily Lakeside Building Maintenance (Lakeside) acquired on July 12, 2002, the commercial self-performed janitorial cleaning operations of Horizon National Commercial Services (Horizon) acquired on January 31, 2003, and Valet

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Parking Services acquired on April 30, 2003, as well as \$0.7 million of tax benefit from the filing of the 2002 state and federal tax returns.

Sales and other income (hereinafter called sales) for the third quarter of 2003 of \$569.1 million increased by \$54.8 million or 10.7% from \$514.3 million for the third quarter of 2002. Acquisitions that did not significantly impact results until after July 31, 2002 contributed \$54.6 million to the sales increase. 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 real estate vacancies and decreased capital project work and extra services as customers tightened their budgets.

As a percentage of sales, operating expenses and cost of goods sold were 89.9% for the third quarter of 2003, compared to 89.6% for the third quarter of 2002. Consequently, as a percentage of sales, the Company's gross profit (sales minus operating expenses and cost of goods sold) of 10.1% in the third quarter of 2003 was lower than the gross profit of 10.4% for the third quarter of 2002. The decline was due primarily to lower margins on new business and declines in sales from higher margin business due to increased vacancies.

Selling, general and administrative expenses for the third quarter of 2003 were \$41.7 million compared to \$44.3 million for the corresponding three months of 2002. The decrease in selling, general and administrative expenses was primarily due to \$6.2 million of charges included in the selling, general and administrative expenses for the third quarter of 2002. These charges included \$3.1 million of costs associated with the elimination of the Chief Administrative Officer position, the early retirement of the former General Counsel, the replacement of the President of ABM Facility Services Division, as well as \$3.1 million higher bad debt provision for the third quarter of 2002 compared to the same period in 2003. However, the third quarter of 2003 included \$3.6 million of higher selling, general and administrative expenses related to the Lakeside and Horizon acquisitions that did not substantially impact results until after the third quarter of 2002. Additionally, corporate expenses for the third quarter of 2003 included higher directors and officers' insurance cost. As a percentage of sales, selling, general and administrative expenses decreased to 7.3% for the three months ended July 31, 2003 from 8.6% for the same period in 2002.

Interest expense, which includes loan amortization and commitment fees for the revolving credit facility, was flat at \$0.2 million for the third quarters of 2003 and 2002.

The effective federal and state income tax rate for income from continuing operations was 31.8% for the third quarter of 2003, compared to 18.1% for the third quarter of 2002. Income tax provision for continuing operations for the third quarter of 2002 included a tax benefit of \$2.6 million principally from tax liability adjustments made after the filing of the 2001 income tax returns including \$0.6 million of benefit from lowering the state tax rate effective in the third quarter of 2002, while the third quarter of 2003 included \$0.7 million of tax benefit from the filing of the

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2002 state and federal tax returns. The estimated combined federal and state tax rate of 36.3% was used for both the third quarter of 2003 and 2002.

**Segment Information**

Under SFAS No. 131 criteria, Janitorial, Parking, Engineering, Security, and Lighting are reportable segments. The Elevator segment was sold on August 15, 2003 and its operating results are reported separately under discontinued operation and are excluded from the table below (see "Discontinued Operation"). All other services are included in the "Other" segment. Corporate expenses are not allocated.

(In thousands)	Three months ended July 31,	
	2003	2002
<b>Sales and other income:</b>		
Janitorial	\$343,314	\$295,556
Parking	97,835	91,912
Engineering	44,492	43,273
Security	41,449	36,603
Lighting	30,657	31,868
Other	11,303	14,960
Corporate	43	88
	<u>\$569,093</u>	<u>\$514,260</u>
<b>Operating profit:</b>		
Janitorial	\$ 13,859	\$ 12,442
Parking	2,326	2,077
Engineering	2,631	2,626
Security	1,897	1,468
Lighting	1,373	1,880
Other	333	(2,159)
Corporate expense	(6,735)	(9,306)
<b>Operating profit</b>	<u>15,684</u>	<u>9,028</u>
Gain on insurance claim	—	5,725
Interest expense	(216)	(229)
<b>Income from continuing operations before income taxes</b>	<u>\$ 15,468</u>	<u>\$ 14,524</u>

The results of operations from the Company's segments for the three months ended July 31, 2003, compared to the same period in 2002, are more fully described below.

Sales for Janitorial were \$47.8 million or 16.2% higher in the third quarter of 2003 than the same quarter of 2002, primarily due to the \$49.7 million contribution from Lakeside which was acquired on July 12, 2002 and Horizon acquired on January 31, 2003. The contributions of these acquisitions

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were partially offset by declines in sales due to the termination of unprofitable jobs in the Northeast and Southeast regions and the termination of a major contract with collection issues in the Northwest region. All regions are affected by their customers' reduced discretionary expenditures. Sales from new customers, primarily in California and the Kansas, Oklahoma and Texas area also contributed to the increase. Operating profits in the third quarter of 2003 were \$1.4 million or 11.4% higher than the same period in 2002 primarily due to \$2.6 million of operating profit improvement from Lakeside and Horizon, partially offset by declines in operating profits in certain regions. The most significant declines were in the Northeast, the Northwest and South Central regions. These were partially offset by gains in other regions particularly the Southeast.

All Janitorial regions were affected by competitive pressures, particularly from non-union companies, leading to the pricing of new business at lower margins and prevented most regions of Janitorial from passing on the full amount of the insurance rate increase for 2003. The Northeast was affected by decline in high margin extra work from existing customers and union contract restrictions which affect the ability to reduce labor in response to higher vacancy in many buildings. The Northwest was affected by \$0.2 million in legal expenses from the discrimination trial and post-trial activities as well as higher office building vacancies. The South Central region was affected by pricing pressures from non-union competitors. Favorable results in the Southeast are due to termination of unprofitable jobs and effective labor controls.

Parking sales increased by \$5.9 million or 6.4%, while its operating profits increased \$0.2 million or 12.0% during the third quarter of 2003 compared to the third quarter of 2002. The sales increase was primarily attributable to the Valet Parking acquisition which occurred on April 30, 2003 and new business, 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, the loss of a major contract in Seattle, and the decline in sales at airport and hotel facilities. The increase in operating profit was primarily due to the increase in sales.

Engineering sales increased \$1.2 million or 2.8% from the third quarter of 2002 to the third quarter of 2003 primarily due to sales from new business offset in part by a \$0.7 million decline in sales from existing large customers that have reduced their spending. Operating profits for the third quarter of 2003 were flat compared to the same period last year despite the increase in sales due to higher salaries in New York, Los Angeles and Northern California and a settlement with a competitor firm on a bid-related issue requiring payment while the customer contract is in force.

Security sales increased \$4.8 million or 13.2% in the third quarter of 2003 compared to the same quarter of 2002, due primarily to the award of a national contract from Equity Office Properties on March 1, 2003 which contributed \$3.5 million in sales in the third quarter of 2003. The remainder of the sales increase was generated by net new business throughout the country. Operating profits increased by \$0.4 million or 29.2% primarily due to

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higher sales and the ability to absorb new business without increasing overhead expenses.

Lighting sales decreased \$1.2 million or 3.8% during the third quarter of 2003 compared to the third quarter of 2002 and operating profits decreased \$0.5 million or 27.0% primarily due to the decline in sales and lower margins on newer jobs. The decline in sales from 2002 was a result of the reduction in energy retrofit projects and the termination of certain national contracts after the third quarter of 2002.

Sales for the Other segment, which is comprised of CommAir Mechanical Services and ABM Facility Services, were down \$3.7 million or 24.4% for the third quarter of 2003 compared to the same period of 2002. The lower sales for the third quarter of 2003 were primarily due to decreased capital project work as customers tightened their budgets and ABM Facility Services' loss of the Consolidated Freightways account as a result of that company's bankruptcy in September 2002. The Other segment produced a profit of \$0.3 million in the third quarter of 2003 compared to a loss of \$2.2 million in the same period last year. Operating loss for the third quarter of 2002 included a \$1.0 million write-down of work-in-progress in the Mechanical Division, a \$1.3 million bad debt provision in the Facilities Services Division for the Consolidated Freightways account, as well as \$0.4 million in costs associated with the replacement of the President of the Facilities Services Division.

Corporate expenses decreased by \$2.6 million in the third quarter of 2003 compared to the same period of 2002. Included in corporate expenses for the third quarter of 2002 was \$2.7 million of costs associated with the elimination of the Chief Administrative Officer position and the early retirement of the former General Counsel. Corporate expenses for the third quarter of 2003 included higher directors and officers' insurance cost compared to the same period last year.

### **Nine Months Ended July 31, 2003 vs. Nine Months Ended July 31, 2002**

Income from continuing operations for the first nine months of 2003 was \$23.6 million (\$0.47 per diluted share), a decrease of \$9.3 million or 28.5% from the net income of \$32.9 million (\$0.64 per diluted share) for the first nine months of 2002. The decrease is primarily due to the inclusion of the following items in the results for the first nine months of 2002: \$10 million pretax gain from an initial payment of \$13.3 million from the September 11th insurance claim and \$2.0 million of income tax benefit, partially offset by \$6.0 million of pretax charges including \$3.1 million of costs associated with senior management changes, \$1.0 million write-down of work-in-progress and \$1.9 million higher bad debt provision for the first nine months of 2002 compared to the same period in 2003. Furthermore, declines in operating profits from the Janitorial segment, primarily the Northeast and Northwest regions, Lighting and Parking segments contributed to the decrease in income from continuing operations. Partially offsetting the declines were operating profit improvements totaling \$8.3 million contributed by the acquisitions of Lakeside, Horizon and Valet Parking Services operations which did not significantly impact results until after July 31, 2002, as well as \$0.7 million of tax benefit primarily from the filing of the 2002 state and federal tax returns.



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Sales and other income for the first nine months of 2003 of \$1,684.1 million increased by \$171.2 million or 11.3% from \$1,512.9 million for the first nine months of 2002. Acquisitions that did not significantly impact results until after July 31, 2002 contributed \$155 million to the sales increase. The remainder of the increase was attributable to new business, partially offset by the impact of contract terminations and declines in sales due to increased vacancies and decreased project work and extra services as customers tightened their budgets.

As a percentage of sales, operating expenses and cost of goods sold were 90.3% for the first nine months of 2003, compared to 89.9% for the first nine months of 2002. Consequently, as a percentage of sales, the Company's gross profit of 9.7% in the first nine months of 2003 was lower than the gross profit of 10.1% for the first nine months 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, a decline in sales from higher margin business due to increased vacancies, and higher reimbursements for out-of-pocket expenses from managed parking lot clients for which Parking had no margin benefit. Additionally, operating expenses for the first nine months of 2003 included higher insurance costs that could not be fully absorbed through increased pricing.

Selling, general and administrative expenses for the first nine months of 2003 were \$127 million compared to \$113.6 million for the corresponding period of 2002. Of the \$13.4 million increase, \$11 million was contributed by the Lakeside and Horizon acquisitions that did not significantly impact results until after the first nine months of 2002. Additionally, corporate expenses for the first nine months of 2003 included higher directors and officers' insurance costs and professional fees, as well as higher employer contributions to the Company's 401(k) plan, which was enhanced effective January 1, 2002. However, the first nine months of 2002 also reflected a total of \$5.0 million of charges including \$3.1 million of costs associated with the elimination of the Chief Administrative Officer position, the early retirement of the Corporate General Counsel, the replacement of the President of ABM Facility Services Division, as well as \$1.9 million higher bad debt provision for the first nine months of 2002 compared to the same period in 2003. As a percentage of sales, selling, general and administrative expenses remained at 7.5% for the nine months ended July 31, 2003 from the same period in 2002.

Interest expense, which includes loan amortization and commitment fees for the revolving credit facility, was \$0.5 million for the first nine months of 2003 compared to \$0.7 million for the same period in 2002. The decrease was primarily due to lower borrowings and interest rates during the first nine months of 2003, compared to the same period in 2002.

The effective federal and state income tax rate for income from continuing operations was 33.8% for the first nine months of 2003, compared to 32.0% for the same period of 2002. Income tax provision for continuing operations for the first nine months of 2002 included a tax benefit of \$2.0 million principally from tax liability adjustments made after the filing of the 2001 income tax returns, while the first nine months of 2003 included \$0.7 million of tax benefit from the filing of the 2002 state and federal tax returns. The estimated combined federal and state tax rate of 36.3% was used for both the first nine months of 2003 and 2002.

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**Segment Information**

Under SFAS No. 131 criteria, Janitorial, Parking, Engineering, Security, and Lighting are reportable segments. The Elevator segment was sold on August 15, 2003 and its operating results are reported separately under discontinued operation and are excluded from the table below (see "Discontinued Operation"). All other services are included in the "Other" segment. Corporate expenses are not allocated.

(In thousands)	Nine months ended July 31,	
	2003	2002
<b>Sales and other income:</b>		
Janitorial	\$1,017,671	\$ 866,585
Parking	283,909	269,751
Engineering	134,064	129,610
Security	118,246	103,397
Lighting	97,380	96,506
Other	32,528	46,648
Corporate	276	438
	<u>\$1,684,074</u>	<u>\$1,512,935</u>
<b>Operating profit:</b>		
Janitorial	\$ 37,236	\$ 39,612
Parking	3,938	4,908
Engineering	7,247	7,286
Security	4,399	3,728
Lighting	3,866	5,884
Other	280	(1,387)
Corporate expense	(20,899)	(20,878)
	<u>36,067</u>	<u>39,153</u>
Gain on insurance claim	—	10,025
Interest expense	(503)	(726)
	<u>\$ 35,564</u>	<u>\$ 48,452</u>
Income from continuing operations before income taxes	<u>\$ 35,564</u>	<u>\$ 48,452</u>

The results of operations from the Company's segments for the nine months ended July 31, 2003, compared to the same period in 2002, are more fully described below.

Sales for Janitorial were \$151.1 million or 17.4% higher in the first nine months of 2003 than the same period of 2002, primarily due to the \$150.2 million contribution from Lakeside acquired on July 12, 2002 and Horizon acquired on January 31, 2003. The remainder of the increase was attributable to new business, partially offset by the termination of

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unprofitable jobs in the Northeast and Southeast regions, the termination of a major contract due to collection issues in the Northwest region and declines in sales from existing contracts due to increased vacancies and decreased tag work or extra services as customers tightened their budgets. Operating profits in the first nine months of 2003 were \$2.4 million or 6.0% lower than the same period in 2002 primarily due to the \$7.7 million and \$1.9 million decline in operating profits in the Northeast and Northwest regions, respectively, which was partially offset by \$7.9 million of operating profit improvement from Lakeside and Horizon. The decline in operating profits in the Northwest region of Janitorial was due to the loss of a major contract, reduced revenues from existing contracts and higher legal fees primarily due to a gender discrimination lawsuit filed against the Company by a former employee.

In September 1999, a former employee filed a gender discrimination lawsuit against the Company. On May 19, 2003, a Washington state court jury awarded \$4 million in damages, plus plaintiff's costs, to the former employee. Upon entry of judgment, the Company will ask the Superior Court, State of Washington, County of Spokane, to set aside the jury verdict and to grant a new trial on some claims and dismiss other claims. The Company will appeal if the court denies these requests. There can be no assurance that the Company will prevail in this matter. The Company, however, believes that the award against the Company was excessive and that the verdict was inconsistent with the law and the evidence. Because the Company believes that the judgment will be reversed upon appeal, the Company has not recorded any liability in its financial statements associated with the judgment.

The decline in operating profits in the Northeast region of Janitorial, especially in New York City, was primarily due to new business priced at lower margins as a result of competitive pressures and a decline in sales from higher margin business due to increased vacancies. The benefit of terminating unprofitable contracts has been offset by loss of profitable building contracts. Further, first quarter 2002 results for New York City operations benefited from the extra clean-up work performed following the September 11th attacks. The region's operating profits for the first nine months 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 \$14.2 million or 5.2%, while its operating profits decreased by \$1.0 million or 19.8% during the first nine months of 2003 compared to the first nine months of 2002. The sales increase included the sales from the Valet Parking acquisition which occurred on April 30, 2003, as well as \$8.5 million of higher reimbursements for out-of-pocket expenses from managed parking lot clients for which Parking had no margin benefit. These sales increases were partially offset by declines in sales from the hi-tech areas of San Francisco and Seattle where the economic downturn resulted in high office building vacancies, the loss of a major contract in Seattle, and the declines in sales at airport and hotel facilities. The decrease in operating profits was primarily due to increased insurance costs which could not be fully absorbed through increased pricing,

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and the adverse effect of the war against Iraq and the Severe Acute Respiratory Syndrome (SARS) on sales at airport and hotel facilities.

Engineering sales increased \$4.5 million or 3.4% during the first nine months of 2003 compared to the first nine months of 2002 primarily due to sales from new business offset in part by a \$5.5 million decline in sales from existing large customers that have reduced their spending. Operating profits decreased by \$39,000 or 0.5% from the first nine months of 2002 to the first nine months of 2003 primarily due to higher salaries in New York, Los Angeles and Northern California, a settlement with a competitor firm on a bid-related issue requiring payment while the customer contract is in force, and consulting costs associated with a study to assist Engineering to expand into new markets and broaden the scope of its services.

Security sales increased \$14.8 million or 14.4% for the nine months of 2003 compared to the same period in 2002 primarily due to an increase of \$9.5 million in the sales contributed by the operations acquired from Triumph Security on January 26, 2002 and Foulke Security on February 28, 2002. In addition, the award of a national contract from Equity Office Properties (EOP) added \$5.3 million in sales for the first nine months of 2003. Operating profits increased by \$0.7 million or 18.0% due to increased sales and tight control over operating expenses, partially offset by start-up costs incurred in the first nine months of 2003 related to the new jobs acquired from EOP.

Lighting sales increased \$0.9 million or 0.9% during the nine months of 2003 compared to the same period of 2002, while operating profits decreased by \$2.0 million or 34.3%, despite slightly higher margins, primarily due to higher selling, general and administrative expenses particularly in the Northeast and North Central regions. The 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. Increase in sales was primarily due to increased project work, partially offset by the termination of certain national contracts during the first nine months of 2003. The Northeast and North Central regions hired additional managers in several branches and incurred higher labor-related costs due to training and double management during the transition.

Sales for the Other segment were down \$14.1 million or 30.3% for the first nine months of 2003 compared to the same period of 2002. The lower sales for the third quarter of 2003 were primarily due to decreased capital project work as customers tightened their budgets and ABM Facility Services' loss of the Consolidated Freightways account in September 2002. The Other segment produced a profit of \$0.3 million in the first nine months of 2003 compared to a loss of \$1.4 million in the same period last year. Operating loss for the first nine months of 2002 included a \$1.0 million write-down of work-in-progress in the Mechanical Division, a \$1.3 million bad debt provision in the Facilities Services Division for the Consolidated Freightways account, as well as \$0.4 million in costs associated with the replacement of the President of the Facilities Services Division.

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Corporate expenses for the first nine months of 2003 were essentially flat with the same period of 2002. However, the first nine months of 2002 included \$2.7 million of costs associated with the elimination of the Chief Administrative Officer position and the early retirement of the former General Counsel. Corporate expenses for the first nine months of 2003 reflect higher premiums paid for directors and officers' liability insurance, higher professional fees including expenses related to the due diligence performed for a proposed acquisition that was not completed, and increased expenses related to the use of outside counsel while in the process of hiring a General Counsel. The new General Counsel was hired on May 1, 2003.

### **Discontinued Operation**

On July 9, 2003, ABM Industries Incorporated entered into a Sale Agreement with Otis Elevator Company, a wholly owned subsidiary of United Technologies Corporation ("Otis"), to sell substantially all of the operating assets of Amtech Elevator Services, Inc. (a wholly owned subsidiary which represented the Company's Elevator segment) to Otis. On August 15, 2003, the sale was completed. The operating assets sold included customer contracts, accounts receivable, facility leases and other assets, as well as a license to the name "Amtech Elevator Services." The consideration paid to the Company in connection with the sale was \$112 million in cash, subject to certain adjustments, and assumption of trade payables and accrued liabilities.

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

The operating results of the discontinued operation for the three and nine months ended July 31, 2003 and 2002 are as follows:

(In thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Revenues	28,270	\$29,492	83,744	\$84,219
Income before income taxes	1,912	1,202	3,906	2,726
Income taxes	730	459	1,492	1,041
Net income	\$ 1,182	\$ 743	\$ 2,414	\$ 1,685

### **Subsequent Events**

On August 15, 2003, ABM Industries Incorporated completed the sale of substantially all of the operating assets of Amtech Elevator Services, Inc. (a wholly owned subsidiary which represented the Company's Elevator segment) to Otis Elevator Company, a wholly owned subsidiary of United Technologies

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Corporation, pursuant to a Sale Agreement dated as of July 9, 2003. For additional information, see “Discontinued Operation.”

On August 29, 2003, the Company acquired substantially all of the assets and operations of H.G.O., Inc., d/b/a HGO Services, a provider of janitorial services based in King of Prussia, Pennsylvania. Assets acquired by the Company include key customer accounts in the greater Philadelphia metropolitan area, including locations in New Jersey and Delaware. The total acquisition cost was \$12.8 million, plus annual contingent payments of approximately \$1.1 million for the three years subsequent to the acquisition date if specified levels of customer accounts are retained, and additional annual contingent payments for the three years subsequent to the acquisition date if financial performance exceeds agreed-upon levels. Of the total initial acquisition cost, \$12.4 million was allocated to goodwill and \$.4 million to fixed and other assets at the time of acquisition. Contingent payments, if made, will be allocated to goodwill.

### **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 July 31, 2003, the Company has no guarantees to disclose under FIN 45.

In November 2002, the EITF issued a final consensus on EITF Issue No. 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables.” EITF Issue No. 00-21 provides accounting guidance on when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. Management does not expect this statement to have a material effect on the Company’s results of operations or financial condition.

In November 2002, the EITF issued a final consensus on EITF 02-16, “Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor”. EITF Issue No. 02-16 provides accounting guidance on

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how a customer (end user) and a reseller should characterize certain consideration received from a vendor and when to recognize and how to measure that consideration in its income statement. EITF Issue No. 02-16 is effective for fiscal periods beginning after December 15, 2002 for resellers, with early application permitted, while for customers it is effective prospectively for arrangements entered into after November 21, 2002. Management does not expect this statement to have a material effect on the Company's results of operations or financial condition.

In January 2003, FASB issued FIN 46, "Consolidation of Variable Interest Entities," an interpretation of ARB No. 51. FIN 46 addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. FIN 46 applies immediately to variable interests in variable interest entities created after January 31, 2003; and for the first fiscal year or interim period beginning after June 15, 2003 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Analysis of the Company's interest in variable interest entities at July 31, 2003 indicates that no consolidation will be required. The application of FIN 46 is not expected to have a material effect on the Company's results of operations or financial condition.

### **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.

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*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 July 31, 2003, the net deferred tax asset was \$68.7 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 litigations arising in the ordinary course of business including certain environmental matters. When a loss is probable and estimable the Company records the estimated loss. The actual loss may be greater than estimated or litigation where the outcome was not considered probable 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, results of operations, or cash flows.

The Company is currently involved in two proceedings relating to environmental matters: one involving alleged potential soil contamination at a former Company facility in Arizona and one involving alleged potential soil and groundwater contamination at a Company facility in Florida. While it is difficult to predict the ultimate outcome of these matters, based on information currently available, management believes that neither of these matters, individually or in the aggregate, are reasonably likely to have a material adverse effect on the Company's financial position, results of operations, or cash flows. As any liability related to these claims is neither probable nor estimable, no accruals have been made related to these matters.

Three other proceedings related to environmental matters that existed at October 31, 2002 were resolved in the first nine months of 2003. In the second quarter a settlement agreement was executed and a payment of \$0.1 million was made for one proceeding, which involved alleged potential soil contamination at a former parking facility leased by the Company in Washington.

In the third quarter of 2003, two proceedings were resolved. One involved alleged potential soil and groundwater contamination at a former dry-cleaning facility leased by the Company in Nevada and a settlement payment of \$0.5 million was made. The other involved alleged potential soil and groundwater



contamination at a third party recycling center in Southern California and a settlement payment of \$21,000 was made.

### **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 as well as having an adverse impact on future revenue, (4) major collective bargaining issues that may cause loss of revenues or cost increases that non-union competitors can use to their advantage in gaining market share, (5) significant shortfalls in adding additional customers in existing and new territories and markets, (6) inability to successfully integrate acquisitions into the Company, (7) a protracted slowdown in the Company's acquisition activities, (8) 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, (9) reduction or revocation of the Company's line of credit, which would increase interest expense or the cost of capital, (10) 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, (11) 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, (12) inability to employ entry level personnel at competitive wage rates due to labor shortages, (13) 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, 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 and 10-K.

### **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 \$25 million in cash equivalents at July 31, 2003, market rate risk associated with falling interest rates in the United States is not material.

### **Item 4. Controls and Procedures**

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The Company's principal executive officer and principal financial officer have concluded that the effectiveness of the Company's disclosure controls and procedures (as defined in Securities Exchange Act of 1934 ("Exchange Act") Rules 13a-15(e) or 15d-15(e)) were adequate as of the end of the period covered by this quarterly report, based on the evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

No change in the Company's internal control over financial reporting was identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In September 1999, a former employee filed a gender discrimination lawsuit against the Company. On May 19, 2003, a Washington state court jury awarded \$4 million in damages, plus plaintiff's costs, to the former employee. Upon entry of judgment, the Company will ask the Superior Court, State of Washington, County of Spokane, to set aside the jury verdict and to grant a new trial on some claims and dismiss other claims. The Company will appeal if the court denies these requests. There can be no assurance that the Company will prevail in this matter. The Company, however, believes that the award against the Company was excessive and that the verdict was inconsistent with the law and the evidence. Because the Company believes that the judgment will be reversed upon appeal, the Company has not recorded any liability in its financial statements associated with the judgment.

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

#### (a) Exhibits:

Exhibit 3.2 - Bylaws as amended June 10, 2003

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)

Exhibit 32.1 - Certifications pursuant to Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### (b) Reports on Form 8-K:

The Company furnished a report on Form 8-K dated May 20, 2003 pursuant to Item 9, which reported the Company's intent to appeal a Washington State

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court jury's decision to award \$4 million in damages to a former employee because it is inconsistent with the law and the facts of the case. ABM also announced the jury verdict in its favor in the second employment case being tried in the same court.

The Company filed a report on Form 8-K dated June 10, 2003 pursuant to Item 5, which announced the declaration of its quarterly dividend and furnished in the same report pursuant to Item 12 its financial results related to the second quarter of fiscal year 2003.

The Company filed a report on Form 8-K dated July 9, 2003 pursuant to Item 5, which contained the Company's announcement that it had entered into a Sale Agreement with Otis Elevator Company to sell substantially all of the operating assets of its wholly owned subsidiary, Amtech Elevator Services, Inc., to Otis Elevator Company.

**SIGNATURES**

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

ABM Industries Incorporated

September 10, 2003

/s/ George B. Sundby

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George B. Sundby  
Senior Vice President and  
Chief Financial Officer  
Principal Financial Officer

September 10, 2003

/s/ Maria Placida Y. de la Peña

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Maria Placida Y. de la Peña  
Vice President and Controller  
Chief Accounting Officer

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.2	Bylaws as amended June 10, 2003
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)
32.1	Certifications pursuant Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

As amended June 10, 2003

ABM INDUSTRIES INCORPORATED

BYLAWS

ARTICLE I  
OFFICES

SECTION 1.1. REGISTERED OFFICE. The registered office shall be located in the City of Wilmington, County of New Castle, State of Delaware.

SECTION 1.2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II  
MEETINGS OF STOCKHOLDERS

SECTION 2.1. PLACE OF MEETING. All meetings of stockholders shall be held at the principal executive office of the Corporation or at any other place, either within or without the State of Delaware, as may be designated by the Board of Directors.

SECTION 2.2. ANNUAL MEETING. The annual meeting of stockholders shall be held on such date and at such time as the Board of Directors may designate. At each annual meeting the stockholders shall elect directors to succeed those whose terms expire in that year and to serve until their successors are elected, and shall transact such other business as may properly be brought before the meeting.

SECTION 2.3. NOTICE OF SHAREHOLDER MEETINGS. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting. Such notice shall be given either personally or by mail or other means of written communication, addressed or delivered to each stockholder entitled to vote at such meeting at the address of such stockholder appearing on the books of the Corporation or given by him to the Corporation for the purpose of such notice. If no such address appears or is given, notice shall be given either personally or by mail or other means of written communication addressed to the stockholder at the place where the principal executive office of the Corporation is located. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

SECTION 2.4. BUSINESS AT ANNUAL MEETINGS. At an annual meeting of stockholders, only such business shall be conducted as shall have been brought before the meeting (i) pursuant to the Corporation's notice of the meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who is a stockholder of record at the time of giving of the notice provided for in this Bylaw, who shall be entitled to vote at such meeting and who shall have complied with the notice procedures set forth in this Bylaw.

For business to be properly brought before an annual meeting by a stockholder pursuant to Section 2.4(a) of this Bylaw, notice in writing must be delivered or mailed, postage prepaid, to the Secretary of the Corporation and received at the principal executive offices of the Corporation not less than 60 days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of stockholders; provided, however, that in the event that the date of the meeting is advanced by more than 30 days or delayed by more than 60 days from such meeting's anniversary date, notice by the stockholder must be received not later than the close of business on the later of the 60th day prior to such date of mailing of proxy materials or the 10th day following the day on which public announcement of the date of the annual meeting is first made. Such stockholder's notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business to be brought before the annual meeting and the reasons for conducting such business at such meeting; (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made; (iii) the class and number of shares

of the Corporation's stock which are beneficially owned by the stockholder, and by the beneficial owner, if any, on whose behalf the proposal is made; and (iv) any material interest of the stockholder, and of the beneficial owner, if any, on whose behalf the proposal is made, in such business. Business. For purposes of these Bylaws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Bylaw. The chairman of the meeting may, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with the provisions of this Bylaw; and if the chairman should so determine, the chairman shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

SECTION 2.5. LIST OF STOCKHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of

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stockholders, a complete list of stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of the stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 2.6. SPECIAL MEETINGS. Special meetings of the stockholders, for any purpose or purposes, may be called at any time by the Board of Directors, or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose power and authority, as provided in a resolution of the Board of Directors, include the power to call such meetings, but such special meetings may not be called by any other person or persons.

SECTION 2.7. NOTICE OF SPECIAL MEETINGS. Written notice of a special meeting of stockholders stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

SECTION 2.8. BUSINESS AT SPECIAL MEETINGS. The business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

SECTION 2.9. ADJOURNED MEETINGS AND NOTICE THEREOF. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares represented either in person or by proxy, but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 2.10 of these bylaws. When a stockholders' meeting is adjourned to another time or place, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken; except that if the adjournment is for more than thirty days or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote thereat. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting.

SECTION 2.10. QUORUM. The holders of a majority of the shares issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation.

SECTION 2.11. MAJORITY VOTE. If a quorum is present at any meeting, the vote of the holders of a majority of the shares having voting power, present in person or represented by proxy, shall decide any question brought before such meeting, unless a different vote is required on that question by express provision of statute or of the certificate of

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incorporation, in which case such express provision shall govern and control. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, in any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum, unless a different vote is required as set forth above.

SECTION 2.12. VOTING. Except as otherwise provided in the certificate of incorporation and subject to Section 8.4 of these bylaws, each stockholder shall be entitled to one vote, in person or by proxy, for each share of capital stock having voting power held by such stockholder, but no proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. Vote may be viva voce or by ballot; provided, however, that elections for directors must be by ballot. Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, other than elections to office but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it shall be conclusively presumed that the stockholder's approving vote is with respect to all shares said stockholder is entitled to vote.

SECTION 2.13. STOCKHOLDER ACTION. Any action required or permitted to be taken by the stockholders must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when a person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; provided, that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law or these bylaws to be included in the notice but not so included if such objection is expressly made at the meeting.

SECTION 2.14. PRESIDING OFFICER. The chairman of the Board of Directors, if there be such officer, shall, if present, call the meetings of the stockholders to order and shall act as the presiding officer thereof.

SECTION 2.15. SECRETARY. The secretary of the Corporation, if present, shall act as secretary of all meetings of the stockholders. In the absence of the secretary, an assistant secretary if present shall act as secretary of the meetings of the stockholders. In the absence of the secretary or any assistant secretary, the presiding officer may appoint a person to act as secretary of such meeting.

SECTION 2.16. CONFIDENTIAL VOTING.

(a) Proxies and ballots that identify the votes of specific stockholders shall be kept in absolute confidence by the tabulators and the inspectors of election unless (i) there is an opposing solicitation with respect to the election or removal of Directors, (ii) disclosure is required by applicable law, (iii) a stockholder expressly requests or otherwise authorizes

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disclosure of the vote(s) cast by that stockholder, or (iv) the Corporation concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes. Otherwise, no person, group or entity (including but not limited to any past, present or prospective director, officer, employee, agent or stockholder of the Corporation) shall be shown, told or given any information about the vote(s) cast by any specific stockholder.

(b) Comments written on proxies, consents or ballots shall be transcribed and provided to the secretary of the Corporation with the name and address of the



stockholder. The vote of the stockholder shall not be disclosed at the time any such comment is provided to the secretary except where such vote is included in the comment or disclosure is necessary, in the opinion of the inspector, for an understanding of the comment.

(c) The tabulators and inspectors of election and any authorized agents or other persons engaged in the receipt, count and tabulation of proxies and ballots shall be advised of this Bylaw and instructed to comply herewith.

(d) The inspectors of election shall certify, to the best of their knowledge based on due inquiry, that proxies and ballots have been kept in confidence as required by this Section 2.16.

(e) Nothing in this Bylaw shall prohibit the inspector from making available to the Corporation, during the period prior to any annual or special meeting, information as to which stockholders have not voted and periodic status reports on the aggregate vote.

### ARTICLE III DIRECTORS

SECTION 3.1. NUMBER OF DIRECTORS, ELECTION AND TERM OF OFFICE. The number of directors which shall constitute the whole board shall be nine. The Board of Directors shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as determined by the Board of Directors, one class to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1986, another class to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1987, and another class to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1988, with the members of each class to hold office until their successors are elected and qualified.

At each annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

The term "entire board" as used in these bylaws means the total number of directors which the Corporation would have if there were no vacancies.

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SECTION 3.2. VACANCIES. A vacancy in the Board of Directors shall be deemed to exist in case of the death, resignation, or removal of any director, or if the authorized number of directors be increased, or if the stockholders fail at any annual or special meeting of stockholders to elect the full authorized number of directors to be voted for at that meeting. Unless otherwise provided in the certificate of incorporation, vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, and any director so chosen shall hold office until the next election of the class for which he was chosen and until his successor is fully elected and qualified, unless sooner displaced. If at any time the Corporation should have no directors in office, then an election of directors may be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the entire board (as constituted immediately prior to any such increase), the Court of the Chancery may upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships or to replace the directors chosen by the directors then in office.

SECTION 3.3. POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these bylaws directed or required to be exercised or done by the stockholders.

SECTION 3.4. COMPENSATION OF DIRECTORS. The Board of Directors shall have the authority to fix the compensation of directors. No such compensation shall preclude any director from serving the Corporation in any other capacity and

receiving compensation therefor.

SECTION 3.5. RESIGNATION. Any director may resign effective upon giving written notice to the chief executive officer, the secretary, or the Board of Directors of the Corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

SECTION 3.6. NOMINATIONS OF DIRECTORS. Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors may be made at a meeting of stockholders (i) by the Board of Directors or a committee appointed by the Board of Directors authorized to make such nominations or (ii) by any stockholder of the Corporation who is a stockholder of record at the time of giving of the notice provided for in this Bylaw, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Bylaw. Nominations by stockholders shall be made pursuant to notice in writing, delivered or mailed, postage prepaid, to the Secretary of the Corporation and received at the principal executive offices of the Corporation (i) in the case of an annual meeting, not less than 60 days prior

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to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of stockholders, provided, however, that in the event that the date of the meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder must be received not later than the close of business on the later of the 60th day prior to such date of mailing of proxy materials or the 10th day following the day on which public announcement of the date of the meeting is first made; or (ii) in the case of a special meeting at which directors are to be elected, not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement of the date of the meeting and of the nominees proposed by the Board of Directors to be elected at such meeting is first made. Such stockholder's notice shall set forth (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated by the Board of Directors; and (v) the written consent of such nominee to serve as a director of the Corporation if elected. At the request of the Board of Directors, or any committee appointed by the Board of Directors authorized to make such nominations, any person nominated by the Board of Directors, or such committee, for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination that pertains to the nominee. Notwithstanding anything in this Bylaw to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public statement naming all the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in these Bylaws. The chairman of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed in this Bylaw; and if the chairman should so determine, the chairman shall so declare to the meeting, and the defective nomination shall be disregarded. Notwithstanding the foregoing

provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act, and the rules and regulations thereunder with respect to the matters set forth in this Bylaw.

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ARTICLE IV  
MEETINGS OF THE BOARD OF DIRECTORS

SECTION 4.1. PLACE OF MEETING. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

SECTION 4.2. ORGANIZATION MEETING. Immediately after each annual meeting of stockholders, the Board of Directors shall hold a regular meeting for the purpose of organization, electing officers and transacting other business. No notice of such meeting need be given. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

SECTION 4.3. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held at such time and at such place as shall from time to time be determined by the Board of Directors; provided, however, that if the date so designated falls upon a legal holiday, then the meeting shall be held at the same time and place on the next succeeding day which is not a legal holiday. Such regular meetings may be held without notice.

SECTION 4.4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the chairman of the board of directors, chairman of the executive committee of the Board of Directors, the chief executive officer or the president or on the written request of the directors constituting a majority of the entire board.

SECTION 4.5. NOTICE OF SPECIAL MEETINGS. Notice of the time and place of special meetings of the Board of Director shall be delivered personally to each director, or sent to each director by mail, telephone, or telegraph. In case such notice is sent by mail or telegraphed it shall be deposited in the United States mail or delivered to the telegraph company in the place in which the principal office of the Corporation is located at least 48 hours prior to the time of the holding of the meeting. In case such notice is delivered personally or by telephone, it shall be so delivered at least 24 hours prior to the time of the holding of the meeting. Such notice shall not be necessary if appropriate waivers, consents and/or approvals are filed in accordance with Section 4.6 of these bylaws.

SECTION 4.6. WAIVER OF NOTICE. Notice of a meeting need not be given to any director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

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SECTION 4.7. QUORUM. At all meetings of the board, the presence of one-third of the entire board shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meetings at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting without notice other than announcement at the meeting, until a quorum shall be present. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

SECTION 4.8. ADJOURNMENT. Any meeting of the Board of Directors, whether or not

a quorum is present, may be adjourned to another time and place by the vote of a majority of the directors present. Notice of the time and place of the adjourned meeting need not be given to absent directors if said time and place are fixed at the meeting adjourned.

SECTION 4.9. ACTION WITHOUT MEETING. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

SECTION 4.10. CONFERENCE COMMUNICATION. Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board of Directors or any committee designated by the board may participate in a meeting of the Board of Directors or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another. Participation in a meeting pursuant to this action shall constitute presence in person at such meeting.

#### ARTICLE V COMMITTEES OF DIRECTORS

SECTION 5.1. COMMITTEES OF DIRECTORS. The Board of Directors may, by resolution passed by a majority of the entire board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolutions of the Board of Directors, shall have

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and may exercise all the power and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the bylaws of the Corporation and, unless the resolution or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

SECTION 5.2. COMMITTEE MINUTES. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

SECTION 5.3. AUDIT COMMITTEE. There shall be an Audit Committee comprised of at least three members of the Board. The members will be appointed by and serve at the pleasure of the Board. The Audit Committee shall oversee the corporate financial reporting process and the internal and external audits of the Corporation. The Audit Committee will undertake those specific duties, responsibilities and processes described in the Audit Committee Charter adopted by this Board and such other duties as the Board of Directors from time to time may prescribe.

SECTION 5.4 EXECUTIVE COMMITTEE. There shall be an Executive Committee of the Board of Directors that shall include a minimum of any three directors appointed from time to time by the Board. Any outside director or directors may attend any meeting of the Executive Committee as participants; however, a quorum shall be determined without regard to the attendance of such outside director or directors. If more than one outside director attends a meeting of the Executive Committee, only the director with the longest service on the Board of Directors shall have a vote on matters coming before the Executive Committee.

The functions of the Executive Committee shall be to exercise all power and

authority of the Board in the management of the business and affairs of the Corporation, except for: (a) any functions delegated to other committees of the Board. (b) amending the Articles or Certificate of Incorporation, (c) adopting an agreement of merger or consolidation, (d) recommending to the stockholders the sale, lease or exchange of substantially all of the Corporation's property and assets, (e) recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, (f) amending the Bylaws of the Corporation, (g) declaring a dividend, or (h) authorizing the issuance of stock in the Corporation.

SECTION 5.5. EXECUTIVE OFFICER COMPENSATION & STOCK OPTION COMMITTEE. There shall be an Executive Officer Compensation & Stock Option Committee of the Board of Directors that shall include a minimum of any three independent directors appointed from

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time to time by the Board. The functions of the Executive Officer Compensation & Stock Option Committee shall be to: (a) review and recommend to the Board the compensation and other contractual terms and conditions for employment of the Corporation's executive officers, (b) review and recommend to the Board the compensation and other contractual terms and conditions for employment of any and all former executive officers of the company who resume service to the Company as independent contractors or non-officer employees, (c) review the compensation and other contractual terms and conditions for employment of other corporate or subsidiary officers whose annual cash compensation exceeds \$250,000, (d) to administer the Corporation's stock option plans and authorize grants thereunder, and (e) to administer the Corporation's employee stock purchase plan.

SECTION 5.6 NOMINATING, GOVERNANCE & SUCCESSION COMMITTEE. There shall be a Nominating, Governance & Succession Committee of the Board of Directors that shall include a minimum of any three independent directors appointed from time to time by the board. The functions of the Nominating, Governance & Succession Committee shall be to: (a) make recommendations to the board as to the optimal number of directors on the Board, (b) review and recommend criteria for the reelection of incumbent directors, (c) have jurisdiction over the compensation of directors, (d) review and recommend executive officer succession, and (e) be responsible for all matters of corporate governance.

#### ARTICLE VI OFFICERS

SECTION 6.1 OFFICERS. The officers of the Corporation shall be a chief executive officer, a president, a chairman of the Board, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a secretary, a controller, and a treasurer, each of whom shall be an executive officer of the Corporation appointed by the Board of Directors. The Corporation may also have one or more assistant vice presidents, one or more assistant secretaries, one or more assistant controllers, and one or more assistant treasurers, each of whom shall be an assistant officer of the Corporation appointed by the Executive Committee of the Board of Directors. Any number of offices may be held by the same person, unless the certificate of incorporation or these bylaws otherwise provide.

SECTION 6.2 ELECTION. The Board of Directors at its first meeting after each annual meeting of stockholders shall elect all principal officers for the ensuing year and shall designate a chief executive officer and a chief financial officer. At its first meeting after each annual meeting of stockholders, the Executive Committee shall elect all assistant officers.

SECTION 6.3 OTHER OFFICERS. The Board of Directors may appoint such other officers and agents as it shall deem necessary and they shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

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SECTION 6.4 TERM. Subject to an applicable written employment agreement, if any, between the Corporation and any principal officer elected or appointed by the Board of Directors or any assistant officer appointed by the Executive Committee of the Board of Directors, said officer may be removed at any time, either with or without cause, by the affirmative vote of a majority of the Board of

Directors or of the Executive Committee of the Board of Directors, respectively. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors or by the Executive Committee of the Board of Directors pursuant to the requirements of Section 6.1 of this Article VI. Compensation and other terms and conditions of employment of any principal officer shall be subject to approval of the Officer Compensation and Stock Option Committee and the Board of Directors. Compensation and other terms and conditions of employment of assistant officers shall be subject to approval of the Executive Committee of the Board of Directors.

SECTION 6.5 THE CHAIRMAN OF THE BOARD OF DIRECTORS. The chairman of the Board of Directors shall be responsible to the Board of Directors, shall prepare communications to the Board, and with input from the Executive Committee, shall prepare agenda for meetings of the Board of Directors. The Chairman of the Board of Directors shall be a member of the Executive Committee and shall preside over all meetings of the Board of Directors and of the stockholders. At the request of the President and Chief Executive Officer, the Chairman shall assist him in communications with stockholders, the press and the investment community. The chairman shall exercise and perform such other powers and duties as may, from time to time, be assigned to him by the Board of Directors or prescribed by these bylaws.

SECTION 6.6 THE PRESIDENT. The president shall have general and active management over the business and affairs of the corporation, subject, however, to the powers and authority of the chief executive officer and to the control of the Board of Directors. In the absence or disability of the chief executive officer, the president shall perform the duties of the chief executive officer, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer.

SECTION 6.7 THE SENIOR VICE PRESIDENTS. In the absence of the chairman of the board or any executive vice presidents, the senior vice presidents, in order of their rank as fixed by the board of directors, or, if not ranked, the senior vice president designated by the Board of Directors shall perform the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon the president. The senior vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Executive Committee of the Board of Directors.

SECTION 6.8 THE VICE PRESIDENTS. The vice presidents shall have such powers and perform such duties as may from time to time be prescribed by the Executive Committee of the Board of Directors.

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SECTION 6.9 THE SECRETARY. The secretary shall keep, or cause to be kept, a book of minutes in written form of the proceedings of the Board of Directors, committees of the board, and stockholders. Such minutes shall include all waivers of notice, consents to the holding of meeting, or approvals of the minutes of meetings executed pursuant to these bylaws or statute. The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the Corporation's transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders, and the number and class of shares held by each.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required by these bylaws or by law to be given, and shall keep the seal of the Corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these bylaws.

SECTION 6.10 THE ASSISTANT SECRETARY. The assistant secretary shall have all the powers and perform all the duties of the secretary in the absence or inability of the secretary to act.

SECTION 6.11 THE CONTROLLER. The Controller of the Corporation shall be the general manager of the accounting, tax and internal audit functions of the Corporation and its subsidiaries, subject to the control of the chief financial officer. The controller shall have such other powers and perform such other duties as from time to time may be prescribed by the chief financial officer.

SECTION 6.12 THE TREASURER. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of

receipts and disbursements in books belonging to the Company and shall deposit all monies and other valuables in the name and to the credit of the Company. The treasurer shall also have such other powers and perform such other duties as may be prescribed by the Executive Committee of the Board of Directors.

ARTICLE VII  
INDEMNIFICATION OF DIRECTORS,  
OFFICERS, EMPLOYEES AND AGENTS

SECTION 7.1. ACTIONS, SUITS OR PROCEEDINGS OTHER THAN BY OR IN THE RIGHT OF THE CORPORATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against costs,

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charges, expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided however, that the foregoing indemnity shall not be applicable as to any person who is or was or agreed to become an employee or agent of the Corporation (other than employees or agents who are or were also officers or directors of the Corporation), or is or was serving or agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise (other than employees or agents who are or were also officers or directors of any such other corporation, partnership, joint venture, trust or enterprise), unless and until such indemnity is specifically approved by the Board of Directors. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 7.2. ACTIONS OR SUITS BY OR IN THE RIGHT OF THE CORPORATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection with the defense or settlement of such action or suit and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such costs, charges and expenses which the Court of Chancery or such other court shall deem proper; provided, however, that the foregoing indemnity shall not be applicable as to any person who is or was or agreed to become an employee or agent of the Corporation (other than employees or agents who are or were also officers or directors of the Corporation), or is or was serving or agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise other than employees or agents who are or were also officers or directors of any such other corporation, partnership, joint venture, trust or

enterprise), unless and until such indemnity is specifically approved by the Board of Directors.

SECTION 7.3. INDEMNIFICATION FOR COSTS, CHARGES AND EXPENSES OF SUCCESSFUL PARTY. Notwithstanding the other provisions of this Article, to the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in defense of any action, suit or proceeding referred to in Sections 7.1 and 7.2 of this Article, or in defense of any claim, issue or matter therein, he shall be indemnified against all costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by him or on his behalf in connection therewith.

SECTION 7.4. DETERMINATION OF RIGHT TO INDEMNIFICATION. Any indemnification under Sections 7.1 and 7.2 of this Article (unless ordered by a court) shall be paid by the Corporation unless a determination is made (1) by the Board of Directors by a majority vote of the quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders, that indemnification of the director, officer, employee or agent is not proper in the circumstances because he has not met the applicable standard of conduct set forth in Sections 7.1 and 7.2 of this Article.

SECTION 7.5. ADVANCE OF COSTS, CHARGES AND EXPENSES. Costs, charges and expenses (including attorneys' fees incurred by a person referred to in Sections 7.1 and 7.2 of this Article in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding; providing, however, that the payment of such costs, charges and expenses incurred by a director or officer in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer) in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by or on behalf of the director or officer to repay all amounts so advanced in the event that it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation as authorized in this Article. Such costs, charges and expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Board of Directors may, in the manner set forth above, and upon approval of such director, officer, employee or agent of the Corporation, authorize the Corporation's counsel to represent such person, in any action, suit or proceeding, whether or not the Corporation is a party to such action suit or proceeding.

SECTION 7.6. PROCEDURE FOR INDEMNIFICATION. Any indemnification under Sections 7.1., 7.2 or 7.3, or advance of costs, charges and expenses under Section 7.5 of this Article, shall be made promptly, and in any event within 30 days, upon the written request of the director, officer, employee or agent. The right to indemnification or advances as granted by this Article shall be enforceable by the director, officer, employee or agent in any court of competent jurisdiction, if the Corporation denies such request, in whole or in

part, or if no disposition thereof is made within 30 days. Such persons, costs and expenses incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 7.5 of this Article where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in Sections 7.1 or 7.2 of this Article, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 7.1 or 7.2 of this Article, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not



met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

SECTION 7.7. OTHER RIGHTS; CONTINUATION OF RIGHT TO INDEMNIFICATION. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any law (common or statutory), agreement, vote of stockholders or disinterested director or otherwise, both as to action in his official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Corporation, and shall continue as to a person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. All rights to indemnification under this Article shall be deemed to be a contract between the Corporation and each director, officer, employee or agent of the Corporation who serves or served in such capacity at any time while this Article is in effect. Any repeal or modification of this Article or any repeal or modification of relevant provisions of the Delaware General Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification of such director, officer, employee or agent or the obligations of the Corporation arising hereunder.

SECTION 7.8. INSURANCE. The Corporation shall purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him or on his behalf in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article, provided that such insurance is available on acceptable terms, which determination shall be made by a vote of a majority of the entire Board of Directors.

SECTION 7.9. SAVINGS CLAUSE. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall

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nevertheless indemnify each director, officer, employee and agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated and to the full extent permitted by applicable law.

#### ARTICLE VIII STOCKHOLDERS

SECTION 8.1. CERTIFICATES OF STOCK. Every holder of shares in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by, the chairman, the president or a vice president and the secretary or an assistant secretary of the Corporation, or the treasurer or an assistant treasurer, certifying the number of shares owned by him in the Corporation. Any or all the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 8.2. LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates of stock to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates the Corporation may, in its discretion, and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond (or other adequate security) in such sum as it may direct as indemnity against any claim that may be made against the

Corporation on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 8.3. TRANSFER OF STOCK. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

SECTION 8.4. STOCKHOLDERS OF RECORD. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of the stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor

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less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting, unless the Board of Directors fixes a new record date for the adjourned meeting, but the board shall fix a new record date if the meeting is adjourned for more than forty-five days from the date set for the original meeting.

SECTION 8.5. NO RECORD DATE. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business at the day next preceding the day on which notice is given, or, if notice is waived, at the end of business of the day next preceding the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

SECTION 8.6. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

#### ARTICLE IX GENERAL PROVISIONS

SECTION 9.1. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

SECTION 9.2. SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the name of the state of its incorporation. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

#### ARTICLE X AMENDMENTS

SECTION 10.1. Amendments. Subject to the provisions of the Certificate of Incorporation, these bylaws may be altered, amended or repealed at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by a vote of not less than 70% of the outstanding stock entitled to vote at such meeting; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Delaware, the certificate of incorporation and these bylaws, the Board of Directors may by majority vote of those present at any meeting at which a quorum is present amend these bylaws, or enact such other bylaws as in their judgment may be advisable for the regulation of the conduct of the affairs of the Corporation.

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934  
RULE 13a-14 (a) OR 15d-14 (a)

I, Henrik C. Slipsager, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ABM Industries Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 10, 2003

/s/ Henrik C. Slipsager

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934  
RULE 13a-14 (a) OR 15d-14 (a)

I, George B. Sundby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ABM Industries Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 10, 2003

/s/ George B. Sundby

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

CERTIFICATIONS PURSUANT TO SECURITIES EXCHANGE ACT OF 1934  
RULE 13a-14(b) OR 15d-14(b) AND  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of ABM Industries Incorporated (the "Company") on Form 10-Q for the period ended July 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Henrik C. Slipsager, Chief Executive Officer of the Company, and George B. Sundby, Chief Financial Officer of the Company, each certifies for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

September 10, 2003

/s/ Henrik C. Slipsager

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

September 10, 2003

/s/ George B. Sundby

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