

ABM INDUSTRIES INC /DE/  
Form 10-Q  
March 04, 2015

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

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FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2015

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.)

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551 Fifth Avenue, Suite 300

New York, New York 10176

(Address of principal executive offices)

(212) 297-0200

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at February 25, 2015
Common Stock, \$0.01 par value per share	55,992,396 shares

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

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## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q, and in particular, statements found in Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” that are not statements of historical fact constitute forward-looking statements. These statements give current expectations or forecasts of future events and are often identified by the words “will,” “may,” “should,” “continue,” “anticipate,” “believe,” “expect,” “plan,” “ap,” “project,” “estimate,” “intend,” “seek,” or other words and terms of similar meaning in connection with discussions of future strategy and operating or financial performance. Such statements reflect the current views of ABM Industries Incorporated (“ABM”), and its subsidiaries (collectively referred to as “ABM,” “we,” “us,” “our,” or the “Company”), with respect to future events and are based on assumptions and estimates which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. These factors include but are not limited to the following:

- risks relating to our acquisition strategy may adversely impact our results of operations;
- our strategy of moving to an integrated facility solutions provider platform, which focuses on vertical markets, may not generate the organic growth in revenues or profitability that we expect;
- we are subject to intense competition that can constrain our ability to gain business as well as our profitability;
- our business success depends on our ability to preserve our long-term relationships with clients;
- increases in costs that we cannot pass on to clients could affect our profitability;
- we have high deductibles for certain insurable risks, and therefore we are subject to volatility associated with those risks;
- our restructuring initiatives may not achieve the expected cost reductions;
- our business success depends on retaining senior management and attracting and retaining qualified personnel;
- we are at risk of losses stemming from accidents or other incidents at facilities in which we operate, which could cause significant damage to our reputation and financial loss;
- negative or unexpected tax consequences could adversely affect our results of operations;
- federal health care reform legislation may adversely affect our business and results of operations;
- changes in energy prices and government regulations could adversely impact the results of operations of our Building & Energy Solutions business;
- significant delays or reductions in appropriations for our government contracts may negatively affect our business and could have an adverse effect on our financial position, results of operations, and cash flows;
- we conduct some of our operations through joint ventures, and our ability to do business may be affected by the failure of our joint venture partners to perform their obligations;
- our business may be negatively affected by adverse weather conditions;
- we are subject to business continuity risks associated with centralization of certain administrative functions;
- our services in areas of military conflict expose us to additional risks;
- we are subject to cyber-security risks arising out of breaches of security relating to sensitive company, client, and employee information and to the technology that manages our operations and other business processes;
- a decline in commercial office building occupancy and rental rates could affect our revenues and profitability;
- deterioration in general economic conditions could reduce the demand for facility services and, as a result, reduce our earnings and adversely affect our financial condition;
- financial difficulties or bankruptcy of one or more of our clients could adversely affect our results;

- we incur accounting and other control costs that reduce profitability;
- any future increase in the level of our debt or in interest rates could affect our results of operations;
- our ability to operate and pay our debt obligations depends upon our access to cash;
- goodwill impairment charges could have a material adverse effect on our financial condition and results of operations;
- impairment of long-lived assets may adversely affect our operating results;
- we are defendants in class and representative actions and other lawsuits alleging various claims that could cause us to incur substantial liabilities;
- changes in immigration laws or enforcement actions or investigations under such laws could significantly adversely affect our labor force, operations, and financial results;
- labor disputes could lead to loss of revenues or expense variations;
- we participate in multiemployer pension plans that under certain circumstances could result in material liabilities being incurred; and
- disasters or acts of terrorism could disrupt services.

Additional information regarding these and other risks and uncertainties we face is contained in our Annual Report on Form 10-K for the year ended October 31, 2014 and in other reports we file from time to time with the Securities and Exchange Commission.

We urge readers to consider these risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED).

## ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

	January 31, 2015	October 31, 2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$38.8	\$36.7
Trade accounts receivable, net of allowances of \$11.0 and \$10.6 at January 31, 2015 and October 31, 2014, respectively	781.2	748.2
Prepaid expenses	76.6	65.5
Deferred income taxes, net	50.1	46.6
Other current assets	30.8	30.2
Total current assets	977.5	927.2
Other investments	31.4	32.9
Property, plant and equipment, net of accumulated depreciation of \$141.3 and \$138.6 at January 31, 2015 and October 31, 2014, respectively	79.3	83.4
Other intangible assets, net of accumulated amortization of \$149.2 and \$142.9 at January 31, 2015 and October 31, 2014, respectively	122.3	128.8
Goodwill	904.6	904.6
Other assets	115.8	116.0
Total assets	\$2,230.9	\$2,192.9
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Trade accounts payable	\$163.5	\$175.9
Accrued compensation	114.3	131.2
Accrued taxes—other than income	41.1	29.4
Insurance claims	77.1	80.0
Income taxes payable	0.6	2.0
Other accrued liabilities	109.5	107.9
Total current liabilities	506.1	526.4
Noncurrent income taxes payable	54.5	53.7
Line of credit	362.5	319.8
Deferred income tax liability, net	19.9	16.4
Noncurrent insurance claims	266.8	269.7
Other liabilities	37.5	38.1
Total liabilities	1,247.3	1,224.1
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; 500,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 55,948,907 and 55,691,350 shares issued and outstanding at January 31, 2015 and October 31, 2014, respectively	0.6	0.6
Additional paid-in capital	283.2	274.1
Accumulated other comprehensive loss, net of taxes	(5.7)	(2.8)
Retained earnings	705.5	696.9
Total stockholders' equity	983.6	968.8
Total liabilities and stockholders' equity	\$2,230.9	\$2,192.9

See accompanying notes to unaudited consolidated financial statements.

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(in millions, except per share amounts)	Three Months Ended January 31,	
	2015	2014
Revenues	\$1,289.4	\$1,226.5
Expenses		
Operating	1,161.2	1,108.5
Selling, general and administrative	102.8	87.4
Amortization of intangible assets	6.2	6.7
Total expenses	1,270.2	1,202.6
Operating profit	19.2	23.9
Income from unconsolidated affiliates, net	1.5	1.5
Interest expense	(2.7	) (2.7
Income before income taxes	18.0	22.7
Provision for income taxes	(0.3	) (9.6
Net income	17.7	13.1
Other comprehensive income:		
Foreign currency translation	(2.9	) (0.3
Comprehensive income	\$14.8	\$12.8
Net income per common share		
Basic	\$0.31	\$0.23
Diluted	\$0.31	\$0.23
Weighted-average common and common equivalent shares outstanding		
Basic	56.4	55.7
Diluted	57.2	57.1
Dividends declared per common share	\$0.160	\$0.155
See accompanying notes to unaudited consolidated financial statements.		



ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in millions)	Three Months Ended January 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$17.7	\$13.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14.0	14.3
Deferred income taxes	(0.3)	) 0.2
Share-based compensation expense	3.8	3.9
Provision for bad debt	1.3	1.1
Discount accretion on insurance claims	0.1	0.1
Gain on sale of assets	(0.7)	) (0.1)
Income from unconsolidated affiliates, net	(1.5)	) (1.5)
Distributions from unconsolidated affiliates	3.0	0.8
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(34.6)	) (44.2)
Prepaid expenses and other current assets	(5.1)	) (6.3)
Other assets	(1.3)	) 1.2
Income taxes payable	(6.9)	) 4.5
Other liabilities	(0.6)	) (0.9)
Insurance claims	(5.9)	) (0.4)
Trade accounts payable and other accrued liabilities	(15.4)	) (24.7)
Total adjustments	(50.1)	) (52.0)
Net cash used in operating activities	(32.4)	) (38.9)
Cash flows from investing activities:		
Additions to property, plant and equipment	(6.4)	) (9.8)
Proceeds from sale of assets	2.6	0.1
Purchase of businesses, net of cash acquired	0.2	0.2
Net cash used in investing activities	(3.6)	) (9.5)
Cash flows from financing activities:		
Proceeds from exercises of stock options	4.9	2.3
Incremental tax benefit from share-based compensation awards	0.3	—
Dividends paid	(8.9)	) (8.6)
Deferred financing costs paid	(0.3)	) (1.2)
Borrowings from line of credit	226.7	289.2
Repayment of borrowings from line of credit	(184.0)	) (237.0)
Changes in book cash overdrafts	—	6.3
Repayment of capital lease obligations	(0.6)	) (1.0)
Net cash provided by financing activities	38.1	50.0
Net increase in cash and cash equivalents	2.1	1.6
Cash and cash equivalents at beginning of year	36.7	32.6
Cash and cash equivalents at end of period	\$38.8	\$34.2
See accompanying notes to unaudited consolidated financial statements.		

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. THE COMPANY AND NATURE OF OPERATIONS

ABM Industries Incorporated, together with its consolidated subsidiaries (hereinafter collectively referred to as “ABM,” “we,” “us,” “our,” or the “Company”), is a leading provider of end-to-end integrated facility solutions to thousands of commercial, industrial, institutional, retail, residential, and governmental facilities located primarily throughout the United States. Our comprehensive capabilities include expansive facility solutions, energy solutions, commercial cleaning, maintenance and repair, HVAC, electrical, landscaping, parking, security, and commercial aviation support services, which we provide through stand-alone or integrated solutions. The Company was reincorporated in Delaware on March 19, 1985, as the successor to a business founded in California in 1909.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. The unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) filed with the U.S. Securities and Exchange Commission (“SEC”) in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014 (“Annual Report”). Unless otherwise noted, all references to years are to our fiscal year, which ends on October 31.

In the opinion of our management, our unaudited consolidated financial statements and accompanying notes (the “Financial Statements”) include all normal recurring adjustments considered necessary by management to fairly state the financial position, results of operations, and cash flows for the interim periods presented. Interim results of operations are not necessarily indicative of the results for the full year.

The accounting policies applied in the accompanying Financial Statements are the same as those applied in our audited consolidated financial statements as of and for the year ended October 31, 2014, which are described in our Annual Report.

Effective in the first quarter of 2015, we reallocated certain costs from our Janitorial segment to our Facility Services, Parking, and Security segments to better reflect certain overhead support functions on the operations of our Onsite Services businesses. Such costs were previously recorded within our Janitorial segment. Prior-period segment results have been restated to conform to these changes. See Note 11, “Segment Information,” for more details.

Parking Revenue Presentation

One type of arrangement within our Parking business is a managed location arrangement, whereby we manage the underlying parking facility for the owner in exchange for a management fee. For these arrangements, we pass through revenues and expenses from managed locations to the facility owner under the terms and conditions of the contract. We report revenues and expenses, in equal amounts, for reimbursed costs from our managed locations. Such amounts totaled \$77.0 million and \$76.3 million for the three months ended January 31, 2015 and 2014, respectively.

## 3. NET INCOME PER COMMON SHARE

## Basic and Diluted Net Income Per Common Share Calculations

(in millions, except per share amounts)	Three Months Ended January 31,	
	2015	2014
Net income	\$17.7	\$13.1
Weighted-average common and common equivalent shares outstanding—Basic	56.4	55.7
Effect of dilutive securities:		
Restricted stock units	0.3	0.5
Stock options	0.3	0.4
Performance shares	0.2	0.5
Weighted-average common and common equivalent shares outstanding—Diluted	57.2	57.1
Net income per common share		
Basic	\$0.31	\$0.23
Diluted	\$0.31	\$0.23

Outstanding stock awards issued under share-based compensation plans that were considered anti-dilutive for the three months ended January 31, 2015 and 2014 were 0.4 million and 0.2 million, respectively.

## 4. ACQUISITIONS

There were no acquisitions completed during the three months ended January 31, 2015. During 2014, we completed acquisitions for an aggregate purchase price of \$52.7 million, which includes \$3.3 million of contingent consideration. There were no material purchase price allocation adjustments recognized in the current period related to business combinations that occurred in the prior period. Pro forma and other supplemental financial information is not presented, as these acquisitions are not considered material business combinations individually or on a combined basis.

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value hierarchy, carrying amounts, and fair values of our financial instruments that are measured on a recurring basis and other select significant financial instruments as of January 31, 2015 and October 31, 2014:

(in millions)	Fair Value Hierarchy	January 31, 2015		October 31, 2014	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets measured at fair value on a recurring basis					
Assets held in funded deferred compensation plan <sup>(1)</sup>	1	\$5.2	\$5.2	\$5.4	\$5.4
Investments in auction rate securities <sup>(2)</sup>	3	13.0	13.0	13.0	13.0
		18.2	18.2	18.4	18.4
Other select financial assets					
Cash and cash equivalents <sup>(3)</sup>	1	38.8	38.8	36.7	36.7
Insurance deposits <sup>(4)</sup>	1	11.4	11.4	11.5	11.5
		50.2	50.2	48.2	48.2
Total		\$68.4	\$68.4	\$66.6	\$66.6
Financial liabilities measured at fair value on a recurring basis					
Interest rate swaps <sup>(5)</sup>	2	\$0.2	\$0.2	\$0.2	\$0.2
Contingent consideration liability <sup>(6)</sup>	3	1.4	1.4	1.4	1.4
		1.6	1.6	1.6	1.6
Other select financial liability					
Line of credit <sup>(7)</sup>	2	362.5	362.5	319.8	319.8
Total		\$364.1	\$364.1	\$321.4	\$321.4

(1) Represents investments held in a Rabbi trust associated with one of our deferred compensation plans, which we include in "Other assets" on the accompanying unaudited consolidated balance sheets. The fair value of the assets held in the funded deferred compensation plan is based on quoted market prices.

(2) For investments in auction rate securities, the fair values are based on discounted cash flow valuation models, primarily utilizing unobservable inputs, which we include in "Other investments" on the accompanying unaudited consolidated balance sheets. See Note 6, "Auction Rate Securities," for further information.

(3) Cash and cash equivalents are stated at nominal value, which equals fair value.

(4) Represents restricted insurance deposits that are used to collateralize our insurance obligations and are stated at nominal value, which equals fair value. These insurance deposits are included in "Other assets" on the accompanying unaudited consolidated balance sheets. See Note 7, "Insurance," for further information.

(5) Represents interest rate swap derivatives designated as cash flow hedges. The fair values of the interest rate swaps are estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates using observable benchmarks for LIBOR forward rates at the end of the period. The fair values of the interest rate swap liabilities were included in "Other liabilities" on the accompanying unaudited consolidated balance sheets. See Note 8, "Line of Credit," for more information.

(6) Our contingent consideration liability was incurred in connection with an acquisition made in 2013. The contingent consideration liability is measured at fair value and is included in "Other liabilities" on the accompanying unaudited consolidated balance sheets. The fair value is based on a pre-defined forecasted adjusted income from operations using a probability weighted income approach and is discounted using our fixed borrowing rate.



(7) Represents outstanding borrowings under our syndicated line of credit. Due to variable interest rates, the carrying value of outstanding borrowings under our line of credit approximates the fair value. See Note 8, "Line of Credit," for further information.

Our non-financial assets, which include goodwill and long-lived assets held and used, are not required to be measured at fair value on a recurring basis. However, if certain trigger events occur, or if an annual impairment test is required, we would evaluate the non-financial assets for impairment. If an impairment were to occur, the asset would be recorded at the estimated fair value, which is generally determined using discounted future cash flows.

During the three months ended January 31, 2015, we had no transfers of assets or liabilities between any of the above hierarchy levels.

#### 6. AUCTION RATE SECURITIES

At January 31, 2015, we held investments in auction rate securities from three different issuers having an aggregate original principal amount of \$15.0 million and an amortized cost basis of \$13.0 million. At January 31, 2015, the fair value of the securities was \$13.0 million. Our auction rate securities are debt instruments with stated maturities ranging from 2033 to 2050, for which the interest rate is designed to be reset through Dutch auctions approximately every thirty days. Auctions for these securities have not occurred since August 2007. We have classified all our auction rate security investments as noncurrent, as we do not reasonably expect to liquidate the securities for cash within the next twelve months.

##### Significant Assumptions Used to Determine the Fair Values of Our Auction Rate Securities

Assumption	January 31, 2015	October 31, 2014
Discount rates	L + 0.30% – L + 5.03%	L + 0.28% – L + 4.06%
Yields	2.15%, L + 2.00%	2.15%, L + 2.00%
Average expected lives	4 – 10 years	4 – 10 years
L – One Month LIBOR		

At January 31, 2015 and October 31, 2014, there were no unrealized gains or losses for auction rate securities included in accumulated other comprehensive loss ("AOCL"), and the total amount of other-than-temporary impairment credit loss on our auction rate security investments included in our retained earnings was \$2.0 million.

#### 7. INSURANCE

We use a combination of insured and self-insurance programs to cover workers' compensation, general liability, property damage, and other insurable risks. For the majority of these insurance programs, we retain the initial \$1.0 million of exposure on a per-claim basis either through deductibles or self-insured retentions. Beyond the retained exposures, we have varying primary policy limits between \$1.0 million and \$5.0 million per occurrence. To cover general liability losses above these primary limits, we maintain commercial insurance umbrella policies that provide aggregate limits of \$200.0 million. Our insurance policies generally cover workers' compensation losses to the full extent of statutory requirements. Additionally, to cover property damage risks above our retained limits, we maintain policies that provide limits of \$75.0 million. We are also self-insured for certain employee medical and dental plans. We retain up to \$0.4 million of exposure on a per-claim basis with respect to claims under our medical plan.

The adequacy of workers' compensation, general liability, automotive, and property damage insurance claims reserves is based upon actuarial estimates of required reserves considering the most recently completed actuarial reports in 2014 and known events. Actuarial reports are expected to be completed for our significant programs using recent claims data and may result in adjustments to earnings during the third and fourth quarters of 2015.

We had insurance claim reserves totaling \$343.9 million and \$349.7 million at January 31, 2015 and October 31, 2014, respectively. The balances at January 31, 2015 and October 31, 2014 include \$3.7 million and \$4.8 million in reserves, respectively, related to our medical and dental self-insured plans. We also had insurance recoverables totaling \$66.4 million at both January 31, 2015 and October 31, 2014, which we include in "Other current assets" and "Other assets" on the accompanying unaudited consolidated balance sheets.

## Instruments Used to Collateralize Our Insurance Obligations

(in millions)	January 31, 2015	October 31, 2014
Standby letters of credit	\$110.5	\$111.1
Surety bonds	52.3	52.5
Restricted insurance deposits	11.4	11.5
Total	\$174.2	\$175.1

## 8. LINE OF CREDIT

On November 30, 2010, we entered into a five-year syndicated credit agreement pursuant to which we obtained an unsecured revolving credit facility (the "Facility"). This five-year syndicated credit agreement, as amended from time to time, is referred to as the "Credit Agreement." The aggregate amount of the Facility under the Credit Agreement is \$800.0 million, and the maturity date of the Facility is December 11, 2018. At our option, we may increase the size of the Facility to \$1.0 billion at any time prior to the expiration date (subject to receipt of commitments for the increased amount from existing and new lenders).

Borrowings under the Facility bear interest at a rate equal to an applicable margin plus, at our option, either a (i) eurodollar rate (generally LIBOR) or (ii) base rate determined by reference to the highest of (1) the federal funds rate plus 0.50%, (2) the prime rate published by Bank of America, N.A. from time to time, and (3) the eurodollar rate plus 1.00%. The applicable margin is a percentage per annum varying from zero to 0.75% for base rate loans and 1.00% to 1.75% for eurodollar loans, based upon our leverage ratio.

We also pay a commitment fee, based on the leverage ratio, payable quarterly in arrears, ranging from 0.200% to 0.275% on the average daily unused portion of the Facility. For purposes of this calculation, irrevocable standby letters of credit, which are issued primarily in conjunction with our insurance programs, and cash borrowings are included as outstanding under the Facility.

The Credit Agreement contains certain leverage and liquidity covenants that require us to maintain a maximum leverage ratio of 3.25 to 1.0 at the end of each fiscal quarter, except as described below, a minimum fixed charge coverage ratio of 1.50 to 1.0 at any time, and a consolidated net worth in an amount not less than the sum of (i) \$570.0 million, (ii) 50% of our consolidated net income (with no deduction for net loss), and (iii) 100% of our aggregate increases in stockholders' equity beginning on November 30, 2010. In the event of a material acquisition, as defined in the Credit Agreement, we may elect to increase the leverage ratio to 3.50 to 1.0 for a total of four fiscal quarters. We were in compliance with these covenants as of January 31, 2015.

If an event of default occurs under the Credit Agreement, including certain cross-defaults, insolvency, change in control, or violation of specific covenants, among others, the lenders can terminate or suspend our access to the Facility, declare all amounts outstanding under the Facility (including all accrued interest and unpaid fees) to be immediately due and payable, and require that we cash collateralize the outstanding standby letters of credit obligations.

The Facility is available for working capital, the issuance of up to \$300.0 million for standby letters of credit, the issuance of up to \$50.0 million in swing line advances, the financing of capital expenditures, and other general corporate purposes, including acquisitions and investments in subsidiaries, subject to certain limitations, where applicable, as set forth in the Credit Agreement. At January 31, 2015, the total outstanding amounts under the Facility in the form of cash borrowings and standby letters of credit were \$362.5 million and \$114.3 million, respectively. At October 31, 2014, the total outstanding amounts under the Facility in the form of cash borrowings and standby letters of credit were \$319.8 million and \$114.9 million, respectively.

At January 31, 2015 and October 31, 2014, we had up to \$323.2 million and \$365.3 million borrowing capacity, respectively, under the Facility, the availability of which was subject to, and limited by, compliance with the covenants described above.

## Interest Rate Swaps

During 2013, we entered into a series of interest rate swap agreements with effective start dates of March 18, 2013 and April 11, 2013, totaling an underlying aggregate notional amount of \$155.0 million, pursuant to which we receive variable interest payments based on LIBOR and pay fixed interest at rates ranging from 0.44% to 0.47%.





These interest rate swaps will mature between March 18, 2016 and April 11, 2016 and are structured to hedge the interest rate risk associated with our floating-rate, LIBOR-based borrowings under our Facility. The swaps were designated and accounted for as cash flow hedges from inception.

We recognize all interest rate swaps on the accompanying unaudited consolidated balance sheets at fair value. The fair values of the interest rate swaps are estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates using observable benchmarks for LIBOR forward rates at the end of the period. See Note 5, "Fair Value of Financial Instruments," for more information.

Each of the swap derivatives is designated as a cash flow hedge, and the effective portion of the derivative's mark-to-market gain or loss is initially reported as a component of AOCL and subsequently reclassified into earnings when the hedged transactions occur and affect earnings. The ineffective portion of the gain or loss is reported in earnings immediately. Interest payables and receivables under the swap agreements are accrued and recorded as adjustments to interest expense.

At each of January 31, 2015 and October 31, 2014, the amount recorded in AOCL was \$0.2 million (\$0.1 million, net of taxes). At January 31, 2015, the amount expected to be reclassified from AOCL to earnings during the next twelve months was \$0.2 million.

## 9. COMMITMENTS AND CONTINGENCIES

### Surety Bonds and Letters of Credit

We use surety bonds and letters of credit to secure certain commitments related to insurance programs and for other purposes. As of January 31, 2015, these surety bonds and letters of credit totaled approximately \$333.5 million and \$114.3 million, respectively. Included in the total amount of surety bonds is \$6.1 million of bonds with an effective date starting after January 31, 2015.

### Guarantees

In some instances, we offer certain clients guaranteed energy savings under certain energy savings contracts. Total guarantees at January 31, 2015 and October 31, 2014 were \$27.0 million and \$30.4 million, respectively, and extend through 2029. We accrue for the estimated cost of guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. Historically, we have not incurred any losses in connection with these guarantees.

In connection with an unconsolidated joint venture in which one of our subsidiaries has a 33% ownership interest, that subsidiary, and the other joint venture partners, have each jointly and severally guaranteed the obligations of the joint venture to perform under certain contracts extending through 2018. Annual revenues relating to the underlying contracts are approximately \$35.0 million. Should the joint venture be unable to perform under these contracts, the joint venture partners would be liable for any losses incurred by the customer due to the failure to perform.

### Legal Matters

We are a party to a variety of actions, proceedings, and legal, administrative, and other inquiries arising in the normal course of business relating to labor and employment, contracts, personal injury, and other matters, some of which allege substantial monetary damages. Some of these actions may be brought as a class action on behalf of a purported class of employees. Litigation outcomes are difficult to predict and are often resolved over long periods of time. Estimating probable losses requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties.

At January 31, 2015, the total amount accrued for all probable litigation losses where a reasonable estimate of the loss could be made was \$3.4 million. This \$3.4 million includes the accrual of \$2.3 million in connection with a settlement relating to a case alleging certain wage and hour violations.

We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. Estimating reasonably possible losses also requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. Our management currently estimates that the range of loss for all reasonably possible losses for which an estimate can be made is between zero and \$4.5 million.

Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

In some cases, although a loss is probable or reasonably possible, we cannot reasonably estimate the maximum potential losses for probable matters or the range of losses for reasonably possible matters. Therefore, our accrual for probable losses and our estimated range of loss for reasonably possible losses do not represent our maximum possible exposure.

While the results of these proceedings, claims, and inquiries cannot be predicted with any certainty, our management believes that the final outcome of these matters will not have a material adverse effect on our consolidated financial statements, results of operations, or cash flows.

#### Certain Legal Proceedings

Certain pending lawsuits to which we are a party are discussed below. In determining whether to include any particular lawsuit or other proceeding, we consider both quantitative and qualitative factors, including, but not limited to: the amount of damages and the nature of any other relief sought in the proceeding; if such damages and other relief are specified, our view of the merits of the claims; whether the action purports to be a class action, and our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; and the potential impact of the proceeding on our reputation.

The Consolidated Cases of Augustus, Hall and Davis v. American Commercial Security Services, filed July 12, 2005, in the Superior Court of California, Los Angeles County (the “Augustus case”)

The Augustus case is a certified class action involving allegations that we violated certain California state laws relating to rest breaks. The case centers around whether requiring security guards to remain on call during rest breaks violated Section 226.7 of the California Labor Code. On February 8, 2012, the plaintiffs filed a motion for summary judgment on the rest break claim, and on July 31, 2012, the Superior Court of California, Los Angeles County (the “Superior Court”), entered judgment in favor of plaintiffs in the amount of approximately \$89.7 million. Subsequently, the Superior Court also awarded plaintiffs’ attorneys’ fees of approximately \$4.5 million in addition to approximately 30% of the \$89.7 million common fund. We appealed the Superior Court’s rulings to the Court of Appeals of the State of California, Second Appellate District (the “Appeals Court”). On December 31, 2014, the Appeals Court issued its opinion, reversing the judgment in favor of the plaintiffs and vacating the award of \$89.7 million in damages and the attorneys’ fees award. Plaintiffs requested rehearing of the Appeals Court’s decision to reverse the judgment in favor of plaintiffs and vacate the damages award. On January 29, 2015, the Appeals Court denied the plaintiffs’ request for rehearing, modified its December 31, 2014 opinion, and certified the opinion for publication. The Appeals Court opinion held that “on-call rest breaks are permissible” and remaining on call during rest breaks does not render the rest breaks invalid under California law. The Appeals Court explained that “although on-call hours constitute ‘hours worked,’ remaining available to work is not the same as performing work.... Section 226.7 proscribes only work on a rest break.” If the plaintiffs choose to appeal this decision to the California Supreme Court, their petition for review will be due on or before March 10, 2015.

Bojorquez v. ABM Industries Incorporated and ABM Janitorial Services–Northern California, Inc., filed on January 13, 2010, in the San Francisco Superior Court (the “Bojorquez case”)

We are a defendant in the Bojorquez case. Plaintiff brought suit for sexual harassment, retaliation, and failure to prevent harassment and discrimination. On May 17, 2012, a jury awarded the plaintiff approximately \$0.8 million in damages. We have appealed this decision. On April 11, 2013, the Court awarded plaintiff attorneys’ fees in the amount of \$2.5 million. If we prevail in our appeal of the jury’s verdict, the Court’s award of plaintiff’s attorneys’ fees will be reversed.

The Consolidated Cases of Bucio and Martinez v. ABM Janitorial Services filed on April 7, 2006, in the Superior Court of California, County of San Francisco (the “Bucio case”)

The Bucio case is a purported class action involving allegations that we failed to track work time and provide breaks. On April 19, 2011, the trial court held a hearing on plaintiffs’ motion to certify the class. At the conclusion of that hearing, the trial court denied plaintiffs’ motion to certify the class. On May 11, 2011, the plaintiffs filed a motion to reconsider, which was denied. The plaintiffs have appealed the class certification issues. The trial court stayed the

underlying lawsuit pending the decision in the appeal. On August 30, 2012, the plaintiffs filed their appellate brief on

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the class certification issues. We filed our responsive brief on November 15, 2012. Oral argument relating to the appeal has not been scheduled.

We expect to prevail in these ongoing cases. However, as litigation is inherently unpredictable, there can be no assurance in this regard. If the plaintiffs in one or more of these cases, or other cases, do prevail, the results may have a material effect on our financial position, results of operations, or cash flows.

#### Other

During October 2011, we began an internal investigation into matters relating to compliance with the U.S. Foreign Corrupt Practices Act and our internal policies in connection with services provided by a foreign entity affiliated with a former joint venture partner of The Linc Group, LLC (“Linc”). Such services commenced prior to the acquisition of Linc. As a result of the investigation, we caused Linc to terminate its association with the arrangement. In December 2011, we contacted the U.S. Department of Justice and the SEC to voluntarily disclose the results of our internal investigation to date, and we are cooperating with the government’s investigation. We cannot reasonably estimate the potential liability, if any, related to these matters. However, based on the facts currently known, we do not believe that these matters will have a material adverse effect on our business, financial condition, results of operations, or cash flows.

#### 10. INCOME TAXES

The quarterly provision for income taxes is calculated using an estimated annual effective income tax rate, adjusted for discrete items that occur during the reporting period. The effective tax rate for the three months ended January 31, 2015 and 2014 was 1.7% and 42.3%, respectively. The effective tax rate for the three months ended January 31, 2015 was lower than the rate for the three months ended January 31, 2014, primarily due to the retroactive reinstatement of the Work Opportunity Tax Credit for calendar year 2014 which resulted in additional credits of \$4.8 million as well as state employment-based tax credits of \$2.5 million.

We conduct business in all 50 states, significantly in California, Texas, and New York, as well as in various foreign jurisdictions. Our most significant income tax jurisdiction is the United States.

#### 11. SEGMENT INFORMATION

Our reportable segments consist of: Janitorial, Facility Services, Parking, Security, Building & Energy Solutions, and Other. The accounting policies for our segments are the same as those disclosed within our significant accounting policies in Note 2, “Basis of Presentation and Significant Accounting Policies.” Our management evaluates the performance of each reportable segment based on its respective operating profit results, which include the allocation of certain centrally incurred costs. Corporate expenses not allocated to segments include:

- certain CEO and other finance and human resource departmental costs;
- certain information technology costs;
- share-based compensation costs;
- certain legal costs and settlements;
- adjustments resulting from current actuarial developments of self-insurance reserves related to claims incurred in prior years; and
- direct acquisition costs.

Effective in the first quarter of 2015, we reallocated certain costs from our Janitorial segment to our Facility Services, Parking, and Security segments to better reflect certain overhead support functions on the operations of our Onsite Services businesses. Such costs were previously recorded within our Janitorial segment. The impact of these changes on the reported operating profit for the three months ended January 31, 2014 was an increase of \$1.2 million to our Janitorial segment and a decrease of \$0.4 million, \$0.5 million, and \$0.3 million to our Facility Services, Parking, and Security segments, respectively. Prior-period segment results have been restated to conform to these changes.

## Financial Information for Each Reportable Segment

(in millions)	Three Months Ended January 31,		
	2015	2014	
Revenues:			
Janitorial	\$666.0	\$637.1	
Facility Services	156.2	151.7	
Parking	155.7	150.3	
Security	94.9	99.7	
Building & Energy Solutions	119.4	102.1	
Other	97.2	85.6	
	\$1,289.4	\$1,226.5	
Operating profit:			
Janitorial	\$34.9	\$30.3	
Facility Services	5.9	5.1	
Parking	6.5	5.2	
Security	1.9	2.3	
Building & Energy Solutions	1.2	2.7	
Other	2.6	1.9	
Corporate	(32.3	) (22.1	)
Adjustment for income from unconsolidated affiliates, net, included in Building & Energy Solutions	(1.5	) (1.5	)
	19.2	23.9	
Income from unconsolidated affiliates, net	1.5	1.5	
Interest expense	(2.7	) (2.7	)
Income before income taxes	\$18.0	\$22.7	

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to facilitate an understanding of the results of operations and financial condition of ABM Industries Incorporated and its consolidated subsidiaries (hereinafter collectively referred to as "ABM," "we," "us," "our," or the "Company"). This MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited consolidated financial statements and the accompanying notes ("Financial Statements") and our Annual Report on Form 10-K for the year ended October 31, 2014 ("Annual Report"), which has been filed with the Securities and Exchange Commission ("SEC"). This MD&A may contain forward-looking statements about our business, operations, and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations, and intentions. Our future results and financial condition may differ materially from those we currently anticipate. See "Forward-Looking Statements." Unless otherwise noted, all information in the MD&A and references to years are based on our fiscal year, which ends on October 31. Our MD&A is comprised of the following sections:

Business Overview

Results of Operations

Liquidity and Capital Resources

Contingencies

Critical Accounting Policies and Estimates

Business Overview

ABM is a leading provider of end-to-end integrated facility solutions to thousands of commercial, industrial, institutional, retail, residential, and governmental facilities located primarily throughout the United States. Our comprehensive capabilities include expansive facility solutions, energy solutions, commercial cleaning, maintenance and repair, HVAC, electrical, landscaping, parking, security, and commercial aviation support services, which we provide through stand-alone or integrated solutions.

Strategy

We are making investments in technology, human capital, marketing and sales initiatives, and acquisitions, as well as other areas, to strengthen our position as a leader in integrated facility services, further enabling us to provide end-to-end solutions for the markets we serve. We expect to achieve long-term earnings growth through organic revenue growth and strategic acquisitions while maintaining desirable profit margins and managing our overall costs. Our strategy is to continue the development of end-to-end solutions for clients through our onsite and mobile operations, which include services to certain vertical markets. In 2013, we further aligned our infrastructure and operations by integrating our Janitorial, Facility Services, Parking, and Security segments under the Onsite Services business. The realignment was designed to continue to improve our long-term growth prospects and provide higher margin opportunities through better delivery of end-to-end services to clients.

Our realignment initiatives are also designed to result in greater synergies from our acquisitions, achieve further integration among our Onsite Services businesses, and decrease operating expenses by streamlining functions and reducing organizational layers. Since the beginning of this realignment in 2013, we have realized \$12.1 million in savings from these initiatives, which are substantially complete. These initiatives focused on streamlining of redundant management positions, back office efficiencies, and office consolidations in key markets.

Additionally, in connection with this realignment, we enhanced our risk management and safety programs during 2014 by (i) implementing a unified safety program to increase emphasis on loss prevention, (ii) targeting return-to-work initiatives, (iii) making structural changes to our risk management staffing model to ensure that our risk philosophy is implemented and consistently maintained enterprise-wide, (iv) improving our claims management process, and (v) targeting initiatives to reduce related legal expenditures. As a result of these enhancements, we have experienced numerous benefits, such as improvement in our average cost of claims and number of lost time cases. Consequently, in connection with our annual actuarial evaluations performed for the majority of our casualty insurance programs in the third quarter of 2014, we recorded a cumulative adjustment of \$6.2 million for the six months ended April 30, 2014 to reduce our insurance expense to reflect the favorable developments resulting from these initiatives.



In 2015, insurance claims reserves are based upon actuarial estimates of required reserves considering the actuarial reports completed in the third quarter of 2014 and known events.

Due to ABM's contracts with the U.S. Government, the timing of congressional approval of the annual federal budget will continue to have an impact on our operations. In addition, we continually monitor and assess the potential impact of U.S. Government policy and strategy changes on our business. While the volume of bid activity and requests for proposals for future awards remain active, our business has experienced, and will continue to experience, delays in new U.S. Government contract awards and in the start dates of currently awarded contracts, early termination of existing contracts, and reversals of contract awards based on protests.

Our Segments and Their Activities

Our reportable segments consist of: Janitorial, Facility Services, Parking, Security, Building & Energy Solutions, and Other.

Segment	Activities
Janitorial	Provides a wide range of essential janitorial services for a variety of facilities, including commercial office buildings, educational institutions, government buildings, health facilities, industrial buildings, retail stores, shopping centers, stadiums and arenas, airports and other transportation centers, and warehouses.
Facility Services	Provides onsite mechanical engineering and technical services and solutions for facilities and infrastructure systems for a variety of facilities, including commercial office buildings and infrastructure, data centers, educational institutions, high technology manufacturing facilities, museums, resorts, airports and other transportation centers, and shopping centers.
Parking	Provides parking and transportation services for clients at many facilities, including commercial office buildings, airports and other transportation centers, educational institutions, health facilities, hotels, municipalities, retail centers, and stadiums and arenas.
Security	Provides security services for clients in a wide range of facilities, including commercial office buildings and commercial, health, industrial, petro-chemical, residential, and retail facilities. Security services include security staffing, mobile patrol services, investigative services, electronic monitoring of fire and life safety systems and of access control devices, and security consulting services.
Building & Energy Solutions	Provides custom energy solutions, HVAC, electrical, lighting and other general maintenance and repair services. These services include preventative maintenance, retro-commissioning, installations, retrofits and upgrades, environmental services, systems start-ups, performance testing, energy audits, mechanical and energy efficient products and solutions, and bundled energy solutions that include energy savings performance contracts for a wide variety of clients in both the private and public sectors. This segment also provides services for healthcare clients, including facility management, environmental services, food and nutrition services, and clinical technology management. This segment also provides support to U.S. Government entities for specialty service solutions, such as military base operations, public works departments, leadership development, education and training, energy efficiency management, healthcare support services, and construction management.
Other	Our franchised operations under the Linc Network, TEGG, CurrentSAFE, and GreenHomes America brands are also included in this segment. Franchised operations provide mechanical and electrical preventive and predictive maintenance solutions, and, in the case of GreenHomes, home energy efficiency solutions. Provides facility solutions to clients in our aviation vertical related to passenger assistance, including wheelchair operations, aircraft cabin cleaning, janitorial services, shuttle bus operations, and access control.



Financial and Operating Summary

Revenues increased by \$62.9 million during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. This increase in revenues was primarily attributable to organic growth due to additional revenues from net new business and increased scope of work from existing clients, and \$24.0 million in growth from acquisitions.

- Operating profit decreased by \$4.7 million during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit was favorably impacted by:  
contributions from organic growth;  
enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015;  
lower payroll and related expenses as a result of one less working day during the quarter; and  
savings realized as a result of the realignment of our Onsite Services operational structure.

These factors were offset by:

- an increase in compensation and related expenses primarily as a result of the hiring of additional personnel to support growth initiatives throughout the organization and the addition of certain IT positions since the prior year;
- an increase in legal fees and settlement costs, including a settlement relating to a case alleging certain wage and hour violations;
- an increase in severance expense related to the previously announced upcoming departure of our CEO; and
- an increase in professional fees related to certain employment-based tax credits.

The effective tax rates for the three months ended January 31, 2015 and 2014 were 1.7% and 42.3%, respectively. The difference was primarily due to the retroactive reinstatement of the Work Opportunity Tax Credit (“WOTC”) for calendar year 2014 which resulted in additional credits of \$4.8 million as well as state employment-based tax credits of \$2.5 million.

Our net cash used in operating activities was \$32.4 million during the three months ended January 31, 2015.

Typically, our total operating cash flows in the first quarter are lower than in subsequent quarters in the fiscal year.

We expect operating activities to provide positive cash flows for the 2015 fiscal year.

Dividends of \$8.9 million were paid to shareholders and dividends totaling \$0.160 per common share were declared during the three months ended January 31, 2015.

At January 31, 2015, total outstanding borrowings under our line of credit were \$362.5 million, and we had up to \$323.2 million borrowing capacity under our line of credit, subject to covenant restrictions.

## Results of Operations

Three Months Ended January 31, 2015 Compared with the Three Months Ended January 31, 2014  
Consolidated

(\$ in millions)	Three Months Ended January 31,		Increase / (Decrease)	
	2015	2014		
Revenues	\$1,289.4	\$1,226.5	\$62.9	5.1%
Expenses				
Operating	1,161.2	1,108.5	52.7	4.8%
Gross margin as a % of revenues	9.9	% 9.6	% 0.3	%
Selling, general and administrative	102.8	87.4	15.4	17.6%
Amortization of intangible assets	6.2	6.7	(0.5)	) (7.5)%
Total expenses	1,270.2	1,202.6	67.6	5.6%
Operating profit	19.2	23.9	(4.7)	) (19.7)%
Income from unconsolidated affiliates, net	1.5	1.5	—	—
Interest expense	(2.7)	) (2.7)	) —	—
Income before income taxes	18.0	22.7	(4.7)	) (20.7)%
Provision for income taxes	(0.3)	) (9.6)	) 9.3	96.9%
Net income	\$17.7	\$13.1	\$4.6	35.1%

## Revenues

Revenues increased by \$62.9 million, or 5.1%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase in revenues was primarily attributable to organic growth due to additional revenues from net new business and increased scope of work from existing clients, and \$24.0 million in growth from acquisitions.

## Operating Expenses

Operating expenses increased by \$52.7 million, or 4.8%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. As a percentage of revenues, gross margin increased by 0.3% to 9.9% in the three months ended January 31, 2015 from 9.6% in the three months ended January 31, 2014. The increase in gross margin was primarily attributable to lower payroll and related expenses as a result of one less working day during the quarter ended January 31, 2015, enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015, and savings realized as a result of the realignment of our Onsite Services operational structure. This increase was partially offset by higher operational costs for certain newly acquired contracts as a result of startup activities and higher expenses from non-recurring operational issues at certain clients.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$15.4 million, or 17.6%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase in selling, general and administrative expenses was primarily related to:

- a \$4.9 million increase in compensation and related expenses primarily as a result of the hiring of additional personnel to support growth initiatives throughout the organization and the addition of certain IT positions since the prior year;
- a \$3.7 million increase in legal fees and settlement costs, including a settlement relating to a case alleging certain wage and hour violations;
- a \$3.2 million increase in severance expense related to the previously announced upcoming departure of our CEO, net of reversal of share-based compensation;
- a \$0.9 million increase in professional fees associated with certain employment-based tax credits; and

a \$0.6 million increase in share-based compensation expense, excluding the reversal of certain previously expensed amounts related to the CEO departure. This increase was due to the recognition of higher expense relating to awards granted in 2014 and 2015, as compared to awards granted in 2010 and 2011.

#### Amortization of Intangible Assets

Amortization of intangible assets decreased by \$0.5 million, or 7.5%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. This decrease was primarily related to intangible assets being amortized using the sum-of-the-years-digits method over their useful lives, which is consistent with the estimated useful life considerations used in determining their fair values, and results in a declining amortization expense.

#### Provision for Income Taxes

The effective tax rates for the three months ended January 31, 2015 and 2014 were 1.7% and 42.3%, respectively. The effective tax rate for the three months ended January 31, 2015 was lower than the rate for the three months ended January 31, 2014 primarily due to the retroactive reinstatement of the WOTC for calendar year 2014 which resulted in additional credits of \$4.8 million as well as state employment-based tax credits of \$2.5 million.

We estimate our annual effective income tax rate will be between 34.0% and 38.0%, which assumes that Congress will not reenact the WOTC for calendar year 2015 prior to October 31, 2015.

## Segment Information

Effective in the first quarter of 2015, we reallocated certain costs from our Janitorial segment to our Facility Services, Parking, and Security segments to better reflect the impact of certain overhead support functions on the operations of our Onsite Services businesses. Such costs were previously recorded within our Janitorial segment. The impact of these changes on the reported operating profit for the three months ended January 31, 2014 was an increase of \$1.2 million to our Janitorial segment and a decrease of \$0.4 million, \$0.5 million, and \$0.3 million to our Facility Services, Parking, and Security segments, respectively. Prior period segment results have been restated to conform to these changes.

## Financial Information for Each Reportable Segment

(\$ in millions)	Three Months Ended January 31,		Increase / (Decrease)	
	2015	2014		
<b>Revenues</b>				
Janitorial	\$666.0	\$637.1	\$28.9	4.5%
Facility Services	156.2	151.7	4.5	3.0%
Parking	155.7	150.3	5.4	3.6%
Security	94.9	99.7	(4.8)	(4.8)%
Building & Energy Solutions	119.4	102.1	17.3	16.9%
Other	97.2	85.6	11.6	13.6%
	\$1,289.4	\$1,226.5	\$62.9	5.1%
<b>Operating profit</b>				
Janitorial	\$34.9	\$30.3	\$4.6	15.2%
Operating profit as a % of revenues	5.2	% 4.8	% 0.4	%
Facility Services	5.9	5.1	0.8	15.7%
Operating profit as a % of revenues	3.8	% 3.4	% 0.4	%
Parking	6.5	5.2	1.3	25.0%
Operating profit as a % of revenues	4.2	% 3.5	% 0.7	%
Security	1.9	2.3	(0.4)	(17.4)%
Operating profit as a % of revenues	2.0	% 2.3	% (0.3)	)%
Building & Energy Solutions	1.2	2.7	(1.5)	(55.6)%
Operating profit as a % of revenues	1.0	% 2.6	% (1.6)	)%
Other	2.6	1.9	0.7	36.8%
Operating profit as a % of revenues	2.7	% 2.2	% 0.5	%
Corporate	(32.3)	(22.1)	(10.2)	(46.2)%
Adjustment for income from unconsolidated affiliates, net, included in Building & Energy Solutions	(1.5)	(1.5)	—	—
	\$19.2	\$23.9	\$(4.7)	(19.7)%

## Janitorial

(\$ in millions)	Three Months Ended January 31,		Increase	
	2015	2014		
Revenues	\$666.0	\$637.1	\$28.9	4.5%
Operating profit	34.9	30.3	4.6	15.2%
Operating profit as a % of revenues	5.2	% 4.8	% 0.4	%

Janitorial revenues increased by \$28.9 million, or 4.5%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase was primarily attributable to organic growth due to additional revenues from net new business, additional tag work revenue, and \$15.8 million of additional revenues from an acquisition that occurred in October 2014.



Operating profit increased by \$4.6 million, or 15.2%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit margins increased by 0.4% to 5.2% in the three months ended January 31, 2015 from 4.8% in the three months ended January 31, 2014. The increase in operating profit margins was primarily attributable to lower payroll and related expenses as a result of one less working day during the quarter ended January 31, 2015, enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015, and savings realized as a result of the realignment of our Onsite Services operational structure. This increase was partially offset by higher compensation expense due to hiring additional personnel to support selling and safety initiatives and higher legal fees and settlement costs.

#### Facility Services

(\$ in millions)	Three Months Ended January 31,			Increase
	2015	2014		
Revenues	\$156.2	\$151.7	\$4.5	3.0%
Operating profit	5.9	5.1	0.8	15.7%
Operating profit as a % of revenues	3.8	% 3.4	% 0.4	%

Facility Services revenues increased by \$4.5 million, or 3.0%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase was primarily attributable to increased scope of work from existing clients.

Operating profit increased by \$0.8 million, or 15.7%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit margins increased by 0.4% to 3.8% in the three months ended January 31, 2015 from 3.4% in the three months ended January 31, 2014. This increase was primarily attributable to enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015, the termination of certain unprofitable contracts in the prior year, and savings realized as a result of the realignment of our Onsite Services operational structure. This increase was partially offset by higher legal settlement costs.

#### Parking

(\$ in millions)	Three Months Ended January 31,			Increase
	2015	2014		
Revenues	\$155.7	\$150.3	\$5.4	3.6%
Operating profit	6.5	5.2	1.3	25.0%
Operating profit as a % of revenues	4.2	% 3.5	% 0.7	%

Management reimbursement revenues totaled \$77.0 million and \$76.3 million for the three months ended January 31, 2015 and 2014, respectively.

Parking revenues increased by \$5.4 million, or 3.6%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase was primarily related to increased revenues from existing clients and net new business.

Operating profit increased by \$1.3 million, or 25.0%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit margins increased by 0.7% to 4.2% in the three months ended January 31, 2015 from 3.5% in the three months ended January 31, 2014. The increase in operating profit margins was primarily related to enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015 and savings realized as a result of the realignment of our Onsite Services operational structure.

#### Security

(\$ in millions)	Three Months Ended January 31,			Decrease
	2015	2014		
Revenues	\$94.9	\$99.7	\$(4.8)	) (4.8)%
Operating profit	1.9	2.3	(0.4)	) (17.4)%
Operating profit as a % of revenues	2.0	% 2.3	% (0.3)	)%

Security revenues decreased by \$4.8 million, or 4.8%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The decrease was primarily related to contract losses in the prior year and reductions in scope of work from existing clients.

Operating profit decreased by \$0.4 million, or 17.4%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit margins decreased by 0.3% to 2.0% in the three months ended January 31, 2015 from 2.3% in the three months ended January 31, 2014. The decrease in operating profit margins was attributable to higher payroll and related costs resulting from increased overtime due to a tight labor market in certain geographical areas. The decrease was partially offset by enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015 and savings realized as a result of the realignment of our Onsite Services operational structure.

#### Building & Energy Solutions

(\$ in millions)	Three Months Ended January 31,			Increase (Decrease)
	2015	2014		
Revenues	\$119.4	\$102.1	\$17.3	16.9%
Operating profit	1.2	2.7	(1.5)	(55.6)%
Operating profit as a % of revenues	1.0	% 2.6	% (1.6)	)%

Building & Energy Solutions revenues increased by \$17.3 million, or 16.9%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. This increase was primarily a result of increased revenues from commercial service and maintenance contracts, including medical demand maintenance. Revenues also increased by \$8.2 million due to acquisitions that occurred in March 2014 and August 2014. Operating profit decreased by \$1.5 million, or 55.6%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit margins decreased by 1.6% to 1.0% in the three months ended January 31, 2015 from 2.6% in the three months ended January 31, 2014. The decrease in operating profit margins was primarily driven by higher operational costs for certain newly acquired contracts as a result of startup activities and higher investment in selling and business development expenses. Also impacting the lower margins were higher expenses from non-recurring operational issues at certain clients and the settlement of a customer dispute. This decrease in operating profit margins was partially offset by the management of general and administrative expenses.

#### Other

(\$ in millions)	Three Months Ended January 31,			Increase
	2015	2014		
Revenues	\$97.2	\$85.6	\$11.6	13.6%
Operating profit	2.6	1.9	0.7	36.8%
Operating profit as a % of revenues	2.7	% 2.2	% 0.5	%

Revenues from our Other segment increased by \$11.6 million, or 13.6%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase was primarily driven by higher passenger services and cabin cleaning revenue in our U.S. operations, including increases in scope of work from existing clients and new business.

Operating profit increased by \$0.7 million, or 36.8%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. Operating profit margins increased by 0.5% to 2.7% in the three months ended January 31, 2015 from 2.2% in the three months ended January 31, 2014. This increase was primarily related to intangible assets being amortized using the sum-of-the-years-digits method, which results in declining amortization expense over the useful lives of the assets, and enhancements to our risk management and safety programs in 2014 that continue to favorably impact our insurance expense in 2015. This increase was partially offset by the higher compensation expense due to the reorganization of the executive structure and the settlement of a client dispute.



## Corporate

(\$ in millions)	Three Months Ended January 31,		Increase
	2015	2014	
Corporate expenses	\$(32.3	) \$(22.1	) \$(10.2) (46.2)%

Corporate expenses increased by \$10.2 million, or 46.2%, during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The increase in corporate expenses was primarily related to:

- a \$3.2 million increase in severance expense related to the previously announced upcoming departure of our CEO, net of reversal of share-based compensation;
- a \$2.7 million increase in legal expenses primarily associated with a settlement relating to a case alleging certain wage and hour violations;
- a \$2.2 million increase in compensation and related expenses primarily as a result of adding certain IT positions since the prior year and the hiring of additional personnel to support growth initiatives throughout the organization;
- a \$0.9 million increase in professional fees related to certain employment-based tax credits; and
- a \$0.6 million increase in share-based compensation expense, excluding the reversal of certain previously expensed amounts related to the CEO departure. This increase was due to the recognition of higher expense relating to awards granted in 2014 and 2015, as compared to awards granted in 2010 and 2011.

### Liquidity and Capital Resources

We continually project anticipated cash requirements for our operating, investing, and financing needs as well as cash flows generated from operating activities available to meet these needs. Our operating needs can include, among other items, commitments for operating leases, payroll payments, insurance claims payments, interest payments, legal settlements, and pension funding obligations. Our investing and financing spending can include payments for acquired businesses, capital expenditures, commitments for capital leases, share repurchases, dividends, and payments on our outstanding indebtedness.

We believe that our operating cash flows, cash and cash equivalents, borrowing capacity under our line of credit, and access to capital markets are sufficient to fund our operating, investing, and financing requirements for the next twelve months. However, there can be no assurance that our business will generate sufficient cash flows from operations, that anticipated net sales growth and operating improvements will be realized, that future borrowings will be available under our revolving credit facility, or that we will be able to access the capital markets in amounts sufficient to enable us to service our indebtedness or to fund our other liquidity needs.

On a continuing basis, we consider various transactions to increase shareholder value and enhance our business results, including acquisitions, divestitures, dividend payments, and share repurchases. These transactions may result in future cash proceeds or payments to shareholders.

On November 30, 2010, we entered into a five-year syndicated credit agreement pursuant to which we obtained an unsecured revolving credit facility (the "Facility"). This five-year syndicated credit agreement, as amended from time to time, is referred to as the "Credit Agreement." The aggregate amount of the Facility under the Credit Agreement is \$800.0 million, and the maturity date of the Facility is December 11, 2018. At our option, we may increase the size of the Facility to \$1.0 billion at any time prior to the expiration date (subject to receipt of commitments for the increased amount from existing and new lenders).

At January 31, 2015, the total outstanding amounts under the Facility in the form of cash borrowings and standby letters of credit were \$362.5 million and \$114.3 million, respectively. At January 31, 2015, we had up to \$323.2 million borrowing capacity under the Facility. Our ability to draw down available capacity under the Facility is subject to, and is limited by, compliance with certain financial covenants, including covenants relating to a fixed charge coverage ratio, a leverage ratio, and consolidated net worth. In addition, other covenants under the Facility include limitations on liens, dispositions, fundamental changes, investments, and certain transactions and payments. As of January 31, 2015, we were in compliance with these covenants and expect to be in compliance in the foreseeable future.

### Cash Flows

In addition to revenues and operating profit, our management views operating cash flows as a good indicator of financial performance, as strong operating cash flows provide opportunities for growth both organically and through acquisitions. Our net cash used in operating activities was \$32.4 million in the three months ended January 31, 2015. Typically, our total operating cash flows in the first quarter are lower than in subsequent quarters in the fiscal year. We expect operating activities to provide positive cash flows for the 2015 fiscal year. Operating cash flows primarily depend on: revenue levels; the quality and timing of collections of accounts receivable (including receivables from U.S. Government contracts, which generally have longer collection periods); the timing of payments to suppliers and other vendors; the timing and amount of income tax payments; and the timing and amount of payments on insurance claims. The table below summarizes our cash and cash equivalents activity:

(in millions)	Three Months Ended January 31,	
	2015	2014
Net cash used in operating activities	\$(32.4	) \$(38.9
Net cash used in investing activities	(3.6	) (9.5
Net cash provided by financing activities	38.1	50.0

#### Operating Activities

Net cash used in operating activities decreased by \$6.5 million during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The decrease was primarily related to the timing of client receivable collections and timing of payroll payments, partially offset by the timing of tax payments and the impact of retroactive changes in tax law, including the employment-based tax credits in the first quarter of 2015.

#### Investing Activities

Net cash used in investing activities decreased by \$5.9 million during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The decrease was primarily related to a period-over-period decrease in property, plant and equipment additions.

#### Financing Activities

Net cash provided by financing activities decreased by \$11.9 million during the three months ended January 31, 2015, as compared to the three months ended January 31, 2014. The decrease was primarily related to a \$9.5 million million decrease in cash borrowings from our line of credit.

#### Contingencies

We are a party to a variety of actions, proceedings, and legal, administrative, and other inquiries arising in the normal course of business relating to labor and employment, contracts, personal injury, and other matters, some of which allege substantial monetary damages. Some of these actions may be brought as a class action on behalf of a purported class of employees. Litigation outcomes are difficult to predict and are often resolved over long periods of time. Estimating probable losses requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties.

At January 31, 2015, the total amount accrued for all probable litigation losses where a reasonable estimate of the loss could be made was \$3.4 million. This \$3.4 million includes the accrual of \$2.3 million in connection with a settlement relating to a case alleging certain wage and hour violations.

We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. Estimating reasonably possible losses also requires the analysis of multiple possible outcomes that often depend on judgments about potential actions by third parties. Our management currently estimates that the range of loss for all reasonably possible losses for which an estimate can be made is between zero and \$4.5 million. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

In some cases, although a loss is probable or reasonably possible, we cannot reasonably estimate the maximum potential losses for probable matters or the range of losses for reasonably possible matters. Therefore, our accrual for probable losses and our estimated range of loss for reasonably possible losses do not represent our maximum possible exposure.

For additional information about our contingencies, see Note 9, "Commitments and Contingencies," in the Financial Statements.

#### Critical Accounting Policies and Estimates

Our accompanying Financial Statements are prepared in accordance with U.S. generally accepted accounting principles, which require us to make estimates in the application of our accounting policies based on the best assumptions, judgments, and opinions of management. There have been no significant changes to our critical accounting policies and estimates. For a description of our critical accounting policies, see Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There are no material changes related to market risk from the disclosures in our Annual Report on Form 10-K for the year ended October 31, 2014.

**ITEM 4. CONTROLS AND PROCEDURES.**

**a. Disclosure Controls and Procedures.**

As of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer evaluated our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

**b. Changes in Internal Control Over Financial Reporting.**

There were no changes in our internal control over financial reporting during the first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

A discussion of material developments in our litigation matters occurring in the period covered by this report is found in Note 9, "Commitments and Contingencies," to the Financial Statements in this Form 10-Q.

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors identified in our Annual Report on Form 10-K for the year ended October 31, 2014, in response to Item 1A., "Risk Factors," to Part I of the Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

(a) Exhibits

Exhibit No.	Exhibit Description
10.1‡	Fifth Amendment, dated February 17, 2015, to the Credit Agreement dated as of November 30, 2010, among ABM Industries Incorporated, various financial institutions, and Bank of America, N.A. as Administrative Agent
10.2‡*	Amended Executive Employment Agreement dated January 13, 2015 by and between ABM Industries Incorporated and James P. McClure
10.3‡*	Amended Executive Employment Agreement dated January 13, 2015 by and between ABM Industries Incorporated and Tracy K. Price
31.1‡	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2‡	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Report Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101. PRE	XBRL Presentation Linkbase Document

\* Indicates management contract or compensatory plan, contract or arrangement

‡ Indicates filed herewith

† Indicates furnished herewith

SIGNATURES

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

ABM Industries Incorporated

March 4, 2015

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

March 4, 2015

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