

ABM INDUSTRIES INC /DE/

Form 10-Q

June 04, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended April 30, 2010  
OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-8929**

**ABM INDUSTRIES INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**

**94-1369354**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**551 Fifth Avenue, Suite 300, New York,  
New York**

**10176**

(Address of principal executive offices)

(Zip Code)

**212/297-0200**

(Registrant's telephone number, including area code)

**None**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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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 May 28, 2010
Common Stock, \$0.01 par value per share	52,038,568 shares

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**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**FORM 10-Q**  
**For the quarterly period ended April 30, 2010**  
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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)	<b>April 30, 2010</b>	<b>October 31, 2009</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 20,943	\$ 34,153
Trade accounts receivable, net of allowances of \$10,184 and \$10,772 at April 30, 2010 and October 31, 2009, respectively	442,709	445,241
Prepaid income taxes	12,913	13,473
Current assets of discontinued operations	6,009	10,787
Prepaid expenses	39,271	38,781
Notes receivable and other	18,155	21,374
Deferred income taxes, net	52,347	52,171
Insurance recoverables	4,898	5,017
 Total current assets	 597,245	 620,997
Non-current assets of discontinued operations	2,792	4,567
Insurance deposits	42,179	42,500
Other investments and long-term receivables	5,668	6,240
Deferred income taxes, net	57,815	63,444
Insurance recoverables	65,819	67,100
Other assets	31,749	32,446
Investments in auction rate securities	19,634	19,531
Property, plant and equipment, net of accumulated depreciation of \$99,592 and \$92,563 at April 30, 2010 and October 31, 2009, respectively	56,397	56,892
Other intangible assets, net of accumulated amortization of \$48,933 and \$43,464 at April 30, 2010 and October 31, 2009, respectively	54,731	60,199
Goodwill	547,880	547,237
 Total assets	 \$ 1,481,909	 \$ 1,521,153

See accompanying notes to the condensed consolidated financial statements.

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

(Continued)

(in thousands, except share amounts)	<b>April 30, 2010</b>	<b>October 31, 2009</b>
	(Unaudited)	
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Trade accounts payable	\$ 57,011	\$ 84,701
Accrued liabilities		
Compensation	85,282	93,095
Taxes other than income	14,134	17,539
Insurance claims	78,803	78,144
Other	73,400	66,279
Income taxes payable	1,832	1,871
Current liabilities of discontinued operations	1,270	1,065
Total current liabilities	311,732	342,694
Income taxes payable	25,327	17,763
Line of credit	145,000	172,500
Retirement plans and other	31,644	32,963
Insurance claims	266,572	268,183
Total liabilities	780,275	834,103
Commitments and Contingencies		
<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; 52,018,718 and 51,688,218 shares issued at April 30, 2010 and October 31, 2009, respectively	520	517
Additional paid-in capital	183,377	176,480
Accumulated other comprehensive loss, net of taxes	(1,832)	(2,423)
Retained earnings	519,569	512,476
Total stockholders equity	701,634	687,050
Total liabilities and stockholders equity	\$ 1,481,909	\$ 1,521,153

See accompanying notes to the condensed consolidated financial statements.



**Table of Contents****ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 30,</b>		<b>April 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(Unaudited)			
<b>Revenues</b>	\$ 855,461	\$ 855,711	\$ 1,725,345	\$ 1,743,183
<b>Expenses</b>				
Operating	771,974	766,148	1,554,075	1,553,416
Selling, general and administrative	65,244	64,265	128,046	135,652
Amortization of intangible assets	2,694	2,680	5,469	5,503
Total expenses	839,912	833,093	1,687,590	1,694,571
Operating profit	15,549	22,618	37,755	48,612
Other-than-temporary impairment losses on auction rate security:				
Gross impairment losses	101		36	
Impairments recognized in other comprehensive income	26		91	
Interest expense	1,177	1,313	2,392	2,981
Income from continuing operations before income taxes	14,245	21,305	35,236	45,631
Provision for income taxes	5,622	8,256	13,777	17,827
Income from continuing operations	8,623	13,049	21,459	27,804
Loss from discontinued operations, net of taxes	(46)	(272)	(107)	(810)
<b>Net income</b>	\$ 8,577	\$ 12,777	\$ 21,352	\$ 26,994
<b>Net income per common share Basic</b>				
Income from continuing operations	\$ 0.16	\$ 0.25	\$ 0.41	\$ 0.54
Loss from discontinued operations				(0.01)
Net Income	\$ 0.16	\$ 0.25	\$ 0.41	\$ 0.53
<b>Net income per common share Diluted</b>				
Income from continuing operations	\$ 0.16	\$ 0.25	\$ 0.41	\$ 0.54
Loss from discontinued operations				(0.02)
Net Income	\$ 0.16	\$ 0.25	\$ 0.41	\$ 0.52



**Weighted-average common and common  
equivalent shares outstanding**

Basic	52,007	51,301	51,914	51,206
Diluted	52,719	51,553	52,633	51,511

<b>Dividends declared per common share</b>	\$ 0.135	\$ 0.130	\$ 0.270	\$ 0.260
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See accompanying notes to the condensed consolidated financial statements.

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**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	<b>Six Months Ended</b> <b>April 30,</b>	
	<b>2010</b>	<b>2009 (Note 1)</b>
	(Unaudited)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,352	\$ 26,994
Loss from discontinued operations, net of taxes	(107)	(810)
Income from continuing operations	21,459	27,804
<b>Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:</b>		
Depreciation and amortization of intangible assets	17,044	15,237
Deferred income taxes	5,453	16,266
Share-based compensation expense	3,610	3,412
Provision for bad debt	1,569	1,878
Discount accretion on insurance claims	456	624
Auction rate security credit loss impairment	127	
Loss (gain) on sale of assets	31	(930)
Changes in operating assets and liabilities, net of effects of acquisitions		
Trade accounts receivable	962	(382)
Prepaid expenses and other current assets	2,714	(2,932)
Insurance recoverables	1,400	100
Other assets and long-term receivables	1,591	(2,617)
Income taxes payable	7,748	(7,306)
Retirement plans and other non-current liabilities	(1,055)	(439)
Insurance claims payable	(1,408)	(2,607)
Trade accounts payable and other accrued liabilities	(23,961)	(3,767)
Total adjustments	16,281	16,537
Net cash provided by continuing operating activities	37,740	44,341
Net cash provided by discontinued operating activities	6,583	22,861
<b>Net cash provided by operating activities</b>	<b>44,323</b>	<b>67,202</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(12,238)	(9,680)
Proceeds from sale of assets	1,087	2,312
Purchase of businesses	(588)	(746)
<b>Net cash used in investing activities</b>	<b>(11,739)</b>	<b>(8,114)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercises of stock options (including income tax benefit)	3,045	1,516
Dividends paid	(14,014)	(13,314)
Borrowings from line of credit	229,000	343,000

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Repayment of borrowings from line of credit	(256,500)	(391,000)
Changes in book cash overdrafts	(7,325)	(5,966)
<b>Net cash used in financing activities</b>	<b>(45,794)</b>	<b>(65,764)</b>
Net decrease in cash and cash equivalents	(13,210)	(6,676)
Cash and cash equivalents at beginning of period	34,153	26,741
<b>Cash and cash equivalents at end of period</b>	<b>\$ 20,943</b>	<b>\$ 20,065</b>

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Continued)

(in thousands)	<b>Six Months Ended</b>	
	<b>2010</b>	<b>April 30,</b> <b>2009 (Note 1)</b> (Unaudited)
<b>Supplemental Data:</b>		
Cash (refunded) paid for income taxes, net of refunds received	\$ (75)	\$ 8,928
Tax effect from exercise of options	603	(124)
Cash received from exercise of options	2,442	1,640
Interest paid on line of credit	\$ 1,803	\$ 2,843
Non-cash investing activities:		
Common stock issued for business acquired	\$	\$ 1,198

See accompanying notes to the condensed consolidated financial statements.

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**ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of Presentation**

The accompanying condensed consolidated financial statements of ABM Industries Incorporated ( ABM , and together with its subsidiaries, the Company ) contained in this report are unaudited and should be read in conjunction with the consolidated financial statements and accompanying notes filed with the U.S. Securities and Exchange Commission ( SEC ) in ABM 's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. All references to years are to the Company 's fiscal year, which ends on October 31.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in ABM 's condensed consolidated financial statements and the accompanying notes. These estimates are based on information available as of the date of these financial statements. The current economic environment and its potential effect on the Company 's clients have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are normal and recurring, necessary to fairly state the information for each period contained therein. The results of operations for the three and six months ended April 30, 2010 are not necessarily indicative of the operating results that might be expected for the full fiscal year or any future periods.

*Immaterial Correction*

The presentation of the accompanying condensed consolidated statements of cash flows for the six months ended April 30, 2009, corrects the presentation of cash and cash equivalents and book cash overdrafts related to offsetting of positive and negative book cash balances. The effects of the correction, which had no impact on the Company 's previously reported earnings for any periods, are presented in the following table:

	Six Months Ended April 30, 2009	
	As Previously Reported	As Corrected
(in thousands)		
Net cash used in financing activities	\$ (59,798)	\$ (65,764)

**2. Recently Adopted Accounting Pronouncements**

Effective November 1, 2009, the Company adopted the Financial Accounting Standards Board ( FASB ) updated authoritative standard for accounting for business combinations, which is included in Accounting Standards Codification™ ( ASC ) Topic 805 Business Combinations ( ASC 805 ). Upon adoption, on November 1, 2009, the Company expensed approximately \$1.0 million of deferred acquisition costs for acquisitions currently being pursued. This authoritative standard will impact the way in which the Company accounts for future business combinations. Effective November 1, 2009, the Company adopted the FASB updated authoritative standard for determining the useful life of intangible assets, which is included in ASC Topic 350-30 General Intangibles Other than Goodwill ( ASC 350-30 ). This authoritative standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and requires additional disclosures. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date. This authoritative standard had no impact on the Company 's condensed consolidated interim financial statements, but could impact the way in which the useful lives of intangible assets acquired in a business combination will be determined for future acquisitions, if renewal or extension terms are apparent.



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Effective November 1, 2009, the Company adopted the FASB updated authoritative standard on employers disclosures about post-retirement benefit plan assets, which is included in ASC Topic 715 Compensation Retirement Benefits ( ASC 715 ). The authoritative standard expands the annual disclosures by adding required disclosures about how investment allocation decisions are made by management, major categories of plan assets and significant concentrations of risk. Additionally, it is now required for an employer to disclose information about the valuation of plan assets similar to that required under ASC Topic 820 Fair Value Measurements and Disclosures ( ASC 820 ). This authoritative standard will not have an impact on the Company s condensed consolidated interim financial statements as it only amends required annual disclosures.

Effective November 1, 2009, the Company adopted the FASB authoritative standard on fair value measurements for non-financial assets and non-financial liabilities measured on a non-recurring basis, which is included in ASC 820. The Company s non-financial assets and non-financial liabilities principally consist of intangible assets acquired through business combinations and long-lived assets. During the six months ended April 30, 2010, the Company did not re-measure any non-financial assets or non-financial liabilities at fair value, therefore, this authoritative standard did not have an impact on the Company s condensed consolidated interim financial statements. This authoritative standard will impact the way in which fair value is measured and disclosed for non-financial assets and non-financial liabilities that are measured at fair value on a non-recurring basis in periods subsequent to initial recognition.

Effective February 1, 2010, the Company adopted FASB accounting standard update No. 2010-6, Improving Disclosures about Fair Value Measurements , issued in January 2010 related to fair value measurements and disclosures, except for the additional gross presentation disclosure requirements for Level 3 changes which will be adopted in the first quarter of 2012. The update requires entities to make new disclosures about recurring or nonrecurring fair value measurements of assets and liabilities, including (1) the amounts of significant transfers between Level 1 and Level 2 fair value measurements and the reasons for the transfers, (2) the reasons for any transfers in or out of Level 3, and (3) information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. The FASB also clarified existing fair value measurement disclosure guidance about the level of disaggregation of assets and liabilities, and information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The Company did not have transfers of assets and liabilities between Level 1, Level 2 and/or Level 3 and the required additional disclosures had no impact on the Company s financial position or results of operations. See Note 3, Fair Value Measurements and Note 4, Auction Rate Securities .

**3. Fair Value Measurements**

As required by ASC 820, fair value is determined based on inputs or assumptions that market participants would use in pricing an asset or a liability. These assumptions consist of (1) observable inputs - market data obtained from independent sources, or (2) unobservable inputs - market data determined using the company s own assumptions about valuation. ASC 820 establishes a hierarchy to prioritize the inputs to valuation techniques, with the highest priority being given to Level 1 inputs and the lowest priority to Level 3 inputs, as described below:

**Level 1** Quoted prices for identical instruments in active markets;

**Level 2** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets; and

**Level 3** Unobservable inputs.

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The following tables presents the Company's hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of April 30, 2010 and October 31, 2009:

(in thousands)	Fair Value at April 30, 2010	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Assets held in funded deferred compensation plan	\$ 5,704	\$ 5,704	\$	\$
Investments in auction rate securities	19,634			19,634
Total assets	\$ 25,338	\$ 5,704	\$	\$ 19,634
<b>Liabilities</b>				
Interest rate swap	\$ 802	\$	\$ 802	\$
Total liabilities	\$ 802	\$	\$ 802	\$

(in thousands)	Fair Value at October 31, 2009	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Assets held in funded deferred compensation plan	\$ 6,006	\$ 6,006	\$	\$
Investment in auction rate securities	19,531			19,531
Total assets	\$ 25,537	\$ 6,006	\$	\$ 19,531