ABM INDUSTRIES INC /DE/
Form 10-Q
September 08, 2006

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

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 31, 2006**

o **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 of Incorporation)	(I.R.S. Employer Identification No.)

160 Pacific Avenue, Suite 222, San Francisco, California 94111
(Address of principal executive offices)(Zip Code)
415/733-4000
(Registrant s telephone number, including area code)
N/A
(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 the filing requirements for at least the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of common stock outstanding as of August 31, 2006: 48,967,212.

ABM INDUSTRIES INCORPORATED
FORM 10-Q
For the three and nine months ended July 31, 2006
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	**July 31, 2006**	**October 31, 2005**
ASSETS		
Current assets		
Cash and cash equivalents	$ 51,540	$ 56,793
Trade accounts receivable	377,190	353,036
Less: Allowances	(8,287)	(7,932)
Accounts receivable, net	368,903	345,104
Inventories	21,617	21,280
Deferred income taxes	44,668	46,795
Prepaid expenses and other current assets	47,914	44,690
Prepaid income taxes		6,791
Total current assets	534,642	521,453
Investments and long-term receivables	14,566	12,955
Property, plant and equipment, at cost		
Land and buildings	4,030	4,624
Transportation equipment	14,461	14,119
Machinery and other equipment	86,220	79,406
Leasehold improvements	18,112	16,491
	122,823	114,640
Less accumulated depreciation and amortization	(89,393)	(80,370)
Property, plant and equipment, net	33,430	34,270
Goodwill, net of accumulated amortization	247,869	243,559
Other intangibles, at cost	38,973	37,941
Less accumulated amortization	(14,214)	(13,478)
Other intangibles, net	24,759	24,463

Deferred income taxes	45,034	46,426
Other assets	20,474	20,584
Total assets	$920,774	$903,710

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	July 31, 2006	October 31, 2005
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Trade accounts payable	$ 52,388	$ 47,605
Income taxes payable	3,708	2,349
Accrued liabilities:		
Compensation	70,214	72,034
Taxes other than income	21,417	18,832
Insurance claims	73,449	71,455
Other	51,668	62,799
Total current liabilities	272,844	275,074
Retirement plans and other non-current liabilities	25,637	25,596
Insurance claims	130,575	127,114
Total liabilities	429,056	427,784
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; 55,331,000 and 54,651,000 shares issued at July 31, 2006 and October 31,2005, respectively	554	547
Additional paid-in capital	220,358	206,369
Accumulated other comprehensive income (loss)	245	(68)
Retained earnings	380,880	365,455
Cost of treasury stock (6,400,000 and 5,600,000 shares at July 31, 2006 and October 31, 2005, respectively)	(110,319)	(96,377)
Total stockholders equity	491,718	475,926
Total liabilities and stockholders equity	$ 920,774	$903,710

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

ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	**Three Months Ended July 31, 2006**	**Three Months Ended July 31, 2005** As Restated	**Nine Months Ended July 31, 2006**	**Nine Months Ended July 31, 2005** As Restated
Revenues				
Sales and other income	$ 689,275	$ 650,140	$ 2,015,984	$ 1,927,860
Gain on insurance claim				1,195
Total revenues	689,275	650,140	2,015,984	1,929,055
Expenses				
Operating expenses and cost of goods sold	612,434	572,759	1,810,932	1,731,042
Selling, general and administrative	48,428	44,417	150,851	142,855
Intangible amortization	1,357	1,430	4,428	4,264
Interest	122	220	366	713
Total expenses	662,341	618,826	1,966,577	1,878,874
Income from continuing operations before income taxes	26,934	31,314	49,407	50,181
Income taxes	9,682	10,720	17,773	15,121
Income from continuing operations	17,252	20,594	31,634	35,060
(Loss) income from discontinued operations, net of income taxes		(15)		233
Gain on sale of discontinued operations, net of income taxes		14,221		14,221
Net income	$ 17,252	$ 34,800	$ 31,634	$ 49,514
Net income per common share Basic				
Income from continuing operations	$ 0.35	$ 0.42	$ 0.64	$ 0.71
Loss from discontinued operations		(0.01)		
Gain on sale of discontinued operations		0.29		0.29
	$ 0.35	$ 0.70	$ 0.64	$ 1.00
Net income per common share Diluted				
Income from continuing operations	$ 0.35	$ 0.41	$ 0.64	$ 0.69
Loss from discontinued operations		(0.01)		
Gain on sale of discontinued operations		0.29		0.29

	$	0.35	$	0.69	$	0.64	$	0.98
Average common and common equivalent shares								
Basic		48,846		49,487		49,086		49,470
Diluted		49,306		50,462		49,735		50,522
Dividends declared per common share	$	0.11	$	0.105	$	0.33	$	0.315

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

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

(in thousands)	**2006**	**2005** As Restated
Cash flows from operating activities:		
Net income	$ 31,634	$ 49,514
Less income from discontinued operations		(14,454)
Income from continuing operations	31,634	35,060
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and intangible amortization	15,772	14,670
Share-based compensation expense	2,584	
Provision for bad debt	1,290	702
Gain on sale of assets	(704)	(61)
Decrease in deferred income taxes	3,519	1,477
Increase in trade accounts receivable	(24,797)	(37,268)
Increase in inventories	(337)	(5)
Increase in prepaid expenses and other current assets	(3,134)	(6,204)
(Increase) decrease in other assets and long-term receivables	(1,563)	259
Increase (decrease) in net current income taxes	8,150	(15,253)
Increase (decrease) in retirement plans and other non-current liabilities	41	(797)
Increase in insurance claims	5,455	5,656
(Decrease) increase in trade accounts payable and other accrued liabilities	(5,354)	9,254
Total adjustments to income from continuing operations	922	(27,570)
Net cash provided by continuing operating activities	32,556	7,490
Net operational cash flows from discontinued operations		372
Net cash provided by operating activities	32,556	7,862
Cash flows from investing activities:		
Additions to property, plant and equipment	(11,139)	(14,887)
Proceeds from sale of assets	1,594	1,254
Purchase of businesses	(9,525)	(25,430)
Proceeds from sale of business		32,250
Other		1,312
Net cash used in investing activities	(19,070)	(5,501)
Cash flows from financing activities:		
Common stock issued	11,412	17,387
Common stock purchases	(13,942)	(31,318)
Dividends paid	(16,209)	(15,597)
Net cash used in financing activities	(18,739)	(29,528)

Net decrease in cash and cash equivalents	(5,253)	(27,167)
Cash and cash equivalents beginning of period	56,793	63,369
Cash and cash equivalents end of period	$ 51,540	$ 36,202
Supplemental Data:		
Cash paid for income taxes	$ 3,868	$ 28,897
Tax benefit from exercise of options	$ 2,235	$ 2,283
Cash received from exercise of options	$ 9,177	$ 17,387
Non-cash investing activities:		
Common stock issued for business acquired	$	$ 3,490

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

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ABM INDUSTRIES INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments necessary to present fairly ABM Industries Incorporated (ABM) and subsidiaries (the Company) financial position as of July 31, 2006 and the results of operations for the three and nine months then ended, and cash flows for the nine months then ended. These adjustments are of a normal, recurring nature, except as otherwise noted.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. These estimates are based on information available as of the date of these financial statements. Actual results could differ materially from those estimates.

The information included in this Form 10-Q should be read in conjunction with the Management s Discussion and Analysis and the consolidated financial statements and the notes thereto included in the Company s Form 10-K Annual Report for the fiscal year ended October 31, 2005, as filed with the Securities and Exchange Commission (SEC).

On June 2, 2005, the Company sold substantially all of the operating assets of its wholly owned subsidiary, CommAir Mechanical Services (Mechanical). The remaining assets, consisting of the assets of the water treatment business, were sold to another buyer on July 31, 2005. As a result of these events, the assets and liabilities of Mechanical have been segregated and its operating results and cash flows have been reported as a discontinued operation in the accompanying consolidated financial statements of the Company. (See Note 9.)

2. Previous Restatement of Prior Periods

The financial statements for the first nine months of 2005 included herein have been restated to correct accounting errors associated with the operations acquired from Security Services of America, LLC (SSA LLC) in 2004 in the Security segment of the Company. These errors primarily involved the understatement of cost of goods sold, selling, general and administrative expenses, accrued compensation, and an overstatement of cash and cash equivalents during the first nine months of 2005 and errors in accounting for the subcontracting arrangement with SSA LLC while certain state operating licenses were being obtained by the Company. Correcting these errors reduced the Company s income from continuing operations before income taxes and the operating profits of the Security segment by $1.8 million ($1.1 million after-tax) and $7.9 million ($4.8 million after-tax) in the three and nine months ended July 31, 2005, respectively. Of the $7.9 million for the nine months ended July 31, 2005, $2.0 million was attributable to correction of 2004 errors (*i.e.*, a $2.8 million charge to selling, general and administrative expenses for a reserve provided for the amount the Company believes it overpaid SSA LLC in 2004 in connection with the subcontracting arrangement with SSA LLC and a $0.3 million charge to cost of goods sold to correct the understatement of payroll and payroll-related expenses in 2004, that were partially offset by a $1.1 million benefit in cost of goods sold from correcting the overstatement of insurance expense in 2004).

Detailed information on the restatement is included in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2005, as filed with the SEC.

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3. Net Income per Common Share

The Company has reported its earnings in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Basic net income per common share is based on the weighted average number of shares outstanding during the period. Diluted net income per common share is based on the weighted average number of shares outstanding during the period, including common stock equivalents. Stock options account for the entire difference between basic average common shares outstanding and diluted average common shares outstanding. The calculation of net income per common share is as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(in thousands, except per share data)	2006	2005 As Restated	2006	2005 As Restated
Net income available to common stockholders	$17,252	$34,800	$31,634	$49,514
Average common shares outstanding Basic	48,846	49,487	49,086	49,470
Effect of dilutive securities:				
Stock options	460	975	649	1,052
Average common shares outstanding Diluted	49,306	50,462	49,735	50,522
Net income per common share Basic	$ 0.35	$ 0.70	$ 0.64	$ 1.00
Net income per common share Diluted	$ 0.35	$ 0.69	$ 0.64	$ 0.98

For purposes of computing diluted net income per common share for the three months ended July 31, 2006 and 2005, options to purchase common shares of 2,628,003 and 324,500, respectively, at weighted average exercise prices of $18.44 and $21.49, respectively, were excluded from the computation as they had an anti-dilutive effect.

4. Share-Based Compensation

The Company has five stock incentive plans, which are described below. The Company also has an employee stock purchase plan.

2006 Equity Incentive Plan

On May 2, 2006, the shareholders of ABM approved the 2006 Equity Incentive Plan (the 2006 Equity Plan), which replaced the Time-Vested Incentive Stock Option Plan (the Time-Vested Plan), the 1996 Price-Vested Performance Stock Option Plan (the 1996 Plan) and the 2002 Price-Vested Performance Stock Option Plan (the 2002 Plan and collectively with the Time-Vested Plan and the 1996 Plan, the Prior Plans), all in advance of their expirations. The purpose of the 2006 Equity Plan is to provide stock-based compensation to employees and directors to promote close alignment among the interests of employees, directors and shareholders. The 2006 Equity Plan provides for the issuance of awards for 2,500,000 shares of ABM s common stock plus the remaining shares authorized under the Prior Plans as of May 2, 2006, plus forfeitures under the Prior Plans after that date. The terms and conditions governing existing options under the Time-Vested Plan, the 1996 Plan and the 2002 Plan will continue to apply to the outstanding options made under those plans. The 2006 Equity Plan is an omnibus plan that provides for a variety of equity and equity-based award vehicles, including stock options, stock appreciation rights, restricted stock, restricted stock unit awards, performance shares, and other share-based awards. Shares subject to awards that terminate without vesting or exercise may be reissued. Certain of the awards available under the 2006 Equity Plan will qualify as performance-based

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compensation under Internal Revenue Code Section 162(m) (Section 162(m)). At July 31, 2006, 5,129,265 shares were available for award.

Time-Vested Incentive Stock Option Plan

Under the Time-Vested Plan, the options become exercisable at a rate of 20% of the shares per year beginning one year after date of grant and terminate no later than 10 years plus one month after date of grant. On May 2, 2006, the remaining 254,142 shares authorized under this plan became available for grant under the 2006 Equity Plan, as will forfeitures after that date.

Price-Vested Performance Stock Option Plans

ABM has two Price-Vested Plans, the 1996 Plan and the 2002 Plan. The two plans are substantially similar. Each option has pre-defined vesting prices which provide for accelerated vesting, which were established by ABM s Compensation Committee. Under each form of option agreement, if, at the end of four years, any of the stock price performance targets are not achieved, then the remaining options would vest at the end of eight years from the date the options were granted. Options vesting during the first year following grant do not become exercisable until after the first anniversary of grant. The options expire ten years after the date of grant. On May 2, 2006, the remaining 2,350,963 shares authorized under these plans became available for grant under the 2006 Equity Plan, as will forfeitures after this date.

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

Under the Age-Vested Plan, options are exercisable for 50% of the shares when the option holders reach their 61st birthdays and the remaining 50% become exercisable on their 64th birthdays. To the extent vested, the options may be exercised at any time prior to one year after termination of employment. Effective as of December 9, 2003, no further grants may be made under the plan.

Employee Stock Purchase Plan

Under the 2004 Employee Stock Purchase Plan, through April 30, 2006, the participants purchase price was 85% of the lower of the fair market value of ABM s common stock on the first day of each six-month period in the fiscal year (*i.e*., May and November, or in the case of the first offering period, the price on August 1, 2004) or the last trading day of each month. Effective May 1, 2006, the purchase price became 95% of the fair market value of ABM s common stock on the last trading day of each month. Accordingly, this plan is no longer considered compensatory and the value of the awards will no longer be treated as share-based compensation expense. Employees may designate up to 10% of their compensation for the purchase of stock, subject to a $25,000 annual limit. Employees are required to hold their shares for a minimum of six months from the date of purchase. At July 31, 2006, 941,338 shares remained unissued under the plan.

Share-Based Compensation Expense

Effective November 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123R, Share-Based Payment, as interpreted by SEC Staff Accounting Bulletin No. 107. Prior to November 1, 2005, the Company accounted for stock options according to the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under SFAS No. 123R, and, consequently, has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options recognized in the three and nine months ended July 31, 2006 included: (1) amortization related to the remaining unvested portion of all stock option awards granted for the fiscal years beginning November 1, 1995 and ended October 31, 2005, based on the grant date fair value estimated in accordance with the

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original provisions of SFAS No. 123, Accounting for Stock-Based Compensation; and (2) amortization related to all stock option awards granted November 1, 2005 or after, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. The compensation cost is included in selling, general and administrative expenses and is not allocated to the segments.

The compensation expense and related income tax benefit recognized in the Company s consolidated financial statements for the three and nine months ended July 31, 2006 were as follows.

(in thousands)	Three Months Ended July 31, 2006	Nine Months Ended July 31, 2006
Share-based compensation expense recognized in selling, general and administrative expenses before income taxes	$ 529	$ 2,584
Income tax benefit	148	473
Total share-based compensation expense after income taxes	$ 381	$ 2,111

As of July 31, 2006, there was $7.4 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested options which is expected to be recognized over a weighted-average vesting period of 3.0 years. The Company elected to treat each award granted under the Time-Vested Plan as a single award and recognize the compensation cost on a straight-line basis over the requisite service period of the entire award. At any point in time, the compensation cost recognized will equal or exceed the portion of the grant-date fair value of the award that has vested at that date.

The following table illustrates the effect on net income and net income per common share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to share-based compensation during the three- and nine-month periods ended July 31, 2005:

(in thousands, except per share data)	Three Months Ended July 31, 2005 As Restated	Nine Months Ended July 31, 2005 As Restated
Net income, as reported	$ 34,800	$ 49,514
Deduct: Stock-based employee compensation cost, net of tax effect, that would have been included in net income if the fair value method had been applied	815	2,394
Net income, pro forma	$ 33,985	$ 47,120
Net income per common share Basic		
As reported	$ 0.70	$ 1.00
Pro forma	$ 0.69	$ 0.95
Net income per common share Diluted		
As reported	$ 0.69	$ 0.98
Pro forma	$ 0.67	$ 0.93

The Company estimates the fair value of each option award on the date of grant using the Black-Scholes option valuation model. The Company uses an outside expert to determine the assumptions used in the option valuation model. The Company estimates option forfeitures based on historical data and adjusts the forfeiture rate periodically or as needed. The adjustment of the forfeiture rate may result in a cumulative catch-up adjustment in any period the forfeiture rate estimate is changed. During the three and nine months ended July 31, 2006, no adjustment was necessary.

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The assumptions used in the option valuation model for the three and nine months ended July 31, 2006 and 2005 are shown in the table below:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2006 *	2005	2006	2005
Expected term from the date of grant		10.0 years	6.7 years	9.2 years
Expected stock price volatility average		23.3%	26.3%	22.9%
Expected dividend yield		2.3%	2.1%	2.2%
Risk-free interest rate		4.1%	4.4%	4.1%
Weighted average fair value of grants		$5.15	$5.67	$5.16

* No options were granted in the three months ended July 31, 2006.

The expected term for options granted under the Time-Vested Plan is based on observed historical exercise patterns. The expected term for options granted under the 1996 Plan and the 2002 Plan is calculated using the simplified method in accordance with SEC Staff Accounting Bulletin No. 107. The simplified method was calculated as the vesting term plus the contractual term divided by two. The vesting term of the 1996 Plan and the 2002 Plan options was derived using a Monte Carlo Simulation due to the market condition affecting the exercisability of these options. The expected volatility is based on considerations of implied volatility from publicly traded and quoted options on ABM s common stock and the historical volatility of ABM s common stock. The risk-free interest rate is based on the continuous compounded yield on U.S. Treasury Constant Maturity Rates with a remaining term equal to the expected term of the option. The dividend yield is based on the historical dividend yield over the expected term of the options granted.

The status of the Company s stock option plans at July 31, 2006, is summarized below:

	Number of shares (in thousands)	Weighted-average exercise price per share	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at October 31, 2005	6,078	$ 15.30		
Granted	286	20.09		
Exercised	319	10.66		
Forfeited or expired	188	15.00		
Outstanding at July 31, 2006	5,857	$ 15.80	6.42	$ 9,482
Exercisable at July 31, 2006	2,626	$ 14.27	3.75	$ 6,575

Additionally, 97,026 shares of ABM s common stock were issued to employees under the Employee Stock Purchase Plan at an average price of $16.14 during the three months ended July 31, 2006 and 358,058 shares at an average price of $15.78 during the nine months ended July 31, 2006. The share-based compensation cost recognized during the nine months ended July 31, 2006 associated with these shares was $0.8 million. Because of changes to the plan described above, beginning in the third quarter of 2006, the value of the awards is no longer treated as share-based compensation and no share-based compensation expense was recognized in the three months ended July 31, 2006.

The total intrinsic value of the options for 179,469 shares exercised during the three months ended July 31, 2006 was $1.2 million and for 319,349 shares exercised during the nine months ended July 31, 2006 was $2.4 million. The fair value of options that vested during the three and nine months ended July 31, 2006 was $0.2 million and $2.0 million, respectively.

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The Company settles employee stock option exercises with newly issued common shares approved by stockholders for inclusion in the 2006 Equity Plan and Prior Plans.

5. Parking Sales Presentation

The Company s Parking segment reports both revenues and expenses recognized, in equal amounts, for costs directly reimbursed from its managed parking lot clients in accordance with Emerging Issues Task Force (EITF) Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred. Parking sales related solely to the reimbursement of expenses totaled $69.2 million and $57.6 million for the three months ended July 31, 2006 and 2005, respectively, and $196.1 million and $172.1 million for the nine months ended July 31, 2006 and 2005, respectively.

6. Insurance

The Company self-insures certain insurable risks such as general liability, automobile, property damage, and workers compensation. Commercial policies are obtained to provide for $150.0 million of coverage for certain risk exposures above the self-insured retention limits (*i.e.*, deductibles). For claims incurred after November 1, 2002, substantially all of the self-insured retentions increased from $0.5 million per occurrence (inclusive of legal fees) to $1.0 million per occurrence (exclusive of legal fees) except for California workers compensation insurance which increased to $2.0 million per occurrence from April 14, 2003 to April 14, 2005, when it returned to $1.0 million per occurrence, plus an additional $1.0 million annually in the aggregate.

The Company uses an independent actuary to evaluate the Company s estimated claim costs and liabilities annually and accrues self-insurance reserves in an amount that is equal to the actuarial point estimate. Using the annual actuarial report, management develops annual insurance costs for each operation, expressed as a rate per $100 of exposure (labor and revenue) to estimate insurance costs on a quarterly basis. The 2006 actuarial report covering substantially all of the Company s self-insurance reserves was completed in the third quarter of 2006. The report showed favorable developments in the Company s California workers compensation and general and auto liability claims and adverse development in the Company s workers compensation claims outside California, in each case as of May 31, 2006. Based on the 2006 actuarial report, the Company reduced its self-insurance reserves in the third quarter of 2006 by $7.9 million, which was attributable to the first six months of 2006 and prior years. In the third quarter of 2005, the Company reduced its self insurance reserves by $9.0 million, which was attributable to the first six months of 2005 and prior years.

Additionally, management monitors new claims and claim development to assess the adequacy of the insurance reserves. The estimated future charge is intended to reflect the recent experience and trends. Trend analysis is complex and highly subjective. The interpretation of trends requires the knowledge of all factors affecting the trends that may or may not be reflective of adverse developments (*e.g.*, changes in regulatory requirements and changes in reserving methodology). If the trends suggest that the frequency or severity of claims incurred has increased, the Company might be required to record additional expenses for self-insurance liabilities. Additionally, the Company uses third party service providers to administer its claims and the performance of the service providers and transfers between administrators can impact the cost of claims and accordingly the amounts reflected in insurance reserves.

The total estimated liability for claims incurred but unpaid at July 31, 2006 and October 31, 2005 was $204.0 million and $198.6 million, respectively.

In connection with certain self-insurance programs, the Company had standby letters of credit at July 31, 2006 and October 31, 2005 supporting estimated unpaid liabilities in the amounts of $93.4 million and $82.1million, respectively.

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7. Goodwill and Other Intangibles

Goodwill. The changes in the carrying amount of goodwill for the nine months ended July 31, 2006 were as follows (acquisitions are discussed in Note 8):

(in thousands) Segment	Balance as of October 31, 2005	Initial Payments for Acquisitions	Contingent Amounts and Other	Balance as of July 31, 2006
Janitorial	$ 151,307	$ 575	$2,107	$153,989
Parking	29,535		645	30,180
Security	42,541	238	745	43,524
Engineering	2,174			2,174
Lighting	18,002			18,002
Total	$ 243,559	$ 813	$3,497	$247,869

Of the $247.9 million carrying amount of goodwill as of July 31, 2006, $44.8 million is not amortizable for income tax purposes because of being acquired prior to 1991 or through stock acquisitions.

Other Intangibles. The changes in the gross carrying amount and accumulated amortization of intangibles other than goodwill for the nine months ended July 31, 2006 were as follows (acquisitions are discussed in Note 8):

	Gross Carrying Amount				Accumulated Amortization			
(in thousands)	October 31, 2005	Additions	Retirements and Other	July 31, 2006	October 31, 2005	Additions	Retirements and Other	July 31, 2006
Customer contracts and related relationships	$28,267	$4,988	$	$33,255	$ (7,540)	$(3,587)	$	$(11,127)
Trademarks and trade names	3,050			3,050	(1,227)	(405)		(1,632)
Other (contract rights, etc.)	6,624	27	(3,983)	2,668	(4,711)	(436)	3,692	(1,455)
Total	$37,941	$5,015	$(3,983)	$38,973	$(13,478)	$(4,428)	$3,692	$(14,214)

Of the $5.0 million additions to other intangibles, $0.5 million is for contingent amounts paid for earlier acquisitions and the remaining $4.5 million is for initial payments for acquisitions during the nine months ended July 31, 2006.

The weighted average remaining lives as of July 31, 2006 and the amortization expense for the three and nine months ended July 31, 2006 and 2005 of intangibles other than goodwill, as well as the estimated amortization expense for such intangibles for each of the five succeeding fiscal years are as follows:

	Weighted Average Remaining Life	Amortization Expense		Estimated Amortization Expense
		Three Months Ended July 31,	Nine Months Ended July 31,	Years Ending October 31,

($ in thousands)	(Years)	2006	2005	2006	2005	2007	2008	2009	2010	2011
Customer contracts and related relationships	9.9	$1,181	$1,031	$3,587	$2,970	$4,275	$3,737	$3,199	$2,661	$2,124
Trademarks and trade names	2.9	135	135	405	522	540	540	202		
Other (contract rights, etc.)	8.6	41	264	436	772	190	181	165	135	135
Total	9.5	$1,357	$1,430	$4,428	$4,264	$5,005	$4,458	$3,566	$2,796	$2,259

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

8. Acquisitions

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

Cash paid for acquisitions, including initial payments and contingent amounts based on subsequent performance, was $9.5 million and $25.4 million in the nine months ended July 31, 2006 and 2005, respectively. Of those payment amounts, $4.1 million and $10.6 million were the contingent amounts paid in the nine months ended July 31, 2006 and 2005, respectively, on earlier acquisitions as provided by the respective purchase agreements. In addition, shares of ABM s common stock with a fair market value of $3.5 million at the date of issuance were issued in the nine months ended July 31, 2005 as payment for a business acquired.

The Company made the following acquisitions during the nine months ended July 31, 2006:

On November 1, 2005, the Company acquired substantially all of the operating assets of Brandywine Building Services, Inc., a facility services company based in Wilmington, Delaware, for approximately $3.6 million in cash. Additional cash consideration of approximately $2.4 million is expected to be paid based on the financial performance of the acquired business over the next four years. With annual revenues in excess of $9.0 million, Brandywine Building Services, Inc. was a provider of commercial office cleaning and specialty cleaning services throughout Delaware, southeast Pennsylvania and south New Jersey. Of the total initial payment, $2.9 million was allocated to customer relationship intangible assets, $0.6 million to goodwill and $0.1 million to other assets. As of July 31, 2006, no contingent payment had been made.

On November 27, 2005, the Company acquired substantially all of the operating assets of Fargo Security, Inc., a security guard services company based in Miami, Florida, for an initial payment of approximately $1.2 million in cash plus an additional payment of $0.4 million based on the revenue retained by the acquired business over the 90 days following the date of acquisition. With annual revenues in excess of $6.5 million, Fargo Security, Inc. was a provider of contract security guard services throughout the Miami metropolitan area. Of the total initial payment, $1.0 million was allocated to customer relationship intangible assets and $0.2 million to goodwill. The contingent payment made in the nine months ended July 31, 2006 of $0.4 million was allocated to goodwill.

On December 11, 2005, the Company acquired substantially all of the operating assets of MWS Management, Inc., dba Protector Security Services, a security guard services company based in St. Louis, Missouri, for an initial payment of approximately $0.6 million in cash plus an additional payment of $0.3 million based on the revenue retained by the acquired business over the 90 days following the date of acquisition. With annual revenues in excess of $2.6 million, Protector Security Services was a provider of contract security guard services throughout the St. Louis metropolitan area. Of the total initial payment, $0.6 million was allocated to customer relationship intangible assets. The contingent payment made in the nine months ended July 31, 2006 of $0.3 million was allocated to goodwill.

The Company made the following acquisitions during the nine months ended July 31, 2005:

On November 1, 2004, the Company acquired substantially all of the operating assets of Sentinel Guard Systems (Sentinel), a Los Angeles-based company, from Tracerton Enterprises, Inc. Sentinel, with annual revenues in excess of $13.0 million, was a provider of security officer services primarily to high-rise, commercial and residential structures. In addition to its Los Angeles business, Sentinel also operated an office in San Francisco. The initial purchase price was $5.3 million, which included a payment of $3.5 million in shares of ABM s common stock, the assumption of liabilities totaling approximately $1.7 million and $0.1 million of professional fees. Of the initial purchase price, $2.4 million was allocated to customer relationship intangible assets, $0.1 million to trademarks and trade names, $1.3 million to customer accounts receivable and other assets and $1.5 million to goodwill. Additionally, because of the tax-free nature of this transaction to the seller, the Company recorded a $1.0 million deferred tax liability on the difference between the recorded fair market value and the seller s tax basis of the net assets acquired. Goodwill was increased by the same amount. Additional consideration includes contingent payments, based on achieving certain revenue and profitability targets over a three-year period, estimated to be between $0.5 million and $0.75 million per year, payable in shares of ABM s common stock. As of July 31, 2006, no contingent payment has been made.

On December 22, 2004, the Company acquired the operating assets of Colin Service Systems, Inc. (Colin), a facility services company based in New York, for an initial payment of $13.6 million in cash. Under certain conditions, additional consideration may include an estimated $1.9 million payment upon the collection of the acquired receivables and three annual contingent cash payments each for approximately $1.1 million, which are based on achieving annual revenue targets over a three-year period. With annual revenues in excess of $70 million, Colin was a provider of professional onsite management, commercial office cleaning, specialty cleaning, snow removal and engineering services. Of the total initial payment, $3.6 million was allocated to customer relationship intangible assets, $6.4 million to customer accounts receivable and other assets and $3.6 million to goodwill. In February 2006, the first annual contingent cash payment of $1.1 million was made, bringing the total purchase price paid to date to $14.7 million. The contingent cash payment of $1.1 million was allocated to goodwill.

On March 4, 2005, the Company acquired the operating assets of Amguard Security and Patrol Services (Amguard), based in Germantown, Maryland, for an initial payment of $1.1 million in cash plus additional payments of $0.3 million based on the revenue retained by the acquired business over the first year following the date of acquisition. With annual revenues in excess of $4.5 million, Amguard was a provider of security officer services, primarily to high-rise, commercial and residential structures. Of the total initial payment, $0.9 million was allocated to customer relationship intangible assets, $0.1 million to goodwill and $0.1 million to other assets. In October 2005 and May 2006, contingent cash payments of $0.2 million and $0.1 million, respectively, were made, bringing the total purchase price paid to $1.4 million. The contingent cash payments of $0.3 million were allocated to goodwill.

9. Discontinued Operations

On June 2, 2005, the Company sold substantially all of the operating assets of CommAir Mechanical Services, which represented the Company s Mechanical segment, to Carrier Corporation (Carrier). The operating assets sold included customer contracts, accounts receivable, inventories, facility leases and other assets, as well as rights to the name CommAir Mechanical Services. The consideration paid was $32.0 million in cash, subject to certain adjustments, and Carrier s assumption of trade payables and accrued liabilities. The Company realized a pre-tax gain of $21.4 million ($13.1 million after tax) on the sale of these assets in 2005.

On July 31, 2005, the Company sold the remaining operating assets of Mechanical, consisting of its water treatment business, to San Joaquin Chemicals, Incorporated for $0.5 million, of which $0.25 million was in the form of a note and $0.25 million in cash. The operating assets sold included customer contracts and inventories. The Company realized a pre-tax gain of $0.3 million ($0.2 million after tax) on the sale of these assets in 2005.

On August 15, 2003, the Company sold substantially all of the operating assets of Amtech Elevator Services, Inc., which represented the Company s Elevator segment, to Otis Elevator Company.

In June 2005, the Company settled litigation that arose from and was directly related to the operations of Elevator prior to its disposal. An estimated liability had been recorded on the date of disposal. The settlement amount was less than the estimated liability by $0.2 million, pre-tax. This difference was recorded as income from discontinued operations in the second quarter of 2005. In addition, $0.9 million benefit was recorded in Gain on sale of discontinued operations in the third quarter of 2005, which resulted from the correction of the overstatement of income taxes provided for the gain on sale of assets of the Elevator segment.

The operating results of Mechanical for the three and nine months ended July 31, 2005 and the Elevator adjustments are shown below:

(In thousands)	Three Months Ended July 31, 2005	Nine Months Ended July 31, 2005
Revenues	$ 4,472	$ 24,775
(Loss) income before income taxes	$ (21)	$ 383
Income taxes	(6)	150
(Loss) income from discontinued operations, net of income taxes	$ (15)	$ 233

10. Line of Credit Facility

In May 2005, ABM entered into a $300 million syndicated line of credit scheduled to expire in May 2010. No compensating balances are required under the facility and the interest rate is determined at the time of borrowing based on the London Interbank Offered Rate (LIBOR) plus a spread of 0.375% to 1.125% or, for overnight borrowings, at the prime rate or, for overnight to one week, at the Interbank Offered Rate (IBOR) plus a spread of 0.375% to 1.125%. The spreads for LIBOR and IBOR borrowings are based on the Company s leverage ratio. The facility calls for a non-use fee payable quarterly, in arrears, of 0.125%, based on the average daily unused portion. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with the Company s self-insurance program plus cash borrowings are considered to be outstanding amounts. As of July 31, 2006 and October 31, 2005, the total outstanding amounts under the facility were $98.6 million and $84.4 million in the form of standby letters of credit, respectively.

The facility includes usual and customary covenants for a credit facility of this type, including covenants limiting liens, dispositions, fundamental changes, investments, indebtedness, and certain transactions and payments. In addition, the facility also requires that the Company satisfy three financial covenants: (1) a fixed charge coverage ratio greater than or equal to 1.50 to 1.0 at fiscal quarter-end; (2) a leverage ratio of less than or equal to 3.25 to 1.0 at fiscal quarter-end; and (3) consolidated net worth greater than or equal to the sum of (i) $341.9 million, (ii) an amount equal to 50% of the consolidated net income earned in each full fiscal quarter ending after May 25, 2005 (with no deduction for a net loss in any such fiscal quarter) and (iii) an amount equal to 100% of the aggregate increases in stockholders equity of ABM after the effective time by reason of the issuance and sale of capital stock or other equity interests of ABM, including upon any conversion of debt securities of ABM into such capital stock or other equity interests, but excluding by reason of the issuance and sale of capital stock pursuant to the Company s employee stock purchase plan, employee stock option plans and similar programs. The Company is currently in compliance with all covenants.

11. Comprehensive Income

Comprehensive income consists of net income and other related gains and losses affecting stockholders equity that, under generally accepted accounting principles, are excluded from net income. For the Company, such other comprehensive income items consist of unrealized foreign currency translation gains and losses. The Company s other comprehensive income was zero for the three months ended July 31, 2006 and 2005. The Company s other comprehensive income was $0.3 million for the nine months ended July 31, 2006 and a loss of $0.1 million for the nine months ended July 31, 2005. Comprehensive income for the nine months ended July 31, 2006 and 2005 was $31.9 million and $49.4 million, respectively.

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12. Treasury Stock

On March 7, 2005, ABM s Board of Directors authorized the purchase of up to 2,000,000 shares of ABM s outstanding common stock at any time through October 31, 2005. The Company repurchased 1,600,000 shares under this authorization during the first nine months of 2005 at a cost of $31.3 million (an average price of $19.57 per share). At October 31, 2005, the authorization for the remaining 400,000 shares expired.

On March 29, 2006, the Board of Directors authorized the purchase of up to 2,000,000 shares of ABM s outstanding common stock at any time through October 31, 2006. The Company repurchased 800,000 shares under this authorization during the first nine months of 2006 at a cost of $13.9 million (an average price of $17.43 per share).

13. Employee Benefit and Incentive Plans

The Company offers various employee benefit plans to its employees. Detailed descriptions of these plans are included in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2005, as filed with the Securities and Exchange Commission.

Executive Officer Incentive Plan

On May 2, 2006, the shareholders of ABM approved the Executive Officer Incentive Plan (Incentive Plan). The purpose of the Incentive Plan is to provide annual performance-based cash incentives to certain employees of the Company and to motivate those employees to set and achieve above-average financial and non-financial goals. The Incentive Plan will give the Compensation Committee of the Board of Directors of ABM the ability to award cash bonuses that qualify as performance-based compensation under Section 162(m), and the Company s ability to deduct cash bonuses will be preserved. The aggregate funds available for bonuses under the Incentive Plan are three percent of pre-tax operating income for the award year. The plan sets forth certain limits on the awards to each of the covered employees eligible for bonuses under the Incentive Plan.

Retirement and Post-Retirement Plans

The Company has three unfunded defined benefit plans. The Supplemental Executive Retirement Plan represents retirement agreements for current and former senior executives including two non-employee directors who are former employees. The Non-Employee Director Retirement Plan represents retirement agreements for non-employee directors including two former senior executives who began to accrue benefits under the non-employee director plan after termination of employment. The Service Award Benefit Plan represents an unfunded severance pay plan covering certain qualified employees. The Supplemental Executive Retirement Plan was amended effective December 31, 2002 to preclude new participants and the Service Award Benefit Plan was frozen effective January 1, 2002. The post-retirement benefit plan is the Company s unfunded Death Benefit Plan.

The net expense of the defined benefit retirement plans and the post-retirement benefit plan for the three and nine months ended July 31, 2006 and 2005 was as follows:

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(in thousands)	Three Months Ended July 31, 2006	2005	Nine Months Ended July 31, 2006	2005
Defined Benefit Plans				
Service cost	$ 64	$ 53	$208	$151
Interest	119	222	353	502
Net expense	$183	$275	$561	$653
Post-Retirement Benefit Plan				
Service cost	$ 8	$ 10	$ 23	$ 30
Interest	62	68	185	203
Net expense	$ 70	$ 78	$208	$233

401(k) Plans

The Company made matching contributions required by the 401(k) plans for the three months ended July 31, 2006 and 2005 in the amounts of $1.3 million each, and for the nine months ended July 31, 2006 and 2005 in the amounts of $4.1 million and $4.0 million, respectively.

Deferred Compensation Plan

The Company has an unfunded deferred compensation plan available to executive, management, administrative or sales employees whose annualized base salary exceeds $100,000. The plan allows employees to defer from 1% to 20% of their pre-tax compensation. The deferred amount earns interest equal to the prime interest rate on the last day of the calendar quarter up to 6%. If the prime rate exceeds 6%, the deferred compensation interest rate is equal to 6% plus one half of the excess over 6%. The average interest rates credited to the deferred compensation amounts for the three months ended July 31, 2006 and 2005 were 7.13% and 6.21%, respectively, and for the nine months ended July 31, 2006 and 2005 were 6.93% and 5.83%, respectively. At July 31, 2006, there were 63 active participants and 33 retired or terminated employees participating in the plan.

(in thousands)	Three Months Ended July 31, 2006	2005	Nine Months Ended July 31, 2006	2005
Employee contributions	$ 147	$219	$ 544	$ 856
Interest accrued	$ 163	$153	$ 485	$ 436
Payments	$(132)	$ (23)	$(1,804)	$(2,414)

Pension Plan Under Collective Bargaining

Certain qualified employees of the Company are covered under union-sponsored multi-employer defined benefit plans. Contributions into these plans were $8.4 million and $8.6 million in the three months ended July 31, 2006 and 2005, respectively, and $25.2 million and $25.3 million in the nine months ended July 31, 2006 and 2005, respectively. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts.

14. Segment Information

Under the criteria of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, Janitorial, Parking, Security, Engineering, and Lighting are reportable segments. Corporate expenses, including the Company s share-based compensation costs, are not allocated.

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(in thousands)	Three Months Ended July 31, 2006	Three Months Ended July 31, 2005 As Restated	Nine Months Ended July 31, 2006	Nine Months Ended July 31, 2005 As Restated
Sales and other income				
Janitorial	$395,872	$384,381	$1,164,830	$1,141,961
Parking	115,719	102,767	327,503	303,073
Security	77,404	74,702	230,978	220,465
Engineering	71,665	60,882	206,705	176,057
Lighting	28,097	26,877	84,241	85,080
Corporate	518	531	1,727	1,224
	$689,275	$650,140	$2,015,984	$1,927,860
Operating profit				
Janitorial	$ 23,131	$ 25,165	$ 58,786	$ 47,795
Parking	4,552	4,079	9,202	8,915
Security	1,980	2,502	2,442	1,856
Engineering	4,450	4,146	11,400	10,327
Lighting	116	927	700	2,421
Corporate	(7,173)	(5,285)	(32,757)	(21,615)
Operating profit	27,056	31,534	49,773	49,699
Gain on insurance claim				1,195
Interest expense	(122)	(220)	(366)	(713)
Income from continuing operations before income taxes	$ 26,934	$ 31,314	$ 49,407	$ 50,181

15. Contingencies

The Company accrues amounts it believes are adequate to address any liabilities related to litigation or other proceedings that the Company believes will result in a probable loss. However, the ultimate resolution of such matters is always uncertain. It is possible that litigation or other proceedings brought against the Company could have a material adverse impact on its financial condition and results of operations. The total amount accrued for probable losses at July 31, 2006 was not material.

16. Income Taxes

The effective tax rates were 35.9% and 34.2% for the three months ended July 31, 2006 and 2005, respectively, and 36.0% and 30.1% for the nine months ended July 31, 2006 and 2005, respectively. The estimated annual effective tax rate is 37.5% for 2006 and was 36.5% for 2005. The increase was primarily due to the effect of the non-deductible incentive stock option expense included in the 2006 pre-tax income and a higher estimated state income tax rate. A $2.7 million income tax benefit was recorded in the second quarter of 2005 resulting from the favorable settlement of the audit of prior years state tax returns (tax years 2000 to 2003) in May 2005 and a $0.3 million income tax benefit was recorded in the third quarter of 2005 principally from adjusting the income tax liability accounts after filing the 2004 income tax returns. A $1.1 million benefit mostly from the reversal of state tax liabilities for closed years was recorded in the third quarter of 2006, partially offset by a $0.7 million tax expense from adjusting the income tax liability accounts after filing the 2005 tax returns. A $0.3 million income tax benefit was recorded in the first quarter of 2006 from the increase in deferred tax assets due to an increase in the estimated overall state income tax rate.

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17. Subsequent Event

On August 15, 2006, ABM settled its World Trade Center business interruption insurance coverage litigation with Zurich Insurance Company for $80.0 million, which will be received in September 2006. This payment, after giving effect to the legal and other expenses associated with the litigation, will increase ABM s net income in its fourth quarter ending October 31, 2006, by approximately $45.0 million or $0.90 per diluted share. This settlement resolved ABM s business interruption insurance claims for its losses related to the destruction of the World Trade Center complex in New York City, where ABM provided janitorial, engineering, and lighting services.

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

The following discussion should be read in conjunction with the consolidated financial statements of the Company included in this Quarterly Report on Form 10-Q and to the consolidated financial statements and notes thereto and Management s Discussion and Analysis included in the Company s Annual Report on Form 10-K for the year ended October 31, 2005. All information in the discussion and references to the years are based on the Company s fiscal year which ends on October 31 and the three- and nine-month periods which end on July 31.

Overview

ABM Industries Incorporated (ABM) and its subsidiaries (the Company) provide janitorial, parking, security, engineering and lighting services for thousands of commercial, industrial, institutional and retail facilities in hundreds of cities throughout the United States, as well as in certain cities in British Columbia, Canada. The largest segment of the Company s business is Janitorial which generated over 57% of the Company s sales and other income (hereinafter called Sales) and over 71% of its operating profit before corporate expenses for the first nine months of 2006. The Company also previously provided mechanical services. It sold substantially all of the operating assets of its Mechanical segment on June 2, 2005 and the remaining assets on July 31, 2005. (See Results from Discontinued Operations.)

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

The majority of the Company s contracts are for one-year periods, but are subject to termination by either party after 30 to 90 days written notice. Upon renewal of the contract, the Company may renegotiate the price although competitive pressures and customers price sensitivity could inhibit the Company s ability to pass on cost increases. Such cost increases include, but are not limited to, labor costs, workers compensation and other insurance costs, any applicable payroll taxes and fuel costs. However, for some renewals the Company is able to restructure the scope and terms of the contract to maintain profit margin.

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

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The Company s recent acquisitions significantly contributed to the growth in Sales in the first nine months of 2006 from the same period in 2005. The Company also experienced internal growth in Sales in the first nine months of 2006. Internal growth in Sales represents not only Sales from new customers, but also expanded services or increases in the scope of work for existing customers. In the long run, achieving the desired levels of Sales and profitability will depend on the Company s ability to gain and retain, at acceptable profit margins, more customers than it loses, pass on cost increases to customers, and keep overall costs down to remain competitive, particularly against privately owned companies that typically have the lower cost advantage.

In the short-term, management is focused on pursuing new business and integrating its most recent acquisitions. In the long-term, management continues to focus the Company s financial and management resources on those businesses it can grow to be a leading national service provider.

Liquidity and Capital Resources

(in thousands)	July 31, 2006	October 31, 2005	Change
Cash and cash equivalents	$ 51,540	$ 56,793	$ (5,253)
Working capital	261,798	246,379	15,419

(in thousands)	Nine Months Ended July 31, 2006	2005 As Restated	Change
Net cash provided by operating activities from continuing operations	$ 32,556	$ 7,490	$ 25,066
Net cash used in investing activities	(19,070)	(5,501)	(13,569)
Net cash used in financing activities	(18,739)	(29,528)	10,789

Funds provided from operations and bank borrowings have historically been the sources for meeting working capital requirements, financing capital expenditures and acquisitions, and paying cash dividends. As of July 31, 2006 and October 31, 2005, the Company s cash and cash equivalents totaled $51.5 million and $56.8 million, respectively. Cash used in investing and financing activities exceeded cash provided by operations due to the use of $16.2 million for dividend payments, $13.9 million for the purchase of ABM common stock, $11.1 million for additions to property, plant, and equipment, and $9.5 million for acquisitions, including $5.4 million of initial payments for the purchase of operations of Brandywine Building Services, Inc. (Brandywine) acquired on November 1, 2005, Fargo Security, Inc. (Fargo) acquired on November 27, 2005 and Protector Security Services (Protector) acquired on December 11, 2005. Net cash provided by operations of $32.6 million and cash from common stock issuances of $11.4 million substantially offset these uses. As described under Insurance Claims Related to the Destruction of the World Trade Center in New York on September 11, 2001 below, the Company will receive $80.0 million in cash during the fourth quarter of 2006 from the settlement of World Trade Center insurance claims.

Working Capital. Working capital increased by $15.4 million to $261.8 million at July 31, 2006 from $246.4 million at October 31, 2005, which is primarily reflected in $24.8 million increase in trade accounts receivable during the first nine months of 2006. Trade accounts receivable is the largest component of working capital and totaled $368.9 million at July 31, 2006 compared to $345.1 million at October 31, 2005. These amounts were net of allowances for doubtful accounts of $6.4 million and sales allowance of $1.9 million at July 31, 2006 and allowance for doubtful accounts of $6.1 million and sales allowance of $1.8 million at October 31, 2005. At July 31, 2006, accounts receivable that were over 90 days past due had increased by $10.1 million to $37.2 million (9.9% of the total outstanding) from $27.2 million (7.7% of the total outstanding) at October 31, 2005. Some large customers, including government entities, were slower in making payments.

Cash Flows from Operating Activities. Operating activities provided net cash of $32.6 million from continuing operations in the first nine months of 2006, compared to $7.5 million in the first nine months of 2005. Operating cash from continuing operations increased in the first nine months of 2006 from the first nine months of 2005 primarily due to the lower income tax payments associated with lower estimated taxable income in the first nine months of 2006, partially offset by payments in the second quarter of 2006 of litigation settlements that were pending at October 31, 2005. Cash flows from operating activities was also affected by the timing of other recurring payments.

Cash Flows from Investing Activities. Net cash used in investing activities in the first nine months of 2006 was $19.1 million, compared to $5.5 million in the first nine months of 2005. Cash flows from investing activities in 2005 included $32.3 million proceeds received from the sales of the operating assets of the Mechanical segment during the third quarter of 2005 (see Results from Discontinued Operations), although $15.9 million more cash was used in the purchase of businesses in the first nine months of 2005 compared to the first nine months of 2006.

Cash Flows from Financing Activities. Net cash used in financing activities was $18.7 million in the first nine months of 2006, compared to $29.5 million in the first nine months of 2005. This was primarily because the Company repurchased $17.4 million less ABM common stock in the first nine months of 2006 compared to the first nine months of 2005 offset by the issuance of $6.0 million less common stock through the Company s stock option and employee stock purchase plans in the first nine months of 2006 compared to the first nine months of 2005.

Line of Credit. In May 2005, ABM entered into a $300 million syndicated line of credit scheduled to expire in May 2010. No compensating balances are required under the facility and the interest rate is determined at the time of borrowing based on the London Interbank Offered Rate (LIBOR) plus a spread of 0.375% to 1.125% or, for overnight borrowings, at the prime rate or, for overnight to one week, at the Interbank Offered Rate (IBOR) plus a spread of 0.375% to 1.125%. The spreads for LIBOR and IBOR borrowings are based on the Company s leverage ratio. The facility calls for a non-use fee payable quarterly, in arrears, of 0.125%, based on the average daily unused portion. For purposes of this calculation, irrevocable standby letters of credit issued primarily in conjunction with the Company s self-insurance program plus cash borrowings are considered to be outstanding amounts. As of July 31, 2006 and October 31, 2005, the total outstanding amounts under the facility were $98.6 million and $84.4 million in the form of standby letters of credit, respectively.

The facility includes usual and customary covenants for a credit facility of this type, including covenants limiting liens, dispositions, fundamental changes, investments, indebtedness, and certain transactions and payments. In addition, the facility also requires that the Company satisfy three financial covenants: (1) a fixed charge coverage ratio greater than or equal to 1.50 to 1.0 at fiscal quarter-end; (2) a leverage ratio of less than or equal to 3.25 to 1.0 at fiscal quarter-end; and (3) consolidated net worth greater than or equal to the sum of (i) $341.9 million, (ii) an amount equal to 50% of the consolidated net income earned in each full fiscal quarter ending after May 25, 2005 (with no deduction for a net loss in any such fiscal quarter) and (iii) an amount equal to 100% of the aggregate increases in stockholders equity of ABM after the effective time by reason of the issuance and sale of capital stock or other equity interests of ABM, including upon any conversion of debt securities of ABM into such capital stock or other equity interests, but excluding by reason of the issuance and sale of capital stock pursuant to the Company s employee stock purchase plans, employee stock option plans and similar programs. The Company is currently in compliance with all covenants.

Cash Requirements

The Company is contractually obligated to make future payments under non-cancelable operating lease agreements for various facilities, vehicles and other equipment. As of July 31, 2006, future contractual payments were as follows:

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(in thousands)		Payments Due By Period			
Contractual Obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating Leases	$ 135,949	$ 35,802	$ 45,452	$ 24,647	$ 30,048

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

(in thousands)		Amounts of Commitment Expiration Per Period			
Commercial Commitments	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Standby Letters of Credit	$ 98,575	$ 98,575			
Surety Bonds	49,134	46,666	$ 2,352	$ 16	$ 100
Total	$ 147,709	$ 145,241	$ 2,352	$ 16	$ 100

(in thousands)		Payments Due By Period			
Other Long-Term Liabilities	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Retirement Plans	$ 34,187	$ 2,259	$ 4,172	$ 4,321	$ 23,435

The Company uses surety bonds, principally performance and payment bonds, to guarantee performance under various customer contracts in the normal course of business. These bonds typically remain in force for one to five years and may include optional renewal periods. At July 31, 2006, outstanding surety bonds totaled approximately $49.1 million. The Company does not believe these bonds will be required to be drawn upon.

The Company has three unfunded defined benefit plans, an unfunded post-retirement benefit plan and an unfunded deferred compensation plan that are described in Note 13 of the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q. At July 31, 2006, the liability reflected on the Company s consolidated balance sheet for these five plans totaled $22.1 million, with the amount expected to be paid over the next 20 years estimated at $34.2 million. With the exception of the deferred compensation plan, the liability for which is reflected on the Company s consolidated balance sheet at the amount of compensation deferred plus accrued interest, the plan liabilities at that date assume future annual compensation increases of 3.0% (for those plans affected by compensation changes) and have been discounted at 5.75%, a rate based on Moody s Investor Services AA-rated long-term corporate bonds (*i.e.*, 20 years). Because the deferred compensation plan liability reflects the actual obligation of the Company and the post-retirement benefit plan and two of the three defined benefit plans have been frozen, variations in assumptions would be unlikely to have a material effect on the Company s financial condition and operating performance. The Company expects to fund payments required under the five plans from operating cash as payments are due to participants.

Not included in the unfunded employee benefit plans in the table above are union-sponsored multi-employer defined benefit plans under which certain union employees of the Company are covered. These plans are not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts. Contributions paid for these plans were $25.2 million and $25.3 million in the nine months ended July 31, 2006 and 2005, respectively.

The Company self-insures certain insurable risks such as general liability, automobile, property damage, and workers compensation. Commercial policies are obtained to provide for $150.0 million of coverage for certain risk exposures above the self-insured retention limits (*i.e.,* deductibles). For claims incurred after November 1, 2002, substantially all of the self-insured retentions increased from $0.5 million per occurrence (inclusive of legal fees) to $1.0 million per occurrence (exclusive of legal fees) except for California workers compensation insurance which increased to $2.0 million per occurrence from April 14, 2003 to April 14, 2005, when it returned to $1.0 million per occurrence, plus an additional $1.0 million annually in the aggregate. The estimated liability for claims incurred but unpaid at July 31, 2006 and October 31, 2005 was $204.0 million and $198.6 million, respectively. The Company retains an outside actuary to provide an actuarial estimate of its insurance reserves annually.

The self-insurance claims paid in the first nine months of 2006 and 2005 were $43.8 million and $45.8 million, respectively. Claim payments vary based on the frequency and/or severity of claims incurred and timing of the settlements and therefore may have an uneven impact on the Company s cash balances.

The Company is engaged in an evaluation of its legacy payroll system that could result in outsourcing its payroll in the early part of fiscal 2007. The implementation costs associated with replacing its payroll system with outsourcing services would be approximately $5.5 million, a major portion of which could be incurred in the last quarter of fiscal 2006.

The Company believes that the current cash and cash equivalents, cash generated from operations and the line of credit will be sufficient to meet the Company s cash requirements for the long term including cash required for acquisitions.

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

The Company had commercial insurance policies covering business interruption, property damage and other losses related to the World Trade Center complex in New York, which was the Company s largest single job-site at the time of its destruction on September 11, 2001 with annual Sales of approximately $75.0 million. The Company has been engaged in protracted litigation with Zurich Insurance Company (Zurich), its business interruption insurance carrier, to recover its losses of business profits. This litigation was settled on August 15, 2006 for $80.0 million.

Under Emerging Issues Task Force (EITF) Issue No. 01-10, Accounting for the Impact of the Terrorist Attacks of September 11, 2001, the Company has not recognized any portion of this payment as income. Under Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, such amounts can only be recognized as income in the period when any and all contingencies for that portion of the insurance claim have been resolved. The payment scheduled for receipt in September 2006 will, after legal and other expenses associated with the litigation, increase the Company s net income in its fourth quarter of 2006 by approximately $45.0 million or $0.90 per diluted share. Upon receipt of the settlement proceeds, the Company will have received from Zurich $95.2 million in accumulated payments for its commercial insurance policy covering business interruption, property damage, and other losses related to the World Trade Center complex.

Environmental Matters

The Company s operations are subject to various federal, state and/or local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment, such as discharge into soil, water and air, and the generation, handling, storage, transportation and disposal of waste and hazardous substances. These laws generally have the effect of increasing costs and potential liabilities associated with the conduct of the Company s operations, although historically they have not had a material adverse effect on the Company s financial position, results of operations, or cash flows. In addition, from time to time the Company is involved in environmental issues at certain of its locations or in connection with its operations. While it is difficult to predict the ultimate outcome of any of these matters, based on information currently available, management believes that none of these matters, individually or in the aggregate, are reasonably likely to have a material adverse effect on the Company s financial position, results of operations, or cash flows.

Off-Balance Sheet Arrangements

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

ABM s certificate of incorporation and bylaws may require it to indemnify Company directors and officers against liabilities that may arise by reason of their status as such and to advance their expenses incurred as a result of any legal proceeding against them as to which they could be indemnified. ABM has also entered into indemnification agreements with its directors to this effect. The overall amount of these obligations cannot be reasonably estimated, however, the Company believes that any loss under these obligations would not have a material adverse effect on the Company s financial position, results of operations or cash flows. The Company currently has directors and officers insurance, which has a deductible of up to $1.0 million.

Acquisitions

The operating results of businesses acquired have been included in the accompanying consolidated financial statements from their respective dates of acquisition. Acquisitions made during the nine months ended July 31, 2006 and 2005 are discussed in Note 8 of Notes to Consolidated Financial Statements.

Results of Continuing Operations

Three Months Ended July 31, 2006 vs. Three Months Ended July 31, 2005

	Three Months Ended July 31,				
($ in thousands)	2006	% of Sales	2005 As Restated	% of Sales	Increase (Decrease)
Revenues					
Sales and other income	$ 689,275	100.0%	$ 650,140	100.0%	6.0%
Total revenues	689,275		650,140		6.0%
Expenses					
Operating expenses and cost of goods sold	612,434	88.9%	572,759	88.1%	6.9%
Selling, general and administrative	48,428	7.0%	44,417	6.8%	9.0%
Intangible amortization	1,357	0.2%	1,430	0.2%	(5.1)%
Interest	122		220		(44.5)%
Total expenses	662,341	96.1%	618,826	95.2%	7.0%
Income from continuing operations before income taxes	26,934	3.9%	31,314	4.8%	(14.0)%
Income taxes	9,682	1.4%	10,720	1.6%	(9.7)%
Income from continuing operations	$ 17,252	2.5%	$ 20,594	3.2%	(16.2)%

Income from continuing operations. Income from continuing operations in the third quarter of 2006 decreased 16.2% to $17.3 million ($0.35 per diluted share) from $20.6 million ($0.41 per diluted share) in the third quarter of 2005. This decrease is primarily attributable to lower Janitorial operating profits in the third quarter of 2006 than the third quarter of 2005 reflecting the one additional work day in the third quarter of 2006, which unfavorably impacted the Janitorial segment s fixed-price contracts by approximately $2.4 million pre-tax. As discussed in greater detail below, the third quarter of 2006 and 2005 included favorable adjustments of self-insurance reserves resulting from independent actuarial reports. These pre-tax adjustments to the beginning of the quarter reserves were $7.9 million in 2006 and $9.0 million in 2005. Income from continuing operations was also affected by $0.5 million pre-tax of share-based compensation costs, and increased personnel expenses as a result of annual salary increases and costs associated with increased staff. In addition, Forbes v. ABM was settled in the third quarter of 2005 for an amount lower than accrued, which increased income from continuing operations by $1.3 million pre-tax in the third quarter of 2005.

The 2006 actuarial report covering substantially all of the Company s self-insurance reserves was completed in the third quarter of 2006. The report showed favorable developments in the Company s California workers compensation and general and auto liability claims, offset in part by adverse development in the Company s workers compensation claims outside California, in each case as of May 31, 2006. Based on the 2006 actuarial report, the Company reduced its self-insurance reserves in the third quarter of 2006 by $7.9 million, which was attributable to the first six months of 2006 and prior years. This reduction was $1.1 million less than the $9.0 million reduction in the third quarter of 2005. Of the $7.9 million benefit in 2006, $4.7 million was recorded by Corporate while $3.2 million was allocated to the operating segments. Of the $9.0 million benefit in 2005, $5.5 million was recorded by Corporate and $3.5 million was allocated to the operating segments.

Sales and Other Income. Sales for the third quarter of 2006 of $689.3 million increased by $39.1 million or 6.0% from $650.1 million in the third quarter of 2005. Parking s reimbursements for out-of-pocket expenses from managed parking lot clients were $11.6 million higher in the third quarter of 2006 than the same quarter in 2005. Additionally, acquisitions completed in 2005 and the nine months ended July 31, 2006 contributed $4.4 million to the Sales increase. The remainder of the Sales increase was primarily due to new business mainly in Janitorial and Engineering.

Operating Expenses and Cost of Goods Sold. As a percentage of Sales, gross profit (Sales minus operating expenses and cost of goods sold) was 11.1% and 11.9% in the third quarter of 2006 and 2005, respectively. The decrease in margins was primarily due to one more work day in the third quarter of 2006 compared to the same period in 2005, which unfavorably impacted the fixed-price contracts in the Janitorial segment by approximately $2.4 million and the $11.6 million increase in reimbursements in 2006 for out-of-pocket expenses from managed parking lot clients for which Parking had no margin benefit.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the third quarter of 2006 were $48.4 million, compared to $44.4 million for the third quarter of 2005. The $4.0 million increase was primarily due to the $1.3 million decrease in the liability accrued for the Forbes v. ABM settlement in the third quarter of 2005, $0.8 million lower insurance benefit recorded by Corporate in the third quarter of 2006 ($4.7 million compared to $5.5 million in 2005), $0.5 million of share-based compensation costs with the adoption of SFAS No. 123R, Share-Based Payment (SFAS No. 123R), higher legal expenses in Corporate largely related to the World Trade Center claim, and increased personnel expenses as a result of annual salary increases and costs associated with increased staff.

Interest Expense. Interest expense, which includes loan amortization and commitment fees for the revolving credit facility, was lower for the third quarter of 2006 compared to the third quarter of 2005 because the amortization of the initiation costs of the new line of credit, which are being amortized over its term of five years, is lower than the amortization of the initiation costs incurred for the old line of credit, which had a three-year term.

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Income Taxes. The effective tax rate was 35.9% for the third quarter of 2006 compared to 34.2% for the third quarter of 2005. The estimated annual effective tax rate is 37.5% for 2006 and was 36.5% for 2005. The increase was primarily due to the effect of the non-deductible incentive stock option expense included in the 2006 pre-tax income and a higher estimated state income tax rate. A $1.1 million benefit mostly from the reversal of state tax liabilities for closed years was recorded in the third quarter of 2006, partially offset by a $0.7 million tax expense from adjusting the income tax liability accounts after filing the 2005 tax returns. A $0.3 million income tax benefit was recorded in the third quarter of 2005 principally from adjusting the income tax liability accounts after filing the 2004 income tax returns.

Segment Information. Under the criteria of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, Janitorial, Parking, Security, Engineering, and Lighting are reportable segments. Corporate expenses, including the Company s share-based compensation costs, are not allocated.

($ in thousands)	Three Months Ended July 31, 2006	2005 As Restated	Better (Worse)
Sales and other income			
Janitorial	$ 395,872	$ 384,381	3.0%
Parking	115,719	102,767	12.6%
Security	77,404	74,702	3.6%
Engineering	71,665	60,882	17.7%
Lighting	28,097	26,877	4.5%
Corporate	518	531	(2.4)%
	$ 689,275	$ 650,140	6.0%
Operating profit			
Janitorial	$ 23,131	$ 25,165	(8.1)%
Parking	4,552	4,079	11.6%
Security	1,980	2,502	(20.9)%
Engineering	4,450	4,146	7.3%
Lighting	116	927	(87.5)%
Corporate	(7,173)	(5,285)	(35.7)%
Operating profit	27,056	31,534	(14.2)%
Gain on insurance claim			
Interest expense	(122)	(220)	44.5%
Income from continuing operations before income taxes	$ 26,934	$ 31,314	(14.0)%

The results of operations from the Company s segments for the quarter ended July 31, 2006, compared to the same period in 2005, are more fully described below.

Janitorial. Janitorial Sales increased $11.5 million, or 3.0%, in the third quarter of 2006 compared to the same quarter in 2005. The Sales increase is primarily attributable to additional Sales of $3.8 million from acquisitions in 2005 and the first nine months of 2006 including Brandywine on November 1, 2005, Initial Contract Services, Inc., Baltimore (Initial Baltimore) on August 3, 2005, and Colin Service Systems, Inc. (Colin) on December 22, 2004. Sales increased in the Northern California, Northwest, South Central, Southeast, Southwest and North Central regions due to new business, expansion of services to existing customers, and price adjustments to pass through a portion of union cost increases. These increases were partially offset by reductions in Sales from the loss of accounts in the

Midwest and Northeast regions.

Operating profit decreased by $2.0 million, or 8.1%, in the third quarter of 2006 compared to the same quarter in 2005. The decrease is primarily attributable to one additional work day in the third quarter of 2006 compared to the same quarter in 2005, adversely impacting fixed-price contracts by approximately $2.4 million. The comparable quarter in the prior year included a $1.3 million reversal of a legal reserve relating to the settlement of the Forbes v. ABM case positively impacting the results in that quarter. Operating profit in the third quarter of 2006 also included a $2.1 million benefit from the reduction of the self-insurance reserves compared to $2.2 million benefit in the same quarter of 2005.

Parking. Parking Sales increased by $13.0 million or 12.6% while operating profit increased $0.5 million, or 11.6%, during the third quarter of 2006, compared to the same quarter in 2005. The increase in Sales was primarily due to a $11.6 million increase in reimbursements for out-of-pocket expenses from managed parking lot clients and new contracts. These improvements were partially offset by the reduction in lease revenue principally due to the October 2005 sale of a leasehold interest in an off-airport facility that had contributed $2.0 million in Sales in the third quarter 2005. The increase in operating profit arising from the increase in Sales and $0.6 million of income from lease termination fees and legal settlements was partially offset by higher legal expenses and incremental costs associated with a new revenue control and reporting system implemented in July 2005. Operating profit for the third quarter of 2006 and 2005 also included $0.3 million insurance benefits from the reduction of insurance reserves**.**

Security. Security Sales increased $2.7 million, or 3.6%, in the third quarter of 2006, compared to the same quarter in 2005. This increase is primarily due to Sales from new business. Security Operating profit decreased $0.5 million, or 20.9%, in the third quarter of 2006 compared to the same quarter in 2005. This decrease was primarily attributable to increases in personnel and workers compensation expenses, and bad debt expense as a result of customer bankruptcies, partially offset by a $1.0 million reduction of a reserve originally provided for the amount the Company believes it overpaid SSA LLC in connection with a subcontracting arrangement that was recorded in the first quarter of 2005. Operating profit for the third quarter of 2006 also included a $0.4 million insurance benefit from the reduction of insurance reserves compared to $0.5 million benefit in the same quarter of 2005.

Engineering. Engineering sales increased $10.8 million, or 17.7%, in the third quarter of 2006 compared to the same quarter in 2005 due to successful sales initiatives resulting in new business and the expansion of services to existing customers across the country, most significantly in the Northern California, Los Angeles, and Eastern regions. Operating profits increased $0.3 million, or 7.3%, during the third quarter of 2006 compared to the third quarter of 2005 primarily due to higher Sales, partially offset by higher selling, general and administrative expenses associated with increased management staff necessary to support the growth of the business. Operating profit for the third quarter of 2006 and 2005 also included $0.3 million insurance benefits from the reduction of insurance reserves.

Lighting. Lighting Sales increased $1.2 million, or 4.5%, while operating profit decreased $0.8 million, or 87.5%, in the third quarter of 2006 compared to the same quarter a year ago. The Sales increase was primarily due to an increase of fixed-price (long-term full service or maintenance only), and time and materials-based contracts, partially offset by a decrease in special projects business. The decrease in operating profit was primarily due to higher subcontractor and fuel costs, which negatively impacted fixed-price contracts. Operating profit for the third quarter of 2006 also included a $0.1 million insurance benefit from the reduction of insurance reserves compared to $0.2 million benefit in the same quarter of 2005.

Corporate. Corporate expenses in the third quarter of 2006 increased by $1.9 million or 35.7% compared to the same period of 2005. Of the increase, $0.8 million was attributable to the smaller reduction in insurance reserves in the third quarter of 2006 ($4.7 million) included in Corporate than in the third quarter of 2005 ($5.5 million). While virtually all insurance claims arise from the operating segments, these adjustment were included in unallocated Corporate expenses. Corporate expenses were also affected by $0.8 million in legal fees primarily related to the World Trade Center claim, $0.5 million of share-based compensation costs with the adoption of SFAS No. 123R, and, staffing-related increases in the third quarter of 2006. These increases were partly offset by lower documentation and testing costs associated with the Sarbanes Oxley certification effort in the third quarter of 2006 compared to the same period in 2005.

Nine Months Ended July 31, 2006 vs. Nine Months Ended July 31, 2005

	Nine Months Ended July 31,				
($ in thousands)	2006	% of Sales	2005 As Restated	% of Sales	Increase (Decrease)
Revenues					
Sales and other income	$2,015,984	100.0%	$1,927,860	100.0%	4.6%
Gain on insurance claim			1,195		
Total revenues	2,015,984		1,929,055		4.5%
Expenses					
Operating expenses and cost of goods sold	1,810,932	89.8%	1,731,042	89.8%	4.6%
Selling, general and administrative	150,851	7.5%	142,855	7.4%	5.6%
Intangible amortization	4,428	0.2%	4,264	0.2%	3.8%
Interest	366		713		(48.7)%
Total expenses	1,966,577	97.5%	1,878,874	97.5%	4.7%
Income from continuing operations before income taxes	49,407	2.5%	50,181	2.6%	(1.5)%
Income taxes	17,773	0.9%	15,121	0.8%	17.5%
Income from continuing operations	$ 31,634	1.6%	$ 35,060	1.8%	(9.8)%

Income from continuing operations. Income from continuing operations for the first nine months of 2006 decreased 9.8% to $31.6 million from $35.1 million for the first nine months of 2005. The decrease was primarily due to $2.6 million pre-tax of share-based compensation costs, with the adoption of SFAS No. 123R effective November 1, 2005, and $2.4 million pre-tax of professional fees associated with the Audit Committee s independent investigation of prior year accounting at SSA. In addition, the operating profit of Lighting declined in the first nine months 2006, however, this decline was more than offset by the combined increases in the operating profits of Janitorial, Engineering, Security and Parking. Income from continuing operations in 2005 included a $5.0 million pre-tax litigation loss and a $3.4 million pre-tax charge for a reserve provided for the amount the Company believes it overpaid SSA LLC, which reserve was reduced by $1.0 million pre-tax in the third quarter of 2006. Also included in 2005 was $2.7 million of income tax benefit resulting from a state tax audit settlement and $1.2 million pre-tax gain on the World Trade Center indemnity payment.

Sales and Other Income. Sales in the first nine months of 2006 of $2,016.0 million increased by $88.1 million or 4.6% from $1,927.9 million in the first nine months of 2005. Acquisitions completed in fiscal year 2005 and the nine months ended July 31, 2006 contributed $23.5 million to the Sales increase. Additionally, Parking s reimbursements for out-of-pocket expenses from managed parking lot clients were $24.0 million higher. The remainder of the Sales increase was primarily due to new business primarily in Janitorial and Engineering.

Operating Expenses and Cost of Goods Sold. As a percentage of Sales, gross profit was 10.2% the first nine months of both 2006 and 2005. The flat margins were a result of lower insurance expense and higher margin contributions from Janitorial, Engineering and Parking, offset by higher overtime expenses, subcontracting costs, and lower margins on new contracts in Security and the $24.0 million higher reimbursements in 2006 for out-of-pocket expenses from managed parking lot clients for which Parking had no margin benefit.

Selling, General and Administrative Expenses. Selling, general and administrative expenses in the first nine months of 2006 were $150.9 million, compared to $142.9 million in the first nine months of 2005. The increase was primarily due to $2.6 million of share-based compensation costs, $2.4 million of professional fees associated with the Audit Committee s independent investigation of prior year accounting at SSA, $1.3 million related to additional expenses from acquired companies, and annual salary increases and additional legal costs. These increases were partially offset by lower documentation and testing costs in 2006 associated with the Sarbanes-Oxley certification effort in the first nine months of 2006 compared to the same period of 2005. In the first nine months of 2005, the Company recorded a $5.0 million pre-tax litigation loss and the $3.4 million charge for a reserve provided for the amount the Company believes it overpaid SSA LLC. The $3.4 million reserve was reduced by $1.0 million in the third quarter of 2006.

Interest Expense. Interest expense, which includes loan amortization and commitment fees for the revolving credit facility, was 48.7% lower for the first nine months of 2006 compared to the first nine months of 2005 because the amortization of the initiation costs of the new line of credit, which are being amortized over its term of five years, is lower than the amortization of the initiation costs incurred for the old line of credit, which had a three-year term.

Income Taxes. The effective tax rates were 36.0% and 30.1% for the nine months ended July 31, 2006 and 2005, respectively. The estimated annual effective tax rate is 37.5% for 2006 and was 36.5% for 2005. The increase was primarily due to the effect of the non-deductible incentive stock option expense included in the 2006 pre-tax income and a higher estimated state income tax rate. A $2.7 million income tax benefit was recorded in the second quarter of 2005 resulting from the favorable settlement of the audit of prior years state tax returns (tax years 2000 to 2003) in May 2005 and a $0.3 million income tax benefit was recorded in the third quarter of 2005 principally from adjusting the income tax liability accounts after filing the 2004 income tax returns. A $1.1 million benefit mostly from the reversal of state tax liabilities for closed years was recorded in the third quarter of 2006, partially offset by a $0.7 million tax expense from adjusting the income tax liability accounts after filing the 2005 tax returns. A $0.3 million income tax benefit was recorded in the first quarter of 2006 from the increase in deferred tax assets due to an increase in the estimated overall state income tax rate.

Segment Information.

($ in thousands)	Nine Months Ended July 31, 2006	2005 As Restated	Better (Worse)
Sales and other income			
Janitorial	$1,164,830	$1,141,961	2.0%
Parking	327,503	303,073	8.1%
Security	230,978	220,465	4.8%
Engineering	206,705	176,057	17.4%
Lighting	84,241	85,080	(1.0)%
Corporate	1,727	1,224	41.1%
	$2,015,984	$1,927,860	4.6%
Operating profit			
Janitorial	$ 58,786	$ 47,795	23.0%
Parking	9,202	8,915	3.2%
Security	2,442	1,856	31.6%
Engineering	11,400	10,327	10.4%
Lighting	700	2,421	(71.1)%
Corporate	(32,757)	(21,615)	(51.5)%
Operating profit	49,773	49,699	0.1%
Gain on insurance claim		1,195	
Interest expense	(366)	(713)	48.7%
Income from continuing operations before income taxes	$ 49,407	$ 50,181	(1.5)%

The results of operations from the Company s segments for the nine months ended July 31, 2006, compared to the same period in 2005, are more fully described below.

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Janitorial. Janitorial Sales increased by $22.9 million, or 2.0%, in the first nine months of 2006 compared to same period in 2005. The Sales increase is primarily attributable to additional Sales of $20.2 million from acquisitions in 2005 and the first nine months of 2006 including Brandywine, Initial Baltimore and Colin. Sales increased in the Northern California, Northwest, North Central and Southwest regions due to new business, expansion of services to existing customers, and price adjustments to pass through a portion of union cost increases. These increases were partially offset by reductions in Sales from the loss of accounts in the Midwest and Northeast regions.

Operating profit increased by $11.0 million, or 23.0%, in the first nine months of 2006 compared to the same period in 2005, $5.0 million of which was attributable to a settlement of Forbes v. ABM that reduced operating profits in the first nine months of 2005. The Brandywine, Initial Baltimore and Colin acquisitions contributed $0.9 million additional profit. Janitorial also recorded higher Sales and improved margins from the Northern California, Northwest, South Central and Southwest regions. These improvements were offset by lower profit in the Midwest caused by scope reductions and loss of accounts.

Parking. Parking Sales increased by $24.4 million or 8.1%, while operating profit increased $0.3 million, or 3.2%, during the first nine months of 2006 as compared to the same period of 2005. The increase in Sales was primarily due to a $24.0 million increase in reimbursements for out-of-pocket expenses from managed parking lot clients and new contracts. These improvements were partially offset by a reduction in lease revenue principally due to the October 2005 sale of a leasehold interest in an off-airport facility that had contributed $5.3 million in Sales in the first nine months of 2005. The increase in operating profit was due to higher net Sales of $2.5 million and an aggregate of $0.6 million of income from lease termination fees and legal settlements, partially offset by $2.2 million of increased general and administrative costs which included higher legal expenses, and increased costs associated with operating a new revenue control and reporting system.

Security. Security Sales increased $10.5 million, or 4.8%, in the first nine months of 2006 compared to the same period in 2005, primarily due to Sales from new business, which was partially offset by lost Sales associated with the loss of a major customer account in June 2005.

Security Operating profit increased $0.6 million, or 31.6%, in the first nine months of 2006 compared to the same period in 2005. The improvement in operating profit was primarily due to the inclusion in the first nine months of 2005 of a $3.4 million charge for a reserve provided for the amount the Company believes it overpaid SSA LLC, of which a $1.0 million reduction was reflected in the third quarter of 2006. Also included in 2005 was a $0.4 million bad debt provision for a customer that declared bankruptcy in April 2005 and a $0.3 million charge to correct the understatement of payroll and payroll-related 2004 expenses. Partially offsetting these increases were higher overtime expenses in 2005 related to operations acquired from SSA LLC, lower margins on new contracts, annual salary increases and increases in workers compensation expense, legal fees and settlements.

Engineering. Engineering sales increased $30.6 million, or 17.4%, during the first nine months of 2006 compared to the first nine months of 2005 due to successful sales initiatives resulting in new business and the expansion of services to existing customers across the country, most significantly in the Mid-Atlantic, Northern California, and Eastern regions. Operating profits increased $1.1 million, or 10.4%, during the first nine months of 2006 compared to the first nine months of 2005, primarily due to higher Sales, partially offset by higher selling, general and administrative expenses associated with increased management staff necessary to support the growth in business.

Lighting. Lighting Sales decreased $0.8 million, or 1.0%, and operating profit decreased $1.7 million, or 71.1%, in the nine months of 2006 compared to the same period in 2005. The Sales decrease was primarily due to decreased special project business, partially offset by an increase in fixed-price (long-term full service or maintenance only), time and materials based contracts. The decrease in operating profit was primarily due to higher subcontractor and fuel costs, which negatively impacted fixed price contracts.

Corporate. Corporate expenses for the first nine months of 2006 increased by $11.1 million or 51.5% compared to the same period of 2005 mainly due to $2.6 million of share-based compensation costs, $2.4 million of professional fees associated with the Audit Committee s independent investigation of prior year accounting at SSA completed in the second quarter of 2006, annual salary increases, costs of additional staffing, and higher legal fees. These increases were partially offset by lower documentation and testing costs in 2006 associated with the Sarbanes-Oxley certification effort in the first nine months of 2006 compared to the same period of 2005. In addition, $0.8 million of the increase was attributable to the smaller reduction in insurance reserves in the first nine months of 2006 ($4.7 million) in Corporate than in first nine months of 2005 ($5.5 million). While virtually all insurance claims arise from the operating segments, these adjustment were included in unallocated Corporate expenses.

Share-Based Compensation

Effective November 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123R as interpreted by SEC Staff Accounting Bulletin No. 107 (SAB No. 107). Prior to November 1, 2005, the Company accounted for stock options according to the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under SFAS No. 123R, and, consequently, has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options recognized in the first nine months of 2006 included: 1) amortization related to the remaining unvested portion of all stock option awards granted for the fiscal years beginning November 1, 1995 and ending October 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation; and 2) amortization related to all stock option awards granted November 1, 2005 or after, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. The compensation cost is included in selling, general and administrative expenses.

The compensation cost and related income tax benefit recognized in the Company s consolidated financial statements for the three months ended July 31, 2006 for stock options were $0.5 million and $0.2 million, respectively, and for the nine months ended July 31, 2006 were $2.6 million and $0.5 million, respectively. As of July 31, 2006, there was $7.4 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested options which is expected to be recognized over a weighted-average vesting period of 3.0 years.

The Company estimates the fair value of each option award on the date of grant using the Black-Scholes option valuation model. The Company uses an outside expert to determine the assumptions used in the option valuation model. The Company estimates option forfeitures based on historical data and adjusts the forfeiture rate periodically. The adjustment of the forfeiture rate will result in a cumulative catch-up adjustment in any period the forfeiture rate estimate is changed. During the nine months ended July 31, 2006, no adjustment was necessary.

On May 2, 2006, the shareholders of ABM approved the 2006 Equity Incentive Plan (the 2006 Equity Plan), which replaced the Time-Vested Incentive Stock Option Plan, the 1996 Price-Vested Performance Stock Option Plan and the 2002 Price-Vested Performance Stock Option Plan (collectively, the Prior Plans), all in advance of their expirations. The purpose of the 2006 Equity Plan is to provide stock-based compensation to employees and directors to promote close alignment among the interests of employees, directors and shareholders. The 2006 Equity Plan provides for the issuance of awards for 2.5 million shares of the Company s common stock plus the remaining shares authorized under the Prior Plans as of May 2, 2006, plus forfeitures, under the Prior Plans after that date. The terms and conditions governing existing options under the Time-Vested Incentive Stock Option Plan, the 1996 Price-Vested Performance Stock Option Plan and the 2002 Price-Vested Performance Stock Option Plan will continue to apply to the outstanding options made under those plans. The 2006 Equity Plan is an omnibus plan that provides for a variety of equity and equity-based award vehicles, including stock options, stock appreciation rights, restricted stock, restricted stock unit awards, performance shares, and other share-based awards. Shares subject to awards that terminate without vesting or exercise may be reissued. Certain of the awards available under the 2006 Equity Plan will qualify as performance-based compensation under Internal Revenue Code Section 162(m) (Section 162(m)).

On March 7, 2006, the Board of Directors of ABM amended the 2004 Employee Stock Purchase Plan, effective May 1, 2006. The plan had provided that the participant s purchase price would be 85% of the lower of the fair market value of ABM s common stock on the first day of each six-month period in the fiscal year or the last trading day of each month. Effective as of May 1, 2006, the purchase price is 95% of the fair market value of ABM s common stock on the last trading day of each month.

Results from Discontinued Operations

On June 2, 2005, the Company sold substantially all of the operating assets of CommAir Mechanical Services, which represented the Company s Mechanical segment, to Carrier Corporation (Carrier). The operating assets sold included customer contracts, accounts receivable, inventories, facility leases and other assets, as well as rights to the name CommAir Mechanical Services. The consideration paid was $32.0 million in cash, subject to certain adjustments, and Carrier s assumption of trade payables and accrued liabilities. The Company realized a pre-tax gain of $21.4 million ($13.1 million after tax) on the sale of these assets in the third quarter of 2005.

On July 31, 2005, the Company sold the remaining operating assets of Mechanical, consisting of its water treatment business, to San Joaquin Chemicals, Incorporated for $0.5 million, of which $0.25 million was in the form of a note, which was paid off in October 2005, and $0.25 million in cash. The operating assets sold included customer contracts and inventories. The Company realized a pre-tax gain of $0.3 million ($0.2 million after tax) on the sale of these assets in the third quarter of 2005.

On August 15, 2003, the Company sold substantially all of the operating assets of Amtech Elevator Services, Inc., which represented the Company s Elevator segment, to Otis Elevator Company. In June 2005, the Company settled litigation that arose from and was directly related to the operations of Elevator prior to its disposal. An estimated liability had been recorded on the date of disposal. The settlement amount was less than the estimated liability by $0.2 million, pre-tax. This difference was recorded as income from discontinued operations in 2005. In addition, $0.9 million benefit was recorded in gain on sale of discontinued operations in the third quarter of 2005, which resulted from the correction of the overstatement of income taxes provided for the gain on sale of assets of the Elevator segment.

The operating results of Mechanical for the three and nine months ended July 31, 2005 and the Elevator adjustments are shown below:

(In thousands)	Three Months Ended July 31, 2005	Nine Months Ended July 31, 2005
Revenues	$ 4,472	$ 24,775
(Loss) income before income taxes	$ (21)	$ 383
Income taxes	(6)	150
(Loss) income from discontinued operations, net of income taxes	$ (15)	$ 233

Adoption of Accounting Standards

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Effective November 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123R, as interpreted by SAB No. 107. For more details, see Share-Based Compensation section above.

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154). SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes (Opinion No. 20) and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 applies to all voluntary changes in accounting principles, and changes the requirements for accounting for and reporting of a change in accounting principles. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principles unless it is impracticable. Opinion No. 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 also requires that a change in method of depreciation, amortization or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. Opinion No. 20 previously required that such a change be reported as a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made in fiscal years beginning after June 1, 2005. The Company began to apply SFAS No. 154 effective November 1, 2005.

In October 2005, the FASB issued FASB Staff Position (FSP) No. FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period. FSP No. FAS 13-1 provides guidance for the treatment of rental expense incurred during a construction period. The guidance in FSP No. FAS 13-1 prohibits the capitalization of rental expense as leasehold improvement costs. The Company adopted FSP No. FAS 13-1 effective February 1, 2006. The adoption did not have a material impact on the Company s financial position, results of operations or liquidity.

Recent Accounting Pronouncements

In June 2006, the FASB issued EITF No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF 06-3). EITF 06-3 requires companies to disclose the presentation of any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer (e.g. sales and use tax) as either gross or net in the accounting principles included in the notes to the financial statements. EITF 06-3 will be effective beginning with the second quarter of 2007.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertain Tax Positions (FIN 48). FIN 48 provides guidance on the accounting for and disclosure of tax positions accounted for in accordance with SFAS No. 109. FIN 48 requires that the effects of a tax position be initially recognized when it is more likely than not (which is defined as a greater than 50 percent chance) that the position will be sustained upon examination by the taxing authorities. In addition, FIN 48 requires additional disclosures regarding tax positions. FIN 48 is effective for the Company beginning fiscal 2008. The Company is presently assessing the impact of FIN 48 to the Company s consolidated financial position, results of operations and cash flows.

Critical Accounting Policies and Estimates

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

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

Self-Insurance Reserves. Certain insurable risks such as general liability, automobile property damage and workers compensation are self-insured by the Company. However, commercial policies are obtained to provide coverage for certain risk exposures subject to specified limits. Accruals for claims under the Company s self-insurance program are recorded on a claim-incurred basis. The Company uses an independent actuary to evaluate the Company s estimated claim costs and liabilities annually and accrues self-insurance reserves in an amount that is equal to the actuarial point estimate.

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

Allowance for Doubtful Accounts. Trade accounts receivable arise from services provided to its customers and are generally due and payable on terms varying from the receipt of invoice to net thirty days. The Company records an allowance for doubtful accounts to provide for losses on accounts receivable due to customers inability to pay and other credit risks. The allowance is typically estimated based on an analysis of the historical rate of credit losses or write-offs (due to a customer bankruptcy or failure of a former customer to pay) and specific customer concerns. The accuracy of the estimate is dependent on the future rate of credit losses being consistent with the historical rate. Changes in the financial condition of customers or adverse developments in negotiations or legal proceedings to obtain payment could result in the actual loss exceeding the estimated allowance. If the rate of future credit losses is greater than the historical rate, then the allowance for doubtful accounts may not be sufficient to provide for actual credit losses. Alternatively, if the rate of future credit losses is less than the historical rate, then the allowance for doubtful accounts will be in excess of actual credit losses. The Company does not believe that it has any material exposure due to either industry or regional concentrations of credit risk.

Sales Allowance. Sales allowance is an estimate for losses on customer receivables resulting from customer credits (*e.g*., vacancy credits for fixed-price contracts, customer discounts, job cancellations, breakage cost, etc.). The sales allowance estimate is based on an analysis of the historical rate of sales adjustments (credit memos, net of re-bills). The accuracy of the estimate is dependent on the rate of future sales adjustments being consistent with the historical rate. If the rate of future sales adjustments is greater than the historical rate, then the sales allowance may not be sufficient to provide for actual sales adjustments. Alternatively, if the rate of future sales adjustments is less than the historical rate, then the sales allowance will be in excess of actual sales adjustments.

Deferred Income Tax Asset and Valuation Allowance. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If the enacted rates in future years differ from the rates expected to apply, an adjustment of the net deferred tax assets will be required. Additionally, if management determines it is more likely than not that a portion of the net deferred tax asset will not be realized, a valuation allowance is recorded. At July 31, 2006, the net deferred tax asset was $89.7 million, net of a $0.8 million valuation allowance related to state net operating loss carryforwards. Should future income be less than anticipated, the net deferred tax asset may not be fully recoverable.

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

Goodwill. In accordance with SFAS No. 142, Goodwill and Other Intangibles (SFAS No. 142) goodwill is no longer amortized. Rather, the Company performs goodwill impairment tests on at least an annual basis, in the fourth quarter, using the two-step process prescribed in SFAS No. 142. The first step is to evaluate for potential impairment by comparing the reporting unit s fair value with its book value. If the first step indicates potential impairment, the required second step allocates the fair value of the reporting unit to its assets and liabilities, including recognized and unrecognized intangibles. If the implied fair value of the reporting unit s goodwill is lower than its carrying amount, goodwill is impaired and written down to its implied fair value. The fair value of the reporting unit, if required to be determined, will be independently appraised. As of July 31, 2006, no impairment of the Company s goodwill carrying value has been indicated.

Contingencies and Litigation. ABM and certain of its subsidiaries have been named defendants in certain proceedings arising in the ordinary course of business, including certain environmental matters. Litigation outcomes are often difficult to predict and often are 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. Loss contingencies are recorded as liabilities in the consolidated financial statements when it is both: (1) probable or known that a liability has been incurred and (2) the amount of the loss is reasonably estimable. If the reasonable estimate of the loss is a range and no amount within the range is a better estimate, the minimum amount of the range is recorded as a liability. So long as the Company believes that a loss in litigation is not probable, then no liability will be recorded unless the parties agree upon a settlement, which may occur because the Company wishes to avoid the costs of litigation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not issue or invest in financial instruments or their derivatives for trading or speculative purposes. Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk. At July 31, 2006, the Company had no outstanding long-term debt. Although the Company s assets included $51.5 million in

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cash and cash equivalents at July 31, 2006, market rate risk associated with changing interest rates in the United States is not material.

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Item 4. Controls and Procedures

a. Disclosure Controls and Procedures. The Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 (the Exchange Act) are designed to provide reasonable assurance that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. The Company s disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to the Company s management, including the Company s principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. As disclosed in the Company s Annual Report on Form 10-K for 2005 and Quarterly Report on Form 10-Q for the first and second quarters of 2006, the Company s principal executive officer and principal financial officer concluded that, as a result of material weaknesses in its internal control over financial reporting pertaining to the operations acquired from SSA LLC in March 2004 in the Company s Security segment, the Company s disclosure controls and procedures were not effective at year end 2005 and the end of the first two quarters of 2006.

The Company s principal executive officer and principal financial officer again evaluated the Company s disclosure controls and procedures as of July 31, 2006, the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, and reflecting that the Company has not been able to confirm the effectiveness of the internal control enhancements undertaken to remediate the material weaknesses, these officers concluded that the Company s disclosure controls and procedures were not effective as of July 31, 2006.

b. Changes in Internal Control Over Financial Reporting. In Item 9A of the Company s Annual Report on Form 10-K for the year ended October 31, 2005, the Company set forth material weaknesses associated with the operations acquired from SSA LLC and actions to be taken to remediate these weakness. The Company took significant steps in the first two quarters of 2006 to remediate these material weaknesses in its internal control over reporting. These remediation activities are described under Item 4, Controls and Procedures, in the Company s Quarterly Reports on Form 10-Q for the first and second quarters of 2006. However, the Company cannot confirm the effectiveness of the internal control enhancements until it has conducted sufficient testing. The Company will continue to monitor and test the effectiveness of these new processes, procedures and controls and will make any further changes that management deems appropriate. There was no change in the Company s internal control over financial reporting in the third quarter of 2006 that materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II.OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, as well as from time to time in additional matters. The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available.

On July 12, 2005, a purported class action lawsuit entitled Augustus v. American Commercial Security Services (ACSS) was filed in the Superior Court of California, Los Angeles County. The potential class consists of all ACSS security guards in California. The plaintiff alleges that ACSS failed to provide meal breaks and rest breaks under California s wage and hour laws. On February 23, 2006, a second purported class action lawsuit was filed by the same named plaintiff in the same forum representing the same class and alleging violations of California s wage and hour laws and unfair business practices. ACSS and ABM are investigating these claims and will defend these lawsuits vigorously. It is too early to assess the amount of potential losses in these matters, if any.

On August 15, 2006, the Company settled for $80 million its previously reported litigation against its business interruption carrier, Zurich, for losses related to the destruction of the World Trade Center complex in New York, which was the Company s largest single job-site at the time of its destruction on September 11, 2001. The settlement payment is scheduled for receipt in September 2006.

The Company uses an independent actuary to evaluate the Company s estimated claim costs and liabilities at least annually. The 2004 actuarial report completed in November 2004 indicated that there were adverse developments in the Company s insurance reserves primarily related to workers compensation claims in the State of California during the four-year period ended October 31, 2003, for which the Company recorded a charge of $17.2 million in the fourth quarter of 2004. The Company believes a substantial portion of the $17.2 million, as well as other costs incurred by the Company in its insurance claims was related to poor claims management by a third party administrator that no longer performs these services for the Company. In addition, the Company believes that poor claims administration in certain other states, particularly New York, led to higher costs for the Company. The Company has filed a claim against its former third party administrator for its damages related to claims mismanagement. The Company is actively pursing this claim, which is subject to arbitration in accordance with the rules of the American Arbitration Association. The three-person arbitration panel has been designated and discovery is underway, including examination of a sample of claims by insurance experts.

In August 2005, ABM filed an action for declaratory relief, breach of contract and breach of the implied covenant of good faith and fair dealing in U.S. District Court in The Northern District of California against its insurance carriers, Zurich American Insurance Company (Zurich American) and National Union Fire Insurance Company relating to the carriers failure to provide coverage for ABM and one of its Parking subsidiaries. The Company and Zurich American verbally agreed to settle the Company s claims against Zurich American for $400,000. Zurich American had provided insurance coverage up to $1 million, subject to the Company s $150,000 retention. National Union has filed a motion for summary adjudication on the issue of the duty to defend. ABM s claim includes bad faith allegations based upon the settlement of the underlying litigation with IAH-JFK Airport Parking Co., LLC in early 2006. ABM seeks to recover legal fees and $6.3 million in settlement costs in the underlying litigation.

While the Company accrues amounts it believes are adequate to address any liabilities related to litigation that the Company believes will result in a probable loss, the ultimate resolution of such matters is always uncertain. It is possible that litigation or other proceedings brought against the Company in the future could have a material adverse impact on its financial condition and results of operations.

Item 1A. Risk Factors

Factors That May Affect Future Results

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

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

Set forth below are factors that the Company thinks, individually or in the aggregate, could cause the Company s actual results to differ materially from past results or those anticipated, estimated or projected. The Company notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Investors should understand that it is not possible to predict or identify all such factors. Consequently, the following should not be considered to be a complete list of all potential risks or uncertainties.

Timeliness of remediation of material weakness in the Company s internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 could affect the Company s results. As disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2005, the principal executive officer and principal financial officer of the Company concluded that the Company s internal control over financial reporting was not effective as of October 31, 2005 because of material weaknesses related to the Company s controls over and at the operations the Company acquired in March 2004 from Security Services of America, LLC, included as a subsidiary within the Company s Security segment. While during the second quarter of fiscal year 2006 the Company implemented most of the remediation actions it has thus far determined to take to address the material weaknesses that caused the Company s internal control over financial reporting to be deemed not effective at October 31, 2005, they will not be considered fully remediated until the improved internal controls operate for a period of time and, through testing, are deemed to be operating effectively.

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

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

A change in actuarial analysis could affect the Company s results. The Company uses an independent actuary to evaluate estimated claim costs and liabilities at least annually to ensure that its self-insurance reserves are appropriate. Trend analysis is complex and highly subjective. The interpretation of trends requires the knowledge of all factors affecting the trends that may or may not be reflective of adverse developments (*e.g.*, changes in regulatory requirements and changes in reserving methodology). Actuaries may vary in the manner in which they derive their estimates and these differences could lead to variations in actuarial estimates that cause changes in the Company s insurance reserves not related to changes in its claims experience. Changes in insurance reserves as a result of an actuarial review can cause swings in operating results that are unrelated to the Company s ongoing business. In addition, because of the time required for the actuarial analysis, the Company may not learn of a deterioration in claims, particularly claims administered by a third party, until additional costs have been incurred or are projected. Because the Company bases its pricing in part on its estimated insurance costs, the Company s prices could be higher or lower than they otherwise might be if better information were available resulting in a competitive disadvantage in the former case and reduced margins or unprofitable contracts in the latter.

The Company s technology environment may be inadequate to support growth. Although the Company employs a centralized accounting system, the Company relies on a number of legacy information technology systems, as well as manual processes, to conduct its operations. These systems and processes may be unable to provide adequate support for the business and create additional reliance upon manual rather than system controls, particularly as the Company expands. This could result, for instance, in delays in meeting payroll obligations, in difficulty calculating and tracking appropriate withholding of governmental withholding and other payroll regulatory obligations, and in higher internal and external expenses to work around these systems. Additionally, the current technology environment may be unable to support the integration of acquired businesses and anticipated internal growth. The Company is engaged in an evaluation of its information technology systems, including its legacy payroll system, its centralized information technology infrastructure and desktop environment, and its accounting and financial system and is negotiating the outsourcing of a number of its technology functions. The Company believes that outsourcing may improve its technology systems, permit the reduction of costs and increase the predictability of costs and delivery and enhance disaster recovery and business continuity. The risks associated with outsourcing include the dependence upon a third party for essential aspects of the Company s business and potentially less control over costs associated with necessary systems, as well as potentially less responsiveness from vendors than employees.

The Company could experience labor disputes that could lead to loss of sales or expense variations. At July 31, 2006, approximately 40% of the Company s employees were subject to various local collective bargaining agreements. Some collective bargaining agreements will expire or become subject to renegotiation during fiscal year 2006. In addition, the Company may face union organizing drives in certain cities. When one or more of the Company s major collective bargaining agreements becomes subject to renegotiation or when the Company faces union organizing drives, the Company and the union may disagree on important issues which, in turn, could lead to a strike, work slowdown or other job actions at one or more of the Company s locations. A strike, work slowdown or other job action could in some cases disrupt the Company from providing its services, resulting in reduced revenue collection. If declines in customer service occur or if the Company s customers are targeted for sympathy strikes by other unionized workers during union organizing drives, contract cancellations could result. In other cases, a strike, work slowdown or other job action could lead to lower expenses due to fewer employees performing services. Alternatively, the result of renegotiating a collective bargaining agreement could be a substantial increase in labor and benefits expenses that the Company could be unable to pass through to its customers for some period of time, if at all.

Acquisition activity could slow or be unsuccessful. A significant portion of the Company s historic growth has come through acquisitions and the Company expects to continue to acquire businesses in the future as part of its growth strategy. A slowdown in acquisitions could lead to a slower growth rate. Because new contracts frequently involve start-up costs, sales associated with acquired operations generally have higher margins than new sales associated with internal growth. Therefore a slowdown in acquisition activity could lead to constant or lower margins, as well as lower revenue growth. There can be no assurance that any acquisition that the Company makes in the future will provide the Company with the benefits that were anticipated when entering the transaction. The process of integrating an acquired business may create unforeseen difficulties and expenses. The areas in which the Company may face risks include:

Diversion of management time and focus from operating the business to acquisition integration;

Inability to retain employees from businesses the Company acquires;

Inability to maintain relationships with customers of the acquired business;

The need to implement or improve internal controls, procedures and policies appropriate for a public company at businesses that prior to the acquisition lacked these controls, procedures and policies;

The need to integrate acquired businesses accounting, management information, human resources and other administrative systems to permit effective management;

Write-offs or impairment charges relating to goodwill and other intangible assets from acquisitions; and

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Unanticipated or unknown liabilities relating to acquired businesses.

A decline in commercial office building occupancy and rental rates could affect the Company s sales and profitability. The Company s sales directly depend on commercial real estate occupancy levels and the rental income of building owners. Decreases in occupancy levels and rental income reduce demand and also create pricing pressures on building maintenance and other services provided by the Company. In certain geographic areas and service segments, the Company s most profitable sales are known as tag jobs, which are services performed for tenants in buildings in which it performs building services for the property owner or management company. A decline in occupancy rates could result in a decline in fees paid by landlords, as well as tenant work, which would lower sales and margins. In addition, in those areas of its business where the Company s workers are unionized, decreases in sales can be accompanied by relative increases in labor costs if the Company is obligated by collective bargaining agreements to retain workers with seniority and consequently higher compensation levels and cannot pass through these costs to customers.

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

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

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

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

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

Natural disasters or acts of terrorism could disrupt the Company in providing services. Storms, earthquakes, or other natural disasters or acts of terrorism may result in reduced sales or property damage. Disasters may also cause economic dislocations throughout the country. In addition, natural disasters or acts of terrorism may increase the volatility of the Company s results, either due to increased costs caused by the disaster with partial or no corresponding compensation from customers, or, alternatively, increased sales and profitability related to tag jobs, special projects and other higher margin work necessitated by the disaster.

The Company incurs significant accounting and other control costs that reduce its profitability. As a publicly traded corporation, the Company incurs certain costs to comply with regulatory requirements. The process of attempting to meet the internal control over financial reporting certification requirement of Section 404 of the Sarbanes-Oxley Act of 2002 was more costly than anticipated, requiring additional personnel and outside advisory services as well as additional accounting and legal expenses. The Company anticipates capital expenditures and operating expenses associated with the remediation of its material weaknesses and other planned remediation actions and with implementation of system-provided internal controls which is continuing in 2006.

Most of the Company s competitors are privately owned so these costs can be a competitive disadvantage for the Company. Should the Company s sales decline or if the Company is unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, its costs associated with regulatory compliance will rise as a percentage of sales.

Other issues and uncertainties may include:

new accounting pronouncements or changes in accounting policies,

labor shortages that adversely affect the Company s ability to employ entry level personnel,

legislation or other governmental action that detrimentally impacts the Company s expenses or reduces sales by adversely affecting the Company s customers,

unanticipated adverse jury determinations, judicial rulings or other developments in litigation to which the Company is subject,

a reduction or revocation of the Company s line of credit that could increase interest expense and the cost of capital,

the resignation, termination, death or disability of one or more of the Company s key executives that adversely affects customer retention or day-to-day management of the Company.

The Company believes that it has the human and financial resources for business success, but future profit and cash flow can be adversely (or advantageously) influenced by a number of factors, including those listed above, any and all of which are inherently difficult to forecast. The Company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Stock Repurchases

On March 29, 2006, ABM s Board of Directors authorized the purchase of up to 2,000,000 shares of ABM s outstanding common stock at any time through October 31, 2006. No stock repurchases were made in the third quarter of 2006. At July 31, 2006, 1,200,000 shares may yet be purchased under ABM s stock repurchase program.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Stockholders was held on May 2, 2006.

(b) The following directors were elected by a vote of stockholders, each to serve for a term ending at the annual meeting in the year 2009: Linda L. Chavez, Theodore T. Rosenberg and Henrik C. Slipsager.

The following directors remained in office: Luke S. Helms, Maryellen C. Herringer, Charles T. Horngren, Henry L. Kotkins, Jr., Martinn H. Mandles and William W. Steele.

(c) The following matters were voted upon at the meeting:

(1) Proposal 1 Election of Directors

Nominee	For	Withheld
Linda L. Chavez	39,980,407	2,099,161
Theodore T. Rosenberg	40,175,234	1,904,334
Henrik C. Slipsager	31,467,409	10,612,159

(2) Proposal 2 Approval of the 2006 Equity Incentive Plan

For	Against	Abstentions	Broker Non-Votes
20,892,718	17,311,157	1,069,541	2,806,152

(3) Proposal 3 Approval of the Executive Officer Incentive Plan

For	Against	Abstentions	Broker Non-Votes
32,283,796	5,854,914	1,134,706	2,806,152

(4) Proposal 4 Ratification of KPMG LLP as Independent Registered Public Accounting Firm

For	Against	Abstentions	Broker Non-Votes
38,118,894	3,849,671	111,003	0

Item 5B. Other Information

On September 5, 2006, the Governance Committee of the Board of Directors approved the cash compensation of non-employee directors for its fiscal year beginning November 1, 2006. These compensation arrangements will be effective until amended. Non-employee directors receive an annual retainer of $40,000, and meeting fees of $2,000 for Board and Audit Committee meetings and $1,500 for meetings of the Compensation Committee, Executive Committee and Governance Committee. In addition, the Chairman of the Board will receive an additional retainer of $40,000 per year; the Chair of the Audit Committee will receive an additional retainer of $15,000 per year; the Chair of the Compensation Committee will receive an additional retainer of $7,500; and the Chairs of the Executive Committee and Governance Committee will receive additional retainers of $5,000.

On September 5, 2006, the Governance Committee adopted the Statement of Terms and Conditions for equity grants to directors under the 2006 Equity Incentive Plan. The Governance Committee also adopted a form of agreement for restricted stock units, which calls for pro-rata vesting over three years. In addition, restricted stock units will be credited with dividend equivalents, that will be converted to restricted stock units at the fair market value of ABM common stock on the date of payment and will be subject to the same terms and conditions as the underlying restricted stock units. Restricted stock units will be settled in ABM common stock.

On September 6, 2006, the Board of Directors approved the equity compensation of non-employee directors. This equity compensation is effective until amended by the Board. On the date of the Annual Meeting of Stockholders each year beginning with the 2007 Annual Meeting, each of the non-employee directors will receive a grant of restricted stock units with a value of $70,000, calculated by dividing $70,000 by the fair market value of ABM common stock on the date of grant. The restricted stock units will vest in equal pro-rata amounts over a three year period. The restricted stock units will be credited with dividend equivalents that will be converted to additional stock units on the same terms and conditions as the underlying restricted stock units. The restricted stock units will be settled in shares of common stock upon the date of vesting or if deferred under a Director Deferred Compensation Plan then in effect, on the settlement date under that plan. A new non-employee director named to the Board will receive a pro-rata grant of restricted stock units upon appointment.

On September 5, 2006, the Governance Committee of the Board of Directors approved the termination of the director retirement plan for new directors. In addition, the Governance Committee recommended that the Board establish an unfunded Director Deferred Compensation Plan effective October 31, 2006, and the conversion of the interests of current directors in the director retirement plan to deferred compensation in the new plan. Current directors who do not convert their interests in the director retirement plan will not be eligible for equity grants.

On September 6, 2006, the Board of Directors adopted stock ownership guidelines for directors that call for directors to achieve holdings of ABM common stock equal to three times their annual retainer within four years. Directors are required to retain a portion of their equity compensation until the stock ownership targets are achieved.

On September 6, 2006, the Board of Directors adopted two amendments to the 2006 Equity Incentive Plan. The first establishes the definition of fair market value as the closing price of ABM common stock on the New York Stock Exchange for all purposes other than establishing the exercise price of incentive stock options, for which purposes the definition remains the average of the opening and closing price on the New York Stock Exchange. The second amendment establishes that any estate planning entity to which a grantee transfers restricted or unvested equity grants must be domiciled in the United States.

Item 6. Exhibits

Exhibit 10.1	-	Director Retirement Plan Distribution Election Form, as revised June 16, 2006
Exhibit 10.2	-	Arrangements with Non-Employee Directors
Exhibit 10.3	-	Director Stock Ownership and Retention Guidelines
Exhibit 10.4	-	2006 Equity Incentive Plan, as amended September 6, 2006
Exhibit 10.5	-	Form of Restricted Stock Unit Agreement for Directors - 2006 Equity Incentive Plan
Exhibit 10.6	-	Statement of Terms and Conditions Applicable to Options, Restricted Stock and Restricted Stock Units Granted to Directors Pursuant to the 2006 Equity Incentive Plan
Exhibit 31.1	-	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)

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Exhibit 31.2	-	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)
Exhibit 32.1	-	Certifications pursuant to Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

	ABM Industries Incorporated
September 8, 2006	/s/ George B. Sundby
	George B. Sundby Executive Vice President and Chief Financial Officer Principal Financial Officer
September 8, 2006	/s/ Maria De Martini
	Maria De Martini Vice President and Controller Chief Accounting Officer

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EXHIBIT INDEX

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